

## **Q1 2008 SanomaWSOY Corporation Earnings Conference Call, 9 May 2008**

### ***Hannu Syrjänen - SanomaWSOY Corporation - President & CEO***

Good afternoon ladies and gentlemen, and welcome to our conference call on results of the first quarter of this year. As before, it will take about 20 minutes to go through some key points and some key events of the period, and after that we have time for questions and discussions. Matti Salmi, our CFO and Kare Laukkanen, our IR manager are also here with me. And again, my presentation is available on our internet site.

#### **Market environment**

Firstly I start to talk about a bit on market environment. During the first quarter, media markets developed quite positively in most of our operating countries. The uncertainty regarding the overall market development in the whole year 2008 is increasing, and the turbulence in global economy seems to continue, as you all know. Research institutes are still predicting growth, but in most of the markets, slower than we have witnessed last year. However, the general economic indicators, GDP growth and private consumption, are still positive.

Here in Finland the economy and advertising market is growing, but the growth pace is predicted to be slower than last year. In total, the advertising market is still expected to grow by some 5% this year. In Holland, GDP and private consumption are estimated to increase by some 2% and ZenithOptimedia estimates more than 4% growth in advertising.

In the Central Eastern European countries starting from Hungary, the economy growth in Hungary is predicted to be quite small, and most of the growth is expected to come from online advertising. In the Czech Republic the markets are estimated to grow faster, magazine advertising increasing by 8%.

Again the Russian advertising market seems to be growing still, but also there, the uncertainty has somewhat increased. The latest advertising estimates still show about 30% growth in total advertising for this year 2008, with the print advertising increasing by 21%.

During the first part of this year, we invested in strengthening our future market positions. We also continued the active development of our product and service portfolio, by launching magazines and online services, particularly in Central Eastern Europe. We also made progress on mature markets, several online services were launched and acquired in the Netherlands.

In Finland, our TV channels increased the viewing share, the number of broadband and pay TV subscriptions increased and our magazines strengthened their leading position here in Finland. In Russia, Rautakirja expanded its business by acquiring 89 kiosks in the city of Rostov. Now we have almost 200 kiosks in Russia.

#### **Key figures**

Then a few words about the figures. Our net sales increased by 3% and adjusted for changes in the Group structure, we grew by almost 6%. Net sales grew in Education and Books, SWelcom and also in Rautakirja. Sanoma Magazines' sales decreased slightly,

due to divestment of operations and Sanoma due to decrease of single copy and free sheet market.

Our EBIT, excluding the non-recurring capital gains, decreased by 7%, to EUR 49 million. However, including the gains on the sales of assets, we improved our EBIT by 35% to EUR 73 million. We sharply improved result in SanomaWSOY Education and Books, SWelcom and Rautakirja.

Our equity ratio was 44% which is still on the high end of our target, which is between 35% and 45%. Our earnings per share increased by 57%, to EUR 0.34, and market cap in the end of March, was about EUR 2.8 billion.

### Sanoma Magazines

A few words about each of our five divisions, starting again from the biggest one, Sanoma Magazines. In magazines our year started as planned. Due to divestment of operations, Sanoma Magazines' net sales were below that of the previous year. Adjusted for changes in the Group structure, the Division's net sales grew by 2%. Net sales increased in all businesses except in Sanoma Magazines Netherlands where some operations were divested, both in June 2007 and also in January 2008.

Advertising sales grew clearly, by about 10%. Most growth came from Sanoma Magazines International and online advertising sales in the Netherlands. Circulation sales decreased a bit, by 1%, mainly due to the declining single copy sales in Holland.

Sanoma Magazines' operating profit decreased from the previous year, but including EUR 23.5 million capital gains from the sale of our movie distributor R.C.V. Entertainment, Sanoma Magazines' result improved almost by 50%, to EUR 48 million.

We are still very confident about Sanoma Magazines' performance in the whole year of 2008. And we have kept our guidance unchanged here, and are still guiding for increase in the net sales and improvement in operating profit, excluding capital gains.

### Sanoma

For our Finnish newspaper operations, the picture of the first quarter is a bit mixed. Net sales grew in Helsingin Sanomat, our main broadsheet newspaper, but the net sales declined in Ilta-Sanomat our tabloid, and in other publishing. The reason for this was the decline in Finnish tabloid and free sheet markets as well as the discontinuation of the printed version of our financial daily which is called, or was called Taloussanomat.

Our online operations grew significantly, for example, in Helsingin Sanomat business unit, online advertising increased by 39%. Sanoma's operating profit decreased by 8%, to EUR 17.9 million, mainly due to the decline in tabloid market that reduced operating profit of Ilta-Sanomat business unit, as I mentioned already.

