

SanomaWSOY Q2 Results 2006 Conference Call

Thursday, 3rd August 2006

At 16:00 Finnish time (14:00 UK time)

Chaired by Mr Hannu Syrjänen

Mr Hannu Syrjänen

Good afternoon, ladies and gentlemen, and thank you once again for joining our conference call. As we have done before, it will take some twenty minutes to go through some key points of the results of the first half of this year. In the beginning and after that we again have time for questions and discussion. Here are also our CFO, Matti Salmi, and Kare Laukkanen our IR manager, with me for your questions. The slide set that I will use is available on our internet site.

Before I go to the figures and the key events, I will briefly go through some estimates concerning the advertising market development for this year. My figures are based on the data from the market research agency ZenithOptimedia.

As you know, advertising sales represent some 24% of our net sales, but advertising sales development is also a good indicator of the overall market development. Other key indicators for us are GDP and private consumption, with affects especially to single copy sales of magazines.

Starting from Finland, the total advertising grew by 3%, newspapers were flat but free sheets grew clearly. Magazine advertising grew +2% and TV even +8%. There was a fast growth in internet advertising, but it still is a relatively small business.

In the Netherlands, advertising market was showing some positive signs as well, but consumer magazine advertising has not turned to growth yet. On the other hand, internet advertising is estimated to grow fast, and Sanoma Magazines is putting a lot of emphasis on our online activities in Holland. So is the case in Belgium, where both magazine advertising and internet advertising are growing.

Russian advertising market is estimated to grow very fast – print media even +18% this year. Also, growth in advertising is estimated for CEE countries: Hungary and the Czech Republic are fast-growing markets as well.

About our key developments. During the second quarter we put a lot emphasis on strengthening our market position in different businesses according our strategy. Taking a few examples: kieskeurig.nl, a comparison site, wich was acquired in the Netherlands. It improves the offering of the leading internet service provider ilse media. We also launched three sites focusing on weight watching here in Finland, in Belgium and in Hungary.

In Finland Sanoma has the leading classified portfolio and this position was strengthened as well.

In the field of movie theatre operations, we made an acquisition of Sandrew Metronome theatres in Finland, and opened a new theatre in Estonia.

In educational business, the consolidation of Hungarian leading educational publisher Láng is happening at the moment. The company was acquired in March.

When it comes to broadcasting business, in addition to TV, SWelcom will also become a radio operator, with two semi-national commercial radio stations. Also Sanoma's local radio station licence was renewed.

About print media, we launched a lot of new magazines, the most significant being weekly Gloria in Russia. Also several revamps was made for instance in Holland.

About our key figures, net sales during the first half of the year grew by 5% (and adjusted for changes in Group structure, by 3.5%). EBIT during the first half year improved slightly about 2% without sales gains. Net sales in quarter two were up by 4.7% to about €700 million and EBIT grew by 4% to €2.8 million. There were no major non-recurring capital gains during this review period. Also earnings per share increased and our financial position improved from the previous year. Because of increased educational publishing business and the divestment of diaries at the end of 2005, the Group's strongest quarters are now the second one and the last one.

Sanoma Magazines

Then I go to Sanoma Magazines. As mentioned, Sanoma Magazines made several launches during the second quarter. Women's weekly, Gloria, in Russia, was the most significant. It is the first weekly glossy for middle-class, and the launch in May was a success. In the first half of the year, a total of nine launches and several revamps for key titles like Libelle in the Netherlands were made. The cooperation in the Adriatic region began also, and as a new president of the Dutch-based Sanoma Uitgevers is starting, Mr Dick Molman. Actually, he has started on Monday. Our share in Suomen Asiakastieto was sold after the review period, and the capital gain of the divestment is some €2.6 million for the third quarter.

Net sales in Sanoma Magazines grew by some 6%. Online sales boosted the net sales in Holland. Sanoma Magazines International growth came mainly because of Russia. The unit in Russia was consolidated in March 2005. Also Hungary and Bulgaria did well. Sanoma Magazines Belgium suffered from distribution problems at the beginning of the year. Sanoma Magazines Finland's net sales increase was mainly due to timing differences. Challenging single copy market in the Netherlands affected Aldipress' sales.

