**Deco Media**
**Thurs, 3rd May 2012**
**13:30 Hrs UK time**
Chaired by Martti Yrjö-Koskinen

**Martti Yrjö-Koskinen**

Good afternoon ladies and gentlemen and welcome to Sanoma's January-March 2012 Interim Report presentation. My name is Martti Yrjö-Koskinen and I'm Head of Investor Relations. Today we have present here from management Mr Harri-Pekka Kaukonen, our President and CEO, and Mr Kim Ignatius, our CFO. Today's event will be webcasted and you have the possibility to ask questions after the presentations. With these words, Harri-Pekka please go ahead.

**Harri-Pekka Kaukonen**

Ladies and gentlemen, also welcome on my behalf to our Q1 press conference. I will start us off with our view of the Q1 results and also some strategic perspective and Kim Ignatius, our CFO, will go in more depth into the actual numbers. We have termed the Q1 report as portfolio change well executed and including strengthening balance sheet and that clearly has been the main event during Q1. We have to a large extent completed the portfolio transformation and also during Q1 significantly improved our balance sheet strength and also we were successful in getting in place a €400 million Eurobond.

When we look at the Q1 operational numbers, they were impacted by the economic environment and the ongoing trends that we're seeing in the media industry. Overall our net sales grew, but as you see, adjusted for the structural changes, we actually saw pretty much a flat development in top line. Our bottom line came at €16 million. It's somewhat less than last year's and there you have to take into account a timing shift in Learning, which accounts for about €8 million. I would say that the bottom line is pretty much in line with our expectations for Q1 and in that sense on an aggregate level Q1 was okay. If we then go into more depth and in detail into the actual business lines, we see a somewhat mixed picture. We had a strong year or strong quarter for the Finnish TV operations; also in Belgium our market share improved. We were also able to stabilise the situation with SBS in Netherlands and during Q1 all months, our viewing share remained at slightly above 20%.

We continued the transformation and that means an increasing level of investment into digital operations, that is both people and platforms, and as already mentioned, the performance was substantially impacted or the numbers by the timing shift in learning. In print, the decline in print circulation continued and we had a soft quarter, also somewhat impacted by the VAT development in Finland. But also in our other markets our subscription sales were pretty much flat with price increases compensating for the volume decline and the negative development in single copy sales continued. Similarly, the transition from print to online and TV is ongoing.

A few words about the portfolio changes; in this picture you see the pro-forma comparison between end of year 2011 compared to a year before. If we look at it by operating segment, you can clearly see the reduction in trade and the corresponding increase in the consumer media segment. I think what is also perhaps the most striking here is, if you look at the geographical development of our revenue mix, which is on the right hand side, today actually Finland is a smaller market from our revenue standpoint that the Dutch business for us. Today I am very proud to say that Sanoma is the leading number one consumer media company, both in Finland and the Netherlands with strong positions in Belgium, Hungary and Russia and then we have a Learning business in six countries, which is one of the leading in Europe.

Our challenge is to do putting on the breaks and putting on the accelerator at the same time. This is not new. It's something that impacts all media companies throughout the world and we have at the same time managed the transition, keep adjusting the cost base in our traditional, classical media platforms. Then we need to continuously invest into new growth. Our approach to new growth is to build on our brands, our concept and competencies. Take our advantage, our strong positions in consumer media in our two main markets, but also in the other markets where we are number one or number two in every segment that we work in. Really it's about finding new consumer revenues, it is defining a broader, better offering to our advertising customers and then it is to push forward with our learning solutions, which is really to improve the efficiency in schools and also go into more personalised learning.

A few words about what's in these three buckets and what specifically we're doing. If we look at how are we improving the performance of current business, in print we announced last year the reduction of more than 200 people in streamlining operations in news and the magazine's Finnish operations. There are a number of other steps that we are doing presently in all our key markets and these fall into improving support function performance, but also we're looking at procurement, we are looking at our core processes, how we segment the markets, how we approach pricing, etc, so there's a host of activities that are ongoing, not just adjusting or streamlining marketing revenues, but fundamentally structural things that we are looking at and also how to fundamentally take our core processes into the new digital work.