We believe that in the future, the strongest growth of Sanoma comes from digital businesses, while the printed media will also be strongly developed. Also in Sanoma we have kept our guidance despite a bit slow at the start of the year compared to 2007. In 2008 net sales are estimated to grow, and operating profit excluding the capital gains is expected to improve here as well.

### SanomaWSOY Education and Books

SanomaWSOY Education and Books; this was good first quarter for the Division. Net sales increased in all businesses and grew in total by 12%. Growth was particularly strong in the international growth areas, educational publishing and language services. Also general literature was slightly up from the comparable period.

In educational publishing, most growth came from the Dutch operations, largely due to shift of sales from second quarter to the first quarter. Division's operating profit improved, but due to the strong seasonality of educational publishing business, the operating profit for the whole Division was still negative about EUR 4 million in the first quarter. The acquisition of the Polish educational publisher Nowa Era grows the educational publishing business and therefore increases seasonality in the whole Division even more.

This year 2008, we estimate that SanomaWSOY Education and Books Division is going to increase its net sales. Operating profit, excluding major and non-recurring capital gains, Nowa Era included, is expected to improve clearly.

#### SWelcom

Our TV and broadband operations had also very good start for this year. Division's net sales grew by 15% due to the strong performance of Welho; pay TV and broadband subscriptions as well at the sale of the digital set-top boxes. Also our new TV and radio channels did well.

Our TV channels clearly increased their shares of viewing numbers, and in March the share of all TV viewing rose to 14.3%. It was 11.1% in the beginning of last year. The 100,000 mark in Welho's broadband subscriptions was reached in January and in pay TV services the same figure in February. The switchover to the era of digital TV was successful in the cable network which partly contributed to increase in demand for pay TV services as well.

We were also able to improve our operating profit significantly by 39%. This year, SWelcom is expected to continue to increase its sales and to clearly improve its results.

#### Rautakirja

Finally, Rautakirja; the first quarter was strong also for Rautakirja division. Rautakirja net sales grew by 5%. Net sales grew in all our businesses. Particularly successful during the first quarter were kiosks and movie theatres.

Kiosk business is developing strongly, especially in Russia. And we have, as I mentioned in the beginning, now almost 200 kiosks there, mainly in the Moscow and Rostov regions. Also the movie theatre business continues to grow. The number of movie-goer is growing and new theatres will be opened during the latter part of this year.

During the first quarter Rautakirja's operating profit increased by 11% to EUR 9.9 million, and kiosk operations and entertainment business improved their profits considerably as a result of increased sales. For this year 2008, Rautakirja is expected to increase its net sales and improve its results as well.

#### Outlook for 2008

About our guidance for this year; so we have kept our guidance unchanged for 2008. We estimate that our net sales will grow in line with the previous year. And, as you may remember, in 2007 we increased our net sales by 6.7%. And we are guiding our operating profit, excluding major non-recurring capital gains, to continue to improve. Also last year 2007, our EBIT, excluding these mentioned capital gains, was record high at EUR 303.5 million.

#### Summary

To sum up, the year started well and according the plans. Still some uncertainties in the market, but I am very confident that we are in a good position to grow and develop our operations also in this market environment.

So ladies and gentlemen, thank you very much for listening this Friday afternoon. We are ready for your questions.

## **QUESTIONS AND ANSWERS**

### **Q: Alex Wisch - Standard & Poor's - Analyst**

I have just one question on the Sanoma Magazines which was a bit soft this quarter, and where operating profit fell 22.2% in the quarter excluding the capital gain. Because your guidance for the full year is of operating profit to improve, that means a dramatic improvement in profitability in the rest of the year. How do you see that happening?

### **A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

First of all of course, one reason is that we divested some businesses that I mentioned, puzzle magazines last year, R.C.V. in the beginning of this year. Of course the immediate impact was there during the first quarter.

Secondly, this is the smallest quarter of the business and the month and quarters are not really equal. Timing issues are of course important as well. We had Easter this year during the first quarter; it was during the second quarter last year and therefore there were different amount of titles published.

So there are many reasons for this decline. This was in percentage-wise pretty big, but in money-wise not that huge taking into account the reasons I already mentioned. There is not one reason to improve it, but many reasons for the situation during the first quarter.

### **Q: Alex Wisch - Standard & Poor's - Analyst**

One more question about your outlook on advertising, because of the weakness that we saw also in Sanoma, the newspaper operation?

### **A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

Tabloid market is the main reason, tabloid market has been pretty soft in the beginning of the year and also free sheet market has been pretty soft as well. Our main newspaper, Helsingin Sanomat, did very well; they grew and also improved their profitability. The main reason for newspapers were those mentioned; the tabloid and free sheet market.

### **Q: Alex Wisch - Standard & Poor's - Analyst**

And these are the trends for the rest of the year?