Sanoma Magazines' advertising sales in the first six months were up by 14%, mainly because of Russia, and representing now 24% of Division sales. Circulation sales grew by 3%, subscription sales was successful in all operating countries. Single copy markets in the Netherlands and Belgium are influenced by low private consumption and consumer confidence.

Operating profit decreased a bit, reasons being Sanoma Magazines Netherlands single copy sales, which is still decreasing. Sanoma Magazines Belgium's results dropped due to

the distribution problems, as mentioned. On the other hand, Sanoma Magazines Finland and Aldipress slightly increased their results.

Sanoma

In newspapers, online business expanded. Sanoma is now leading in classified ads, like housing and jobs. Ilta-Sanomat has the largest C2C ad entity, strengthened now with Netticaravan.fi, which is focusing on motorhomes. Circulations in most newspapers are slightly decreasing, but increasing number of online users grows the total reach of Sanoma's papers.

Our free sheet portfolio is strong. Uutislehti 100 is the biggest free sheet distributed in commuter traffic. Vartti is the most read free sheet distributed at home. V is aimed at young people, expanded from Helsinki to other major cities, Turku and Tampere.

Sanoma's figures: net sales grew a bit. Helsingin Sanomat, our main newspaper, increased due to the growth of advertising sales. Our tabloid, Ilta-Sanomat, is stable, but the tabloid market in Finland are struggling a bit. Sanoma Lehtimedia sales decreased because its two free sheets were transferred to the Sanoma Kaupunkilehti business unit at the beginning of the year. Advertising sales increased by 4% due to good development in Ilta-Sanomat and free sheets. Advertising sales makes now 52% of newspaper division's net sales. Operating profit also increased, including a major non-recurring capital gain of EUR 1.7 million from the sale of Aina Group's shares in February. We made investments in the development of free sheets. Helsingin Sanomat, our main newspaper's results remains at the previous year's level, and smaller units performed well.

WSOY

Then I go to WSOY. Educational publishing, as I mentioned, is becoming more and more important for WSOY. The Láng acquisition was finalised and consolidated in June, and we have educational publishing business now in five European countries. WSOY's new president, Mr Veli-Pekka Elonon, will begin on 1st of October. Elonon is currently working as Vice President of Development and Legal Affairs of Sanoma Corporation and President of Sanoma Data. Jorma Kaimio will retire at the end of September.

WSOY's net sales increased slightly even though diaries and some printing operations were divested at the end of 2005. Adjusted for changes in the Group structure, net sales grew by some 9%. Net sales in educational publishing increased in all operating countries, especially in Poland, YDP's eLearning products, primary school material in the Netherlands and upper secondary material here in Finland. General literature net sales growth is coming mainly from business to business services.

Operating profit grew significantly because of a good development of educational publishing, and the diaries used to make a loss during the first three quarters of the year. As I mentioned, the diaries were divested at the end of 2005. Second and third quarters are becoming the strongest for WSOY, because educational publishing forms a bigger part of the Division than before.

SWelcom

Then some words about SWelcom, our electronic media Division. SWelcom were granted two semi-national commercial radio licences, as I mentioned. Radio has been the missing part of our multimedia portfolio here in Finland, and we believe that radio and TV have synergies, and I personally believe that radio is a very good media for cross-promotion. Nelonen's share of commercial TV viewers is already about 32%.

SWelcom's figures: net sales were growing clearly. TV advertising in Finland was up by 8%, as I mentioned in the beginning. Nelonen's net sales increased by 11.5%, meaning that we gained some more market share. Welho's net sales were growing; also pay TV, broadband subscriptions and digital set-top boxes are selling well. Advertising sales makes 60% of Division's net sales. Operating profit increased significantly; both Nelonen and Welho improved their results.

Rautakirja

Finally, to Rautakirja, our retail and logistic arm. Rautakirja was successful, especially in the Baltic countries. Press distribution was growing also in Romania and Russia, where operations are still small. Apollo Raamatud is now the market leader in bookstores in Estonia. Kiosks in Finland are now fully covered with a new point-of-sale system which enables a wider selection of services, for instance, like buying train tickets and long-distance bus tickets which have been booked through the phone or internet.