In TV the main task for us is clearly around SBS and I will talk more about TV in our portfolio. In addition to that we have launched what we call a TV coordination forum. We have today strong TV positions in Finland, also in Belgium and then of course Netherlands and our Head of Media Finland, Anu Nissinen, is driving a TV coordination forum with the aim of sharing best practices and also leveraging the competencies across the different countries. Learning is not just about the learning solutions transformation. We have six operations in six countries and we're also sharing best practices. We're examining how to price our product specifically in the context of creating new bundles between print and digital. We are looking at ways to streamline the editorial processes as we move along and there is also an efficiency improvement ongoing in learning.

Already mentioned the support functions and we are looking, we are taking a fundamentally new approach in the support functions, having our functional leaders lead the functions throughout the group and you can see some headlines here about the areas we're looking at. ICT infrastructure is a big area where we think we have lots to gain from also real estate and going more into financial shared services offers potential for us.

Then last but not least is balance sheet and the cash flow management. I mentioned about the structural changes, but we have also a number of programmes in working capital management, etc, to drive cash flow and improve cash flow performance.

A few words about our multi platform strategy, this is not a comprehensive list, but I wanted to share with you a few main areas that we're working on. In looking for new consumer revenues we have great experience in combining digital subscriptions with the print subscriptions and how healthy is Sanoma's offering. This year we're going to have all our programmes in all our big magazine countries having a digital replica, but also investigating digital combo subscription models in these countries. You may have noticed that we launched in Finland a device offering bundle, so we have an iPad Helsingin Sanomat subscription bundle, but we also have a Libelle magazine iPad subscription bundle in the Netherlands and Libelle being our main weekly title there. We're working on digital distribution of our content, so we have in both of our key markets we've launched digital distribution channels, the tijdschrift and Tasku platforms. In the area of advertising, cross promotion is something we've done to quite an extent, but we are doing it in a more systematic fashion, taking into advantage the inventory that we have internally in TV, online and magazines and sharing that internally to promote our programmes, concepts and brands. The Voice of Finland is a good example of a multi format development or a multi format solution. It's not something new to us completely, but in this very successful launch, we designed it from scratch to really take into advantage our media presence and media following in Finland. That led to outstanding results and clearly very strong buzz throughout social media and online across this concept.

Then you can see a couple of other things around advertising solutions, around Catch-up TV where Ruutu in Finland is stronger in its online market share than in the free to air segment. Then finally we as many players are really trying to improve our performance based offering in display advertising and we have some great examples in Netherlands with real time billing implementation.

Then finally a few words about Learning, you see four examples here and I'll mention two of them. The Teacher's Online Service which has been launched here in Finland by Sanoma Pro is a very successful service platform for teachers which now in use by more than half of the Finnish teacher population, so you can clearly see strong adoption and that of course drives also sales of our core learning platform or learning offering.

The other one is the Polish situation where there's a new curriculum change coming this year and what we expect to have a great success because we're going to offer new type of digital solutions and learning solutions to schools in the fall and in Poland we have a leading position in offering these kinds of services, so it'll be very interesting to see what they will do to our market shares in Poland. These are just a few examples of concrete specific things that are underway and I think the key thing here is to understand our approach to this digital transformation.

Before actually going, a few words about TV; that's the other cornerstone. TV is the medium that drives audiences in online and in the new world. It is really the engine of cross media format, it's the engine of a multi-channel approach. We also see that if we look and discuss with our advertising customers, there is a clear shift from print to TV and online, but TV and online support each other, but they also support the cross offering. The catch-up and second screen gives in our mind a good potential to boost the free to air TV offering because that's the way how you can create even more engaging concepts of the things and programmes that we broadcast. In Finland, no doubt Nelonen is a success story. Our few first months in Belgium also has shown that we can capture market share, we can develop the TV operations, although I must say that in Belgium we're aiming to a big renewal of the channel for the fall, so that's where really the goal for this year is.

