

FINAL TRANSCRIPT

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SWSBV.HE - Sanoma Corporation Welho to Be Merged into DNA Conference Call

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Kim Ignatius

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CONFERENCE CALL PARTICIPANTS

Andrea Beneventi

Exane BNP Paribas - Analyst

Maria Wikstrom

Handelsbanken - Analyst

Ilkka Haavisto

Carnegie Investment Bank - Analyst

Niklas Kristoffersson

Cheuvreux - Analyst

PRESENTATION

Anu Nissinen - *Sanoma Corporation - President of Entertainment*

Thank you Audrey. Hello. I'm Anu Nissinen from Sanoma Entertainment and today with me here are Anna Tuominen and Kare Laukkanen from the Group IR, and CFO Mr. Kim Ignatius.

So I'm happy to walk you through the transaction we announced today, which is Welho to be merged into DNA. And well, you have had the material, but I go in the main points through here, and we take the questions afterwards, if that's okay with you.

So Sanoma is going to sell Finland's biggest cable TV operator, Welho, into the telecommunication group DNA. And this means this transaction that we will -- or DNA will be a strong national telecommunication operator with significant positions in fixed and mobile communications, as well as TV operations.

Welho's selling price is EUR200 million and Sanoma gets a capital gain of EUR185 million from the transaction. And the capital gain will also improve Sanoma's EPS by some EUR1.14.

And the transaction will be taken -- will be carried out so that DNA carries out a directed share issue to Sanoma and we will become the second largest owner of DNA with a 21% stake.

So what is our ambition here is to be a long-time strategic owner with an active role in developing the new company, and we believe that this transaction offers cooperation possibilities between our media, content and DNA's telecommunication business.

But, as you of course know, this transaction is also subject to approval by the Finnish competition authorities and the Council of State. We are expecting these approvals to be done by -- or during the summer.

We also have other businesses in Sanoma Entertainment which are Nelonen Media TV, radio and online businesses, as well as Sanoma Games, the online casual gaming services. These business units and businesses will continue as they are at the moment.

A few words about Welho. As I said, Welho is Finland's biggest cable TV operator and last year, the net sales of Welho were EUR67 million. It's been growing steadily during the last few years and has about 200 employees.



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[We had] 320,00 connected households in the region, and 163,000 individual customers, both in pay TV and broadband -- fixed broadband business.

DNA is about 10 times the size of Welho with net sales of EUR652 million last year, and EBIT EUR63 million excluding one-offs. And it's the third biggest telecommunication company in Finland providing voice, both in fixed and mobile, also data, both in fixed and mobile and of course TV services as well, both to organizations and corporations and private customers. And DNA has about 2.6 million customers.

So what kind of a company will the new DNA be with Welho and DNA? We believe that together, they will be a very strong national telecommunication operator with already in the beginning, in a very good position, with about 1,000 employees and the net sales about EUR720 million.

It will be number one TV operator and this means that the cable TV market share will increase to 43% in Finland. You might be aware that the Finnish cable TV market is pretty fragmented, so this brings also some consolidation in that area. In Pay TV, 20% market share.

And in broadband -- I mean in fixed broadband, number three.

And DNA will continue to be the third biggest mobile operator with about 25% market share, with 2 million subscribers. And DNA has been in the past years growing fast and taking share very much in this business area as well.

So DNA and Welho will be really complementary, both in geographical and product wise. And to Welho, this means that we will have the mobile broadband dimension which hasn't been really possible to offer efficiently so far. And for DNA, this means access to Helsinki capital area where it has not been traditionally as strong as the other -- as its competitors. So it's a real win/win situation here.

And of course it means better resources to develop new digital services, new emerging services, especially online television, e-reading and games on different platforms. And this is also -- these are also the areas where we believe that the Sanoma media content will be part of those new services.

So we believe there's a lot of potential in the future.

This was in short the main presentation. We have also some additional information here but I think now is a good time to go and start with the questions.

QUESTIONS AND ANSWERS

Operator

We will now take our first question which comes from Andrea Beneventi from Exane. Please go ahead.

Andrea Beneventi - Exane BNP Paribas - Analyst

Yes, good afternoon gentlemen. I have three questions, if I may. To start, could you please highlight what is the dividend policy of DNA, and do you have any agreement with them in this sense?

And then my second question is if you agreed on a minimum holding period for the 21% stake in DNA that you will acquire, or if there is any other clause on the disposal of the stake that we should be aware of?

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And finally, can I have more details on the level of synergy that can be developed between DNA and Welho please?

Kim Ignatius - Sanoma Corporation - CFO

Hi, Andrea, this is Kim Ignatius and good afternoon everybody. First of all regarding the dividend policy, the deal isn't closed yet, it's too early for us to come out with a dividend policy for the DNA company going further. What comes to the holding period, we do see that shareholding in DNA as a long-term strategic holding for ourselves, so there is no reason for us in a way to have any, or reported to have any kind of minimum holding period. So there aren't anything like that built into the agreement.

Regarding synergies, Anu, why don't you take that?

Anu Nissinen - Sanoma Corporation - President of Entertainment

Well yes, well during the process we have of course identified a lot of synergies both from the cost side as well potential new revenues, however, we have decided not to disclose any excess amounts here. And of course we will go into more detailed planning after the closing has taken place.