### **A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

Our guidance is unchanged there as well. Of course, what is going to happen is somewhat the migration from print to digital. We have invested a lot in digital, as I mentioned in my presentation. The digital advertising grew by 39% during the first

quarter, and it's very profitable as well. So we have also here many reasons to believe that our guidance is valid.

**Q: Henrik Olsson - Analyst**

The first question on this Nowa Era acquisition. Was that consolidated on the January 1st?

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

It has been consolidated in late March. So no real impact on the figures we are talking about. The impact is there for the first time during the second quarter.

**Q: Henrik Olsson - Analyst**

Okay, so neither sales nor profits really saw any impact.

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

Yes.

**A: Matti Salmi – SanomaWSOY Corporation - CFO**

Only in the balance sheet. It's on the balance sheet, but not on the P&L.

**Q: Henrik Olsson - Analyst**

Okay, thank you for that. And then just coming back to the Easter impact, I can see that it clearly had an impact on the newspaper business which is a daily business, I understand that. But can you help me to understand why it would have a significant impact on the magazine business?

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

The point is that it very much depends on timing again. If you think of weeklies, for instance, we have some titles which had two issues less than last year because of timing and in many cases one issue less than during the first quarter of 2007. The impact comes from the number of issues. And then, of course, the impact goes to the single copy sales and advertising.

**Q: Henrik Olsson - Analyst**

Okay. And then finally, a question on your guidance for 2008. The words are exactly the same, but is the EBIT number you had in your mind, when you announced the full year results of 2007, is that the same EBIT number you still have in mind of the first quarter?

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

Good, good, good question. We are not disclosing that detail because otherwise we should give the figure we had in mind. But anyway, our guidance is unchanged.

**Q: Henrik Schultz - Kaupthing - Analyst**

Before turning to the newspapers, I would like to revisit the issue of the magazines again and simply ask if you could add a little more color? For example, try to quantify a little bit the Easter effect in the particular markets of the Netherlands for example, the single copy sales, and also the deceleration in growth, for example, in international business.

How much of that is, currency effect and possibly how much of that is Easter effect? How do you see, in a sense, the underlying business going on from here? In terms of the profit level of magazines again, having an impact, should we factor in for the disposal of businesses of last year, just to get more of a feeling for what's going on?

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

It's very difficult to say because I don't have precise figures here. But bearing in mind that we have more than 300 magazines, and the impact was very different in different titles. It's very difficult to say, but as I said, we had some magazines for instance, where we had two numbers less than last year. Of course, it was not the same for all the titles; it varies. But it's very difficult to quantify, but we should not overestimate it either.

**A: Matti Salmi - SanomaWSOY Corporation - CFO**

In the currencies we didn't have any major effect. There is a little effect depending on the ruble or Hungarian currency. But they move actually in different directions so you could say that there is no major effect on the currencies.

**Q: Henrik Schultz - Kaupthing - Analyst**

What about turning to the newspapers and to some extent sticking with the magazines, I am sure you have your April numbers available, which would allow you to adjust completely for the Easter effect.

Turning to the newspapers specifically, because there the effect was quite respectable to all titles really.

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

The Easter effect of course will even up during the second quarter, it's for sure.

**Q: Henrik Schultz - Kaupthing - Analyst**

Exactly, so you must have a pretty good idea now of the underlying effect, taking into account the April numbers. I'm not trying to get at the April numbers as such, I'm just trying to get to how much the effect is

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

Yes, we do not publish our figures on monthly basis.

**Q: Henrik Schultz - Kaupthing - Analyst**

I appreciate that, but what I'm getting at is of course, is that you have the April numbers in your books, you will know exactly what the effect has been year to date from April, taking into account the Easter effect, and that's what I'm getting at. What's your underlying view of the business? Is that weaker? Is all of the weakness that you have published in the first quarter, is that really attributable to the Easter effect, or what?

**A: Hannu Syrjänen - SanomaWSOY Corporation - President & CEO**

As I said, we should not overestimate it and no react on that. It was only one issue for instance, what comes to newspapers; we also had elections last year. It's also booming a bit always. So there are of course other issues, other things to effect on this because

it's very difficult to isolate one of the issues only. But what we have stated that we are very confident what comes to our full year guidance.

**Q: Henrik Schultz - *Kaupthing* - Analyst**

Okay, lastly then, could you just add some comments to your Capex for the quarter? How much of that was ordinary Capex, how much of that was acquisitions and so on?

**A: Hannu Syrjänen - *SanomaWSOY Corporation* - President & CEO**

When we are talking about this EUR 20 million, we are talking about normal Capex. We are not including our acquisitions; therefore we are always then talking about normal Capex.

**Ending**

**Hannu Syrjänen - *SanomaWSOY Corporation* - President & CEO**

Thank you very much ladies and gentlemen, thanks for listening and thanks for good questions and discussing and have a very, very nice weekend.