I mentioned already when it comes to Netherlands that the mid-term if you take the last couple of years the trend has been negative, but I'm very happy that we have a new team, a new talented team that is working on improving the situation. As already mentioned, we have stabilised the viewing shares three months in a row during Q1.

Now you all want us to tell about the numbers for SBS, but what we can say, that's for Q1, the sales were slightly lower than last year, but actually the operating performance was slightly better than previous years also shows how one can adjust TV operations as we go along. That's one of the cornerstones is TV, building on the audio-visual part and the other one is really when we look at our approach to transformation is really that we believe that the fundamental strength that a strong media company has had in the past will be relevant also in the future. What are they? They are the strong local market positions. It's the contact with consumers and advertisers, it is the brand, the concepts and the trust that we have with the customers. We think that these transform into the future as well. What we will do, we will build the digital components of this offering. It will also enable us to offer new things, building on what we have today, so for example we should be able and we will be able to leverage our distribution strength and also our reach consumers in to providing new types of service, be it made by Sanoma or by some partners. In that sense I hope you understand a little bit better how we look at the transformation journey and it's really based on the strong local positions that we have in our key countries.

With that I thank you for my part and hand it over to Kim. Thank you.

**Kim Ignatius**

Good afternoon all and a warm welcome also on my behalf. I will now walk through the Q1 financials and also point out some items and matters that have had an impact on the reported financials but also have had impact on the operations itself. On 5th March we signed a deal to sell our Kiosk operations and also to sell our trade services business in the Baltic countries. According to IFRS there was a need to classify these operations as discontinued operations and therefore we've done some restatements, not only how we handle the financials in 2012, but also how the comparable numbers from 2011 are reported. As you can see here, the restatement had the biggest impact on the net sales level, the net sales now for 2011 being 2.387 billion. The restatement also impacted the margin structure of the operations, strengthening the margins because of the change in the business mix. Instead of the earlier line by line consolidation these operations are now consolidated on a one solid line basis only. Going to the net result level and EPS you can see that there actually isn't any more any difference between the old reported financials and the restated ones.

On the right hand side here you can see the outlook for 2012. It is unchanged from the Q4 reporting and it is unchanged also after the restatement of the financials.

During Q1 we also concluded the transaction selling 21% of the telecom operator DNA, we did receive 181 million in proceeds from that transaction and those funds were used to strengthen the balance sheet of Sanoma. The net debt at the end of March was at the level of 1.471 billion. As mentioned already we did issue our first ever bond, a five year 5% fixed coupon Eurobond of 400 million and the proceeds from this issue were used to first of all to pay down the 250 million facility that we had as part of the SBS transaction and the rest of the funds were used to pay part of the term loan related to the same transaction.

Where we currently stand, what comes to interest cost, interest rate, the average interest cost is currently at the level of roughly 3%. The bond issue of itself being a fixed rate facility reduced the interest sensitivity that the Company has. We will in the coming days I could say close the Kiosk transaction as well, and will get additional proceeds of roughly 140 million from that transaction. Also these funds will help us to strengthen the balance sheet of the Company. I would like to also remind you we did recently pay dividends of around 100 million.

Moving towards the financial highlights – net sales 543 million an increase of 2.5% compared to Q1 in 2011, and this growth comes mainly from the consolidation of the SBS operation in Netherlands and Belgium. You also see a clear increase in the EBITDA levels coming from the same operations. Our EBIT excluding non-recurring items was at the level of 15.9 million, there were no non-recurring items in Q1 this year. We are below last year’s level. Last year we were for Q1 at 26 million. The main difference between this year is the shift in time in the learning business, so we had sales and pretty much EBIT of around 8 million being transferred from March to April. This will of course improve our learning operations result in Q2. Also if you compare the EBIT of 16 million with the consensus levels for Q1, there is a fairly good sized delta, and of course the learning 8 million is pretty much explaining the deviation between the consensus and the actual numbers for the learning business. In addition we have about 9 million difference what comes to the media business units reported number versus consensus, and here I really do believe that the majority of the difference comes from not really seeing the distribution of profits in the TV business between the quarters during the year, and I will come back to this.