Andrea Beneventi - Exane BNP Paribas - Analyst

Okay, thank you very much.

Operator

We will now move to our next question which comes from Maria Wikstrom from Handelsbanken. Please go ahead.

Maria Wikstrom - Handelsbanken - Analyst

Yes, hello. I have two questions. First one relates to the profitability of Welho, that how much EBIT it will contribute in 2009 EBIT.

And then my second question is the future of TV, TV for Finland that is currently the remaining part of the business, or TV business, represents roughly about 3% of Group sales at least. Is that something that it now opens up possibilities also for transactions perhaps on the media side, as you have been looking for a potential acquisition target in the Nordic arena but nothing has been disclosed so far and could [Nelonen be] also a divestment candidate in the future?

Kim Ignatius - Sanoma Corporation - CFO

Hi, Maria. This is Kim. I'll take the first one and maybe Anu can answer the second one. What comes to the EBIT level of Welho, we haven't disclosed it and we're not giving the number out now either. The profitability of Welho has been very good and it represents a significant portion of the profitability of Sanoma Entertainment.

Anu Nissinen - Sanoma Corporation - President of Entertainment

Yes, about the future of Nelonen Media, we believe it's very much part of the Sanoma future, also in the coming years, and we have no plans to divest Nelonen Media businesses or Sanoma Games' businesses in the future.

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Maria Wikstrom - Handelsbanken - Analyst

Thank you.

Operator

Our next question today comes from Ilkka Haavisto from Carnegie. Please go ahead.

Ilkka Haavisto - Carnegie Investment Bank - Analyst

Yes, good afternoon everyone. You have earlier said that you will focus on magazines, news, learning solutions and online media, so in this context your ownership in a telecom operator does not seem to be fully in line with your strategy, or is there something that I am missing?

Kim Ignatius - Sanoma Corporation - CFO

Ilkka, first of all, we do believe that this transaction strengthens our role in the digital media and digital operations going forward. We have been a 100% shareholder in a smaller business, now we are a 21% shareholder in a much larger operation which gives us a chance to build on the convergence of media and telecommunications going forward and gives us a possibility to participate in developing this industry.

So this is in line in focusing on the digital part of our operations going forward.

It is also in line with our statements in balancing B2C businesses with B2B corporations.

Ilkka Haavisto - Carnegie Investment Bank - Analyst

Okay. And one other question if I may. Do you see DNA as a way to distribute your content, or could you possibly say something more about the cooperation possibilities that you see between your media business and DNA's telecom business?

Anu Nissinen - Sanoma Corporation - President of Entertainment

Yes, obviously we are in an early stage here now but yes, I think most of our media content will be delivered on different kind of IP platforms in the future and it's very natural to see DNA as one of the distributors there, and also perhaps not only distributor, but there might be also a new kind of service content emerging, and these kind of new opportunities we are definitely looking for.

Ilkka Haavisto - Carnegie Investment Bank - Analyst

And one follow-up to that if I may. Would it not be possible to distribute content without this stake in the DNA, or is this crucial to the business?

Anu Nissinen - Sanoma Corporation - President of Entertainment

Yes, it is and of course also other operators will be distributors for our content in the future. But this kind of ownership, we think it will help to sort of pave the way for a new kind of cooperation and really close new ideas and concept development.

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Ilkka Haavisto - *Carnegie Investment Bank - Analyst*

Okay, great. Thank you.

Operator

(Operator Instructions). We will now take our next question which comes from Niklas Kristoffersson from Cheuvreux. Please go ahead.

Niklas Kristoffersson - *Cheuvreux - Analyst*

Hi, Niklas here. Just one question. I'm just a bit curious how this deal will impact your debt covenants, as I assume there will be a reduction in reported EBITDA. Your debt will probably stay roughly the same, bar the dividends. If you can just walk me through that, and maybe share a bit of light on your potential to do future acquisitions.

Kim Ignatius - *Sanoma Corporation - CFO*

Yes, Niklas, there is maybe two covenants that we should bring out to the discussion. One is the net debt to EBITDA which you correctly state, that this transaction will have a slight negative impact on the EBITDA; our share of the profits will not be included in EBITDA coming from DNA in the future. It doesn't change the ratio so significantly that it would in any way weaken our overall capital structure or financial flexibility.

What comes to the other key ratio, which is our equity ratio, this deal will of course increase our level of equity and therefore debt covenant will strengthen from our perspective. So I don't really see any negatives; on the contrary I see our balance sheet strengthening because of this transaction.

Also, what comes to any future acquisitions in this area or other areas of our operations, this deal doesn't have a significant impact in our capabilities of doing, except for the strengthening of the equity ratio.

Operator

(Operator Instructions). As we have no further questions today, I'd like to turn the call back over to you, Miss Nissinen, for any additional or closing remarks.

Anu Nissinen - *Sanoma Corporation - President of Entertainment*

Thank you Audrey, and thank you for very good questions. I have to say that this has been an interesting and busy day and there's been a lot of interest and coverage already in the media during the day. And it means that this certainly raises a lot of interest within not only analysts and markets, but also of course consumers, because both DNA and Welho are consumer -- very well-known and admired consumer brands. So it's kind of a marriage of two of a kind in a way, and we are looking forward to further interest also from all the markets and consumers.

Thank you very much to all of you for interesting questions and your interest.

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