

FINAL TRANSCRIPT

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SWSBV.HE - Full Year 2008 Sanoma Corporation Earnings Conference Call

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Kim Ignatius

Sanoma Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Alexander Wisch

Standard & Poor's - Analyst

Andrea Beneventi

Exane - Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Sanoma's full year 2008 results hosted by Mr. Hannu Syrjanen, President and CEO. My name is Tina, and I'll be your coordinator for today's conference. For the duration of the call, you'll be on listen-only. However, at the end of the call, you'll have the opportunity to ask questions. (Operator Instructions) I'm now handing you over to Mr. Syrjanen to begin today's conference.

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Okay, thank you very much. My name is Hannu Syrjanen, and I'm more than happy to welcome you, ladies and gentlemen, to our conference call this afternoon regarding our full year result for 2008. As before, I will briefly go through the key points and events during the year, and after that of course we have time for questions and discussion.

Kim Ignatius, our CFO, and Kare Laukkanen our IR Director are also here present with me and I will use the slide set that is available on our Internet site.

Year 2008 was a historical one as we all know. In the beginning of the year, no one would have expected that we will see such dramatic events in the global economy as we have witnessed.

First nine months of the year showed relatively steady and predictable development. The effects of the financial crisis hit advertising markets, and many companies, also Sanoma, in the last quarter. However, taking into account the overall market situation, I'm quite pleased with our performance in 2008, and also in the fourth quarter. Even in the last quarter, our net sales were at the previous year's level.

In 2009, we are expecting the media advertising to decrease further. We are preparing for the future by stepping up and -- the cost-saving programs and structural reforms implemented in 2008 across all divisions, and all businesses.

A few weeks ago we announced an impairment loss on the goodwill of Sanoma Magazines' International. The short-term outlook of their businesses in Central-Eastern Europe and Russia had weakened due to changes in the market conditions.

The general economic uncertainty will affect especially the advertising income generated in these countries. In addition, the exchange rates used in consolidating the operations in CEE countries and Russia with the Group's financial statement have weakened against Europe [current].

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These are tough times, but we believe that our position as the market leader will bring us added value. These times offer also a lot of opportunities, and that's why our long-term goal remains unchanged. We want to be one of the leading media companies in Europe. Our key focus will be in a consistent, sustainable growth, and improved profitability.

A few words about last quarter numbers, and also the numbers for the whole year; in 2008, our net sales grew by 4%, and exceeded EUR3 billion for the first time in the history of the Group. Magazines, Learning and Literature, Entertainment and Trade increased their net sales. Our operating profit, excluding non-recurring items, was almost at previous year's level, totaling EUR296 million.

In the next slide, I will go through its development in more -- more in detail. Our reported operating profit was burdened by the impairment loss I mentioned earlier and it totaled EUR236 million. Our cash flow from operations developed well, and was EUR1.56 per share. Main reason for the positive development was the more effective working capital management.

On slide number 4, you can see how our EBIT excluding non-recurring items developed during the year. Magazines EBIT remained quite flat. News EBIT was negatively affected by the decline of classified advertising and tabloid market, as well as investment in digital business. Entertainment EBIT growth was driven by the positive development of broadcast operations and Welho's pay TV and broadband business.

Learning and Literature's EBIT was boosted especially by the acquisition of the Polish educational publisher, Nowa Era. Investments in kiosk operations and press distribution in Russia and Romania, smaller distribution volumes in the Netherlands, as well as the renewal of the online bookstore here in Finland affected the profitability of Sanoma Trade.

In total, our EBIT excluding non-recurring items was almost at the previous year's level, I've mentioned.

Despite the turmoil in global economy, our financial position remained strong. Our balance sheet totaled some EUR3.3 billion. EBIT ratio was 40%. The increase of interest-bearing net debt was mainly driven by the acquisition of Polish educational publisher Nowa Era which I mentioned earlier, and other smaller acquisitions.

Our net debt EBITDA ratio was 2.1%. In this current market environment, we want to keep the ratio lower than 3%. We still have very affordable long-term credit facilities, so we are well prepared for the current financial turmoil.

Our cash flow remains strong, and our dividend yield is more than 9%. Our guidance for this year, we expect our net sales to decrease somewhat, and we estimate that our operating profit excluding non-recurring items will decline from the previous year.

As mentioned earlier, last year, 2008, our operating profit excluding non-recurring items was EUR296 million. The Group's financial expenses are expected to decrease, so Sanoma's net result for this year is expected to decrease less than its operating profit.