On the net result level and earnings per share level, the loss of 17 million in selling the DNA shares had an impact.

Looking at the different business units starting with Media – the net sales of our Media unit grew by €75 million roughly, the majority of this growth is actually coming from the SBS consolidation, but also from the good business development in our Finnish TV operations. News pretty much flat compared to last year, Learning you can see the difference of 8 million here and I already explained to you that is mainly the shift in time. The Trade sales coming down quite a bit, close to 60 million and all that comes from the transactions, the divestments that we have done in this division, the continuing businesses of trade were at previous years Q1 level. On EBIT – the EBIT of Media grew with 4 million, really the positive drivers here are the SBS consolidation and again the good performance of the Nelonen broadcasting here in the Finnish market. Nelonen is really strengthening its markets position and winning new customers.

On the other side you can say that the increasing marketing expenses had a negative impact for the quarter as well as some structural changes, what comes to our Opex. We did some in-sourcing on customer service function in the Netherlands, and also not mentioned here but need to add it, the overall pressure on the declining print circulation volumes is something that requires actions and is in the form of marketing cost and otherwise have an impact on the profitability.

News – a bit of a mixed picture, what comes to Helsingin Sanomat. We had a bit of a tough quarter. The circulation volumes are coming down and now we can say that it looks like the VAT introduction is having an impact on the circulation levels, maybe around 2%. Ilta-Sanomat on the single copy sales side did very well. The pressure on the circulation in Helsingin Sanomat the overall economic environment and also investments in our digital operations, partly safeguarding our market positions and partly developing new services, all these together led to the 4 million decline during the quarter. Learning we have already addressed, the same 8 million shift in time and then trade 3.6 million down and this relates to structural changes.

Coming still a bit back to the income statement increase in EBITDA but at the same time we do see an increase in the amortizations related to programming rights growing from 11 million to 38 million in 2012. This increase comes from the SBS consolidation, the programming costs related to the Finnish broadcasting operations are at the same level as they were last year.

Financial items – kind of growing with the impact of the SBS transaction.

If we then look at the free cash flow picture here which of course follows pretty much the income statement we start with the higher EBITDA but have then the higher programming costs impacting negatively our cash flow generation, then change in working capital -20 million here, -12 million last year. I really do believe that this is more volatility between the quarters and the months than anything else. Again the higher interest payments reflecting the transaction financing, and then we do have higher taxes paid for the quarter, this is partly related to structure changes that we've done to enable the transactions that we are executing, partly timing matters and partly also adding SBS again into the picture. Cash Capex a bit lower than what we had last year.

Overall a negative free cash flow quarter for us, which I of course do not believe is reflective of where we are heading during the coming quarters.

I would then like to move into the seasonality and the distribution of profits between the different quarters. In the first picture here you see the distribution of our net sales between the business units for Q1, and all the quarters look pretty different, but we can see in Q1 is kind of the low level of sales learning is still having of the total sales, same goes for TV and radio. The majority of our sales in Q1 really coming from magazines and the news business. More importantly so I think it is good to understand how in the different parts of the business, the profit development develops between the quarters. What we have done here is that we have taken a three year average of the different businesses, and starting with the TV operations, you can see that during the three years in average 22% of the sales incurred in Q1, but only 12% of the profits. The majority of the TV operations profits are really incurring in Q2 and Q4. There can be changes or differences between years, like this year we will have the European Championships in football, we will have the Olympic Games and these can have an impact on the distribution. This is a good picture of how a normal year would work.

Looking at magazines – also here only 19% of the profits take place in Q1, the strongest quarters here, well really even distribution then during the coming three quarters.

News – again fairly evenly distributed but also here you can see that the latter half of the year is stronger part of the operations.

Learning – very clear difference between Q1 and Q4 compared to the Q2 and Q3 quarters. Here in Q1 13% of the sales and in three years time in average always a negative quarter to start with, as is the Q4 quarter, and clearly over 100% of the profits for the learning business come during Q2 and Q3.