Movie theatres are having a significantly better year than in 2005 in all our operating countries. Domestic movies have been very successful in Finland at the beginning of the year. *The Da Vinci Code* has been the summer hit, of course. A new movie theatre was opened in Estonia in the city of Narva, where the most of the population is Russian-speaking. Therefore we are testing a Russian movie theatre concept there. We also acquired three movie theatres here in Finland. No significant capital gain recorded from Pizza Hut divestment.

Rautakirja's figures: net sales grew in all businesses. Improvement came mainly from international operations, 21% of the net sales of Rautakirja comes now from outside Finland. Traditional kiosk products are selling well in all markets. Press distribution is expanding operations in the Baltic countries. Bookstores were selling well, especially new fiction titles, and also traditional clearance sale in January was a success. Entertainment increased sales due to the significant improvement in movie theatres, as mentioned. In Finland, a tabloid market was suffering.

Operating profit excluding major capital gains grew because of entertainment and international press distribution business. Bookstores were flat and kiosk operations results remained behind that of comparable period, due to investment in the new point-of-sale system.

Our outlook remains the same as stated before. The acquired company, Láng has been now included in WSOY's outlook but it has no substantial influence on Group figures.

Our outlook is that net sales will grow by some 4% this year, and operating profit, excluding major non-recurring capital gains, will improve. And I remind you that last year, 2005, our EBIT (excluding these capital gains) was EUR 269.1 million.

Ladies and gentlemen, this was our story today, now we are open for questions. Thank you.

Questions and Answers

Question: *Veronica Pechlaner – Goldman Sachs, London*

I have two questions. One is about the book publishing division, where your second quarter was obviously very strong, especially in education. You mentioned that the second and the fourth quarter are now the two biggest quarters in terms of phasing throughout the year. Could you give us a bit of more flavour how much of that good results is coming from the loss-making diary business that was sold away, and how much is really coming from the underlying educational business, especially with regaining growth for the full year looking, you know, the 8% in the second quarter. What would you expect that it could result for the Division for the full year in terms of regaining growth?

The second question is about Russia and the launch of magazines, especially Gloria. If you could give us a bit of a flavour for the success you have had with Gloria so far, in terms of copy sales maybe, if you want to comment on that. And also could you comment on how much of the launch spend in Russia and the international regions is coming through the first half, and how many more launches you expect to do in the second half?

Answer: *Hannu Syrjänen*

Starting from WSOY and educational publishing. Taking a bigger picture in the beginning, we really believe that what we have done in the implementation of our internationalisation of our educational publishing business, has been successful and that is of course the main reason for the growth. We have done very good business in Poland, for instance, so the investment is now starting to pay off. So I think this is not a sort of a one-shot success but as I mentioned, I think the whole strategy is working pretty well. Last year, the third quarter was good as well, but we have to bear in mind that last year we had those one-shots of divestment of diaries and some printing business during the third quarter. But anyway, the main reason why the second quarter became one of the best, maybe the best on Group level is because of the success of our educational publishing business. We are basically very pleased what we have achieved there, and now when we have strengthened this business by the acquisition of Láng in Hungary which will be included into our figures during the third quarter, I think this will effect positively as well. Looking at the history, the third quarter has been the best for Láng as well. These are the main reasons why we have done this good.

The second question concerned Russia. We have spent EUR 3.1 million for the launches during the first half of the year in Russia, mainly because of Gloria. It is the first weekly glossy magazine launched in that country and it is a huge country of course, so it has taken the major part of that amount of money. We do not have any that big launches in the pipeline for the second half of the year, and we are of course eager to see what is going to happen with Gloria. The first signs are pretty good, but it is too early to make any final statements. Our targets are pretty ambitious; we believe that Gloria will be maybe the biggest of our weeklies what comes to circulation in a few years' time. It has been a significant launch. I hope this explains a bit, or gives a bit more flavour as you asked.

Question: *Veronica Pechlaner – Goldman Sachs, London*

Could I just add a question to that. In the international portfolio overall, in terms of second half and launches, how much are you going to – I mean, compared to the first half, how much are you going to launch there?

Answer: Hannu Syrjänen

We never give those figures, but of course we want also in the future strengthen our position in all the markets, especially in those very fast-growing emerging markets. We will make launches also in the future, but we have never published the figures.

Closing Comments

Thank you very much for participating. Thank you for being here with us this afternoon, and have a nice weekend. Thank you very much.