

# FINAL TRANSCRIPT

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## **SWSBV.HE - Full Year 2009 Sanoma Corporation Earnings Conference Call**

**Event Date/Time: Feb. 11. 2010 / 2:30PM GMT**



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## CORPORATE PARTICIPANTS

**Hannu Syrjanen**

*Sanoma Corporation - President and CEO*

**Kim Ignatius**

*Sanoma Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Andrea Beneventi**

*Exane BNP Paribas - Analyst*

**Alex Wisch**

*Standard & Poor's - Analyst*

## PRESENTATION

**Operator**

Good afternoon, ladies and gentlemen, and welcome to the Sanoma full-year 2009 results conference call. My name is Phil and I'll be your coordinator for today's call. (Operator Instructions). I am now handing you over to Mr. Hannu Syrjanen, CEO, to begin today's conference call.

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**Hannu Syrjanen** - *Sanoma Corporation - President and CEO*

Okay, thank you very much. Good afternoon, ladies and gentlemen. Welcome, also, on my behalf to Sanoma's fourth quarter 2009 conference call. As said, my name is Hannu Syrjanen and I am President and CEO of Sanoma Corporation. I have here also Kim Ignatius, our CFO, and Kare Laukkanen and Anna Tuominen from our IR team.

I'll briefly go through some key issues regarding last year's result and after that, as normally, we have time for discussion. And in my presentation I will use the slides that is available on our IR website.

But before I go to my actual presentation, I would like to say a few words about the organizational changes related to our news division that we also announced earlier today. So Mikael Pentikainen, who is now President of Sanoma News, has been appointed Publisher and Senior Editor in Chief of Helsingin Sanomat, which is our flagship newspaper here in Finland. So he's going to be Editor in Chief as of 1st of April.

At the same time, Pekka Soini, current President of Helsingin Sanomat, has been appointed acting President of Sanoma News as of the 1st of April, as well. Soini will also become a member of Sanoma's executive management group. And I'm personally very pleased with this arrangement and I wish both these gentlemen good luck in their new positions.

So then, back to the normal agenda, to Sanoma fourth quarter and full-year 2009 results. Next slide. Year 2009, as you know, was very interesting. So we will definitely-- it will definitely be one of the most memorable in my whole career.

So advertising market fell steeply, most of our market, especially in the Central and Eastern Europe and Russia. Consumer confidence sank and whole nations fell, almost, into bankruptcy, as we all know.

So our balance portfolio and wide geographical coverage softened the impact but could not keep us immune to such an economic turmoil. However, I think we delivered solid results in such a tough environment.



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Adjusting to such a change is never painless, but collaboration carried us through. In 2009, we completed a large number of efficiency improvement programs. Their purpose was to strengthen our competitive position and safeguard our profitability and cash flows.

Due to these programs, our operating expenses, excluding non-recurring costs, declined by some 8%. Towards the end of the year, some positive signals were seen in advertising markets in most of our operating countries. However, no fast recovery is in sight yet.

But we are continuing to focus on efficiency, also, during 2010. At the same time, we are also investing to ensure future growth. Especially our online operations are expected to grow significantly in the coming years.

So next slide, a few words about key events during last quarter of '09. We restructured many of our businesses. Some examples -- Sanoma Magazines simplified its organizational structure in the Netherlands by dividing its businesses into two units, digital and print media. Sanoma Uitgevers is now able to respond to market changes more efficiently and increase its commercial focus.

Sanoma News and Sanoma Entertainment combined their finance and administration functions or back office functions. The new joint organization enables better cooperation and sharing of best practices across divisions.

In Sanoma Learning and Literature, Weilin & Goos adjusted operations by outsourcing its direct sales operations. Bookwell merged its printing operations with Gummerus to greatly enforce its position as the leading book printing house in the Nordic region.

Sanoma Trade consolidated its Estonian kiosk, press distribution, bookstores and movie operations in one organization. This will facilitate faster concept development, improve the customer offering and create more uniform and efficient processes.

During the year, we also launched some new products. They include, for instance, new magazines like Adria Media Zagreb's lifestyle magazine, Storybook, and electronic products like Nelonen Sports Pro pay TV channel in cooperation with Viasat.

And our broadband operator, Welho, received the number one position in the national customer satisfaction survey -- fourth year in a row, by the way.

A few words about the numbers, next slide. In 2009, our net sales went down by some 9% to EUR2.8 billion. Net sales were stable in Sanoma entertainment, but decreased in other divisions. The main reason was the fall of advertising sales, as mentioned, due to the general economic situation in most of our markets. Our operating profit, excluding non-recurring items, decreased by 22% and totaled EUR230 million.

Some details in the next slide. So good news was that the fourth quarter showed some signs of recovery. It was the only quarter last year when our operating profit exceeded the previous year's level.

I'm also very satisfied that we were able to maintain a healthy cash flow. The weak operational result was offset by effective working capital management and clearly lower financial items and taxes paid.

And we also are maintaining a good dividend level. Board's proposal for 2009 dividend is EUR0.80 or 80 Euro cents.

So next slide, some analysis I promised. You can see the impact of each division. The whole Sanoma Group's operating profit, excluding non-recurring items.

As said earlier, Sanoma EBIT, excluding non-recurring items, decreased by 22% last year. Operating profit increased in Sanoma Entertainment and decreased in all the other divisions.



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In Sanoma Magazines, decreasing advertising sales affected the results in all businesses, especially Sanoma Magazines International was hit by the weak ad sales. Also in Sanoma News, the decline in the advertising market, especially classified advertising, had a negative impact on the EBIT.

When it comes to Sanoma Entertainment, I am proud of their performance. Despite the fact that the Finnish TV advertising market shrank by 12% last year and competition in broadband access markets remained tough, Sanoma Entertainment was able to improve its EBIT by some 20%.

In Sanoma Learning and Literature, currency fluctuations and the effect of economic downturn to our language services sales explain most of the decrease. Also, the consolidation of educational publisher Nowa Era's seasonal losses in the first quarter affected the division's result.

In Sanoma Trade, the falling operating profit was the result of the decreasing sales in the Balkan countries and problems in Russia and Romania.

And the next one, some points regarding our financial position. Despite the challenging market conditions, Sanoma's financial position remained stable. Our balance sheet totaled some EUR3.1 billion, equity ratio increased to 41% and our net debt was some EUR960 million. And our net debt to EBITDA ratio was 2.6, which is still well below our long-term target of 3.5.

Our existing credit facilities, such as our EUR802 million revolving credit facility cover our financing needs and we have no need for material refinance in the near future.

Finally, our guidance for this year. So we expect our net sales to grow and we estimate that our operating profit, excluding non-recurring items, will improve slightly. And in the comparable year, 2009, operating profit, excluding those non-recurring items, was EUR229.5 million. And this outlook is based on the assumption that the advertising markets are stable.

So briefly to sum up, so I'm pretty pleased with our performance last year. Although we focused on cost savings, we