Then finally the outlook for the year, the outlook is unchanged and what we are guiding you with is net sales that is growing slightly. The growth is really coming from the acquired operations in TV and print in Netherlands and Belgium. We do see our operating profit margins improving and guide them to be around 10% for the full year. Our earnings per share will grow. During the presentation I went through the consensus versus the actual numbers for Q1. There was a fairly good sized difference in these numbers. What comes to the full year and looking at the consensus from the market, the consensus is very well in line with the guidance that we are giving.

I will stop my part of the presentation here and I guess Martti we are ready to take questions.

**Martti Yrjö-Koskinen**

Thank you Kim. Before we start taking questions I would just like to remind you that wait for the microphone and please state the name and the company when asking the questions. Do we have any questions.

## Questions and Answers

**Sami Sarkamies, Nordea**

*I have two questions. The first one is related to high marketing and advertising spend you had in Q1 that grew almost 10% from last year. I have two concerns on this. The market was quite soft in Q1. Did you get the benefits from the spend and are you able to continue with spending if and when markets start picking up towards the year end. Then maybe the second concern is that did we see all the weakness in the underlying business in Q1, because at the same time you were supporting the business with high marketing spend?*

**Kim Ignatius**

Well yes the marketing spending was higher than it was in Q1 last year and partly it is of course aiming to create sales during the quarter, it is also aiming to strengthen our positions in the marketplace and in the digital front there are areas where there has been an increasing competitive environment and we’re really supporting those businesses to make sure that we’re not losing share and hopefully on a longer term basis then keep our strong position or even strengthen that.

Naturally in some of these areas where the circulation trends in some of the markets were declining, there has been an effort to boost these businesses forward, and going forward I think we need to match of course the spending levels with the views that we have on the businesses going forward, so that is one area which we're looking very carefully. If the trends continue negatively maybe we need to be a bit more selective in which areas we are kind of spending in the market.

**Sami Sarkamies, Nordea**

*Then I have a second question. This is related to cost saving impacts you are promising for the second half of the year, and is related to Media and News divisions. Are you able to quantify how much lower cost base you will be running with in the second half of the year or at the end of the year?*

**Kim Ignatius**

Well we had a reduction of 225 people in these two units from these programmes that were executed last year and I don't have one number to give you, but in addition to the salaries there are travel costs and there are other cost categories related to the savings. It will have an impact and also the cost saving efforts will not stop here. I think we need to continuously kind of look into different businesses into different functions and we have already mentioned earlier to you that we are looking at all the support functions as well, and are aiming at fairly high savings there going forward.

***Peter Testa – One Investments***

*Thank you I had a couple of questions please. I was interested on your comments on stabilising SBS. I was wondering if you could give some sort of sense as to what kind of programming commitments you're making to try to drive that. Then within that – how you think the stabilisation will feed through to advertising revenue share which hasn't come down as viewer share at this point.*

**Harri-Pekka Kaukonen**

Yes in terms of the programming spend and the investment – with most of the programming spend additional spend that was also communicated in our last press conference which was around 10, 20 million, it is going to be happening towards the second part of the year, so what we have been doing during the first Q and second Q is more tactical optimisation of the grid also to get the programming profiles for the different channels in place and then working with that. There is a natural lead time for doing changes and then bigger investments to get the format ready for launched etc. That is how you should also view it that we expect increasing viewing shares but also increasing programming costs for the second part of the year.
Then the second question was about the share of advertising. I think we are very happy and delighted that the power ratio has remained strong in Holland. We're very thankful for our customers for it but we also interpret that as a belief in the strength of the SBS franchise and I take the opportunity now here also that there has been a lot of discussion also critical comments about the problems in SBS. I think you have to also keep it mind that SBS is a strong franchise, it is a profitable TV operation that has more than 20% viewing share in a big TV market. It is not in catastrophic shape. We can argue here how

well it's performing to what originally were our expectations and then we can also discuss the path forward but just as a reminder, but this is not a disaster case on our hands, it is a strong profitable TV operation.