In the first quarter of this year, we expect that the development will be significantly weaker than in full year, because especially decreasing newspaper advertising affecting Sanoma News division, and currency exchange rate fluctuations, and the growth of seasonal educational publishing business impacted Sanoma Learning and Literature division.

Before the questions, a few words about our strategy. In the last -- in the end of last year, we went through a strategy process. We reviewed our strategic objectives, and defined the business areas that will be in our focus. Our overall goal remains the same. We want to be one of the leading media companies in Europe, with a focus of sustainable growth and profitability. Market leadership will also remain as one of our cornerstones of our strategy.

We want to maintain a balanced business portfolio of B2C media and B2B production services, and in this portfolio, we are going to focus especially on magazines, newspapers, learning and language services, and online operations.

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We will also investigate opportunities to internationalize our TV operations, and we want to maximize our strategic position in retail, and develop our retail business from a retail perspective, not only as part of our media portfolio.

So to sum up my presentation, I am quite satisfied with Sanoma's performance in 2008. The rapidly weakening global economy took its toll in the fourth quarter, but our balance portfolio softens the effect. I believe that when times get tougher, strong companies with leading market positions and a versatile product and service portfolio will become stronger. Sanoma is one of those companies.

So ladies and gents, thanks very much for listening. So we are open for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) The first question is coming from the line of Alexander Wisch from Standard & Poor's. Please go ahead, Alexander.

Alexander Wisch - Standard & Poor's - Analyst

Hi, this is Alex Wisch from S&P Equity Research. I had a couple of questions. One is whether you can provide some numbers on how much of your revenues are from advertising and hopefully whether you can provide that for the main unit in News, Magazines and also broadcasting. That's question number one; so advertising in the key units, how much it is.

Second question is the weakness we saw in Trade. You gave several explanations, Holland and also the Eastern Europe. Could you provide some more color on what we could expect on Trade going forward?

And the third question is on education. This is not a relevant quarter in terms of earnings, but still there was a loss that was a bit wider than the market expected. Could you explain if this is a one-off, or that going forward we should expect even in the non-earnings generating quarters to have wider losses?

Hannu Syrjanen - Sanoma Corporation - President & CEO

Okay, thanks, Alexander. So if I start from your last question there, education is really cyclical basically in the year, so that the first quarter and the last one are very, very bad, and the second and the third one are very strong, as we have witnessed during last couple of years.

And of course, this is the nature of the business, because the products are sold during the second and the third one, and we shall basically prepare and produce our products during the last and the first one. So this fluctuation will increase because we have strengthened our educational portfolio by acquiring this Nowa Era last year, and it was not in our figures during the first quarter of 2008. So this is the main -- basically the main reason for this type of result.

Alexander Wisch - Standard & Poor's - Analyst

Okay.

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Hannu Syrjanen - Sanoma Corporation - President & CEO

About the Trade, we -- as I said so we are going -- because the heart and soul of our Trade division is retail, so we are going to develop our division more from that retail perspective in the future, giving more strategic space for that kind of improvement or development.

So we just started where -- our retail business in Russia and in Romania, so of course, it remains to be seen what this economic situation effects to those businesses. So there we -- as I said in my presentation, we made some losses there. It is natural because the whole business is in investment phase. Here in Finland, we made basically all-time high result with our kiosks, so the losses were made in those two countries mentioned.

Alexander Wisch - Standard & Poor's - Analyst

Okay.

Hannu Syrjanen - Sanoma Corporation - President & CEO

When it comes to your first question, so Group level, the share of advertising revenues are 25%. It is a lower figure than in most of our peers, and the reason being that our Learning and Literature and our Trade divisions are not dependant on advertising revenues at all.

So in the Magazine division, the share is one-third, 33%; in the News division, 53%; and in Sanoma Entertainment, 52%, because there are two businesses -- Nelonen, which is completely based on advertising, and then broadband business, which is based on subscription fees. So this is the split of our advertising revenue.

Alexander Wisch - Standard & Poor's - Analyst

Wonderful. Could you just repeat the last number for Entertainment?

Hannu Syrjanen - Sanoma Corporation - President & CEO

52% -- five-two.

Alexander Wisch - Standard & Poor's - Analyst

52%, okay.

Kim Ignatius - Sanoma Corporation - CFO

Alex, if I could maybe add to your question on the education, when you said as -- there is a broadening of the losses --

Alexander Wisch - Standard & Poor's - Analyst

Yes.

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Kim Ignatius - Sanoma Corporation - CFO

-- in Q1 and Q4; there is because we have added --

Alexander Wisch - Standard & Poor's - Analyst

Nowa Era.