***Peter Testa – One Investments***

*Then just related to your comments on the seasonality where you gave some very helpful information on the TV and magazine. If you look at the taking of the EBIT performance in media versus where most of the analysts are – you're running somewhat below what would be normally expected on a proportion of EBIT. You have some investments to make in TV and obviously the Dutch economy and Belgian economy are not in the strongest of shape. Can you help us understand what you are intending to do to try to accelerate the performance on an EBIT basis to be better than the normal three year average in the balance of the year to make this up.*

**Kim Ignatius**

Of course it is a very broad question in the TV part of our media operations, it is really enhancing the programme quality, the kind of the clarity of the channel profile and taking the right investments in pushing it forward, and we said already earlier that that is something that will not enhance the EBIT on a very short term basis, it will take some time to strengthen our position.
What comes to the rest of the media business, magazines mainly here it is really going through the portfolios, taking choices there, also taking choices which we support with additional marketing spending and which one we don't. Outside the kind of revenue creation it is really the efficiency improvements that are also needed related to the commercial operations but also related to the support functions, so there isn't one programme that we are executing, there is a multiple number of things that all the markets and all the units are taking forward.

***Peter Testa – One Investments***

*Last question if I may please on learning – in addition to the timing factor which obviously helped you in Q2, can you give some sense please as to what your conversations have been like with the end authority customers based upon budgets that they have available for spending and these sorts of things that may impact your business.*

**Harri-Pekka Kaukonen**

Apart from Hungary we have seen relatively little direct impact or direct change. These are longer cycle things, I mean the budgets for this year are set and the schools are very deep into planning their fall season and actually most of the orders are coming in already. When you talk about this year – we have very good visibility to our core markets. If there would be any change I think it is more gradual and will not hit us short term.
Then you also have the other balance, because yes on one hand you have the budgetary constraints but then you have what will support competitiveness in Europe. These are two counter acting trends and we believe also the fact that we will be able to help government in reaching better learning outcomes, will give us also ability to grow and also defend our position in the market and justify capturing our sales.

***Mikael Doepel – Handelsbanken Capital Markets***

*Hi, coming back to SBS you mentioned in your presentation that the net sales were slightly down in Q1, profitability was slightly up. What drove the profitability up, and is this something that you expect to see in the coming quarters as well.*

**Harri-Pekka Kaukonen**

The revenues of SBS like TV operations, it is a combination of advertising revenues, it is also the non-spot revenues and distribution revenues, so you have a balance of these and a different mix of profitability. Then there is also as I said what we have done during Q1 and Q2 is we are optimising a programming grid as well, so we are not spending a lot of extra ammunition in the first half, it is going to be geared in the second half, and that is also a reason why you should definitely not expect or model an ongoing increase in performance of SBS, on the contrary I think in our last press conference you should pretty much look at the baseline and then this year is a year of investment, this 10-20 million is an additional investment into programming. Obviously we try to find other sorts of revenues in addition to advertising revenues and we manage the cost base as much as we can, but clearly we expect to see better viewing share numbers, but probably slightly lower profitability compared to previous years for the next quarters.

***Mikael Doepel – Handelsbanken Capital Markets***

*I actually have two others if I may. On the media markets overall – what are you seeing right now when you compare it to Q1 in your different segments and also geographical regions.*

**Harri-Pekka Kaukonen**

Well we are seeing TV stronger than some of the other media in general. We are seeing some pressure on the print advertising for the same reason, this shift, but the markets are very uneven. If you take for example Eastern Europe, Russia is doing quite well, the economy is okay and the money is funnelling down to consumption and advertising is ongoing. Then we have clearly a correlation in general with the consumer confidence and advertising spend. Typically you know print is not the core media like TV and it is being impacted slightly more than the others. But no dramatic shift, it is very short time visibility, so our order backlogs are short. We don’t know exactly what is going on, but no dramatic shift. I think if anything we had a very weak beginning in print advertising in January but it has rebounded, so February/March we’re slightly better and we’re at that type of trajectory but it is too early to say.

***Mikael Doepel – Handelsbanken Capital Markets***

*Okay got it and then finally on the learning business – are you still keen on growing this business and would you be ready to seize any opportunities if they would appear right now.*

**Harri-Pekka Kaukonen**

In general we are keen to grow the business. Our main focus is now to really ensure that we're successful in the learnings solutions transformation in our country, but I have said before that if an opportunity to an interesting country would emerge we would seriously have a look at it, bearing in mind our balance sheet constraints of course.

***Panu Laitinmäki - Danske Markets***

*Thanks. I would have a couple of questions regarding these higher costs. Firstly – in the News division you said that there were higher investments in online operations. Could you please quantify those and how much of these were Q1 specific and how much will continue in the year. Secondly about higher marketing costs in media – did I understand correctly that these were related to the print media side and you will have higher cost in TV side later in the year. Third question is that this call centre in sourcing in the Netherlands how big impact was from this, was this related to print and why did you choose to do that. Thanks.*

**Kim Ignatius**

The digital increase spending or online increase spending in the Finnish market we're not talking about huge amounts but if we try to explain a deviation of 4 million compared with Q1 last year it was partly because of the spending levels and partly because of the circulation trends, so the amounts are not huge but it did have an impact on the comparable numbers. The spending has been really to support our existing market positions and push some services or strengthen some services.
How long will that continue depends also how the environment is developing.
On the TV part I think we answered it already that there will be an increasing investment in the programming cost, maybe not so much marketing but in the programming cost during the latter half of the year.
On the magazine side – as I said earlier I don't expect the spending levels during the balance of the year to be on the high side. I really think we need to follow what is happening in the marketplace, what is happening with our profits and adjust the spending accordingly.

**Harri-Pekka Kaukonen**

I would like to add to that also – I think the increase in digital spending is not something that happened just now. It is a conscious investment into people and resources throughout last years, and this is a delta between what we saw in Q1 and Q2. Then you have a combination that yes indeed we are and we will be investing more into digital resources, and also into the platforms. Then you have in addition to that, you have the VAT impact which is more negative than it was from the trajectory in Q1, and then the impact of the cost reductions that we did last year, there is a lead time with that, so currently you're in the position where I would say, higher digital cost but we don't see the impact of the cost reductions and that is expected to happen towards the end of the year. There are these lead times that also impact how actually the Q1 looks like.

**Kim Ignatius**

There was one more thing, the in-sourcing of the service function, call centres and it is really because of it has been seen as an important interface towards the consumers and also a marketing tool and we felt that it is important that we have a better control of it ourselves.  It's increasing our FTE headcount and not necessarily the costs in significant manner.

It is related to the Dutch magazine business.

***Matti Riikonen - Carnegie***

*Just a technical question related to your guidance – you were saying that you are targeting around 10% EBIT margin.  If we take the comparable number from last year which was 9.4 Would that be enough to meet your guidance or would it not.*

**Kim Ignatius**
I don't know if we took the same math course when we were young but probably not, it would not meet our guidance.

***Peter Testa – One Investments***

*Maybe something related to that previous question.  Given your point on consumer confidence and the link to advertising which has been a data point which has been in decline in a number of your key markets, and especially Holland and Belgium.  Can you give a sense as to what sort of cost flexibility you have to be able to compensate for advertising volatility in particularly the media division.*

**Harri-Pekka Kaukonen**

I can answer that. We had a discussion obviously in our Q1 reviews and we have modelled the current trajectory of advertising spending as a trend for what we are seeing, and there is indeed flexibility to adjust for cost items around, well again marketing but also in terms of discretionary spend that we can do to secure the bottom line for this year.  I think we are okay provided there is no dramatic shift in the economic environment.  That doesn't mean that we are not looking for other things; that is what I meant by there are other initiatives that are more structural in nature, ongoing in both Holland and Belgium and also in Finland, so we try to be proactive, try to get ahead of the curve so to speak, but there is indeed quite a lot of flexibility still in our cost structure.

## Closing Comments

This then concludes the presentation, thank you for participating and for the follow up questions the IR is at your disposal.  Thank you.