Kim Ignatius - Sanoma Corporation - CFO

-- Polish company Nowa Era, which means that now the unit being on the negative during Q4, this adds to it and this will continue in the future as well. Also in Q1, going forward, Nowa Era was not included in our numbers last year for January-February, which means that this has a negative impact on comparative basis now.

Alexander Wisch - Standard & Poor's - Analyst

Wonderful. And I could expect the same cyclical, I imagine, going forward?

Kim Ignatius - Sanoma Corporation - CFO

Yes.

Alexander Wisch - Standard & Poor's - Analyst

Wonderful, thank you.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Thank you.

Operator

Thank you. The next question is coming from the line of Andrea Beneventi from Exane. Please, go ahead, Andrea.

Andrea Beneventi - Exane - Analyst

Good afternoon, Mr. Syrjanen, I'm Andrea Beneventi from Exane BNP Paribas.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Good afternoon, Andrea.

Andrea Beneventi - Exane - Analyst

Two questions, if I may. The first one is on the rationalization program. Should we expect an expansion of the program from the News division to other parts of the Group, and what are your targets in terms of cost savings?

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And the second question is on digital operations. Focusing on 2009, may I ask you how much are you planning to invest for the development of digital operation, and possibly the percentage of digital revenues for each division, and their contribution to growth? Thank you.

Hannu Syrjanen - Sanoma Corporation - President & CEO

Could you, Andrea, please repeat your first question? So you were talking about News?

Andrea Beneventi - Exane - Analyst

Yes, the --

Hannu Syrjanen - Sanoma Corporation - President & CEO

(Multiple speakers).

Andrea Beneventi - Exane - Analyst

Yes, exactly. You have announced rationalization programs for the News division. I'm wondering if you're going to expand the program to other parts of the Group? And what are your targets in terms of cost savings?

Hannu Syrjanen - Sanoma Corporation - President & CEO

Okay, thank you. So basically we have cost-cutting measures in all the divisions because of the situation in the economy surrounding us. Of course, the development of -- or decline in advertising hit first our newspapers. And of course, the main effect is there regarding classified.

That's why our newspaper division reacted first, and maybe also strongest so far. But of course, we follow the situation and the development, and in the case we need some more cost-cutting measures, so we are willing to do it. We have a lot of plans. Some have already been done, and some are going on at the moment, and some are still in the -- on the planning table.

So we have not really disclosed any saving or any precise saving -- cost-saving target, but of course, we have to bear in mind that there is inflation in most of our countries, and by definition, inflation increases our costs. And we -- to even to match the previous year's figures, we have to do some cost-cutting measures.

So this is the same answer basically concerning your second question. So we don't have -- or we have not disclosed any investment levels on digital business. But as I said, so digital business -- online business will be one of our focus areas also in the future. So it is separately and independently, but also within all the divisions.

All the divisions are of course managing this migration from print to digital, which of course is happening. It's very difficult to say what is the effect of this economic situation to this development. It may transcend this trend, but also of course, some -- at least some advertisers make safe choices, choosing the strong brands in -- for instance in print. So it may also be vice versa.

But anyway, because this is a cyclical world, and we have to also look beyond these cycles, so we are continuing to invest our online businesses, and of course the results are pretty good, because for instance here in Finland, our online advertising growth was about 50%, and in Sanoma Magazines it was 33%. So we have also succeeded pretty well in this.

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Andrea Beneventi - *Exane - Analyst*

Thank you very much, Mr. Syrjanen. A follow-up question on paper costs, if I may. We see that paper producers are pushing for price increases. Should we expect an increase in paper costs for Sanoma in 2009, and eventually by how much?

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Good question. So our negotiations are still going on, so it's -- I think it's very dangerous to give you any precise figures. I think no dramatic changes in our case, but I said before, so paper is not commodity, so paper is not the same price everywhere. We have transportation costs, and most of the paper mills are very close to our printing mills. So we are in good position here in Finland where we have our newspapers for instance. It's too early to say.

Andrea Beneventi - *Exane - Analyst*

Thank you very much.

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Thank you.

Operator

Thank you. We currently have no questions coming through. (Operator Instructions) We have no questions coming through, so I hand it back to Mr. Syrjanen.

Hannu Syrjanen - *Sanoma Corporation - President & CEO*

Okay, there are no further questions, so I'm happy to thank you very much for participating, and also for the questions we have received. Thanks a lot, and have a very nice day. Thank you.

Operator

Thank you for joining today's conference. You may now replace your handsets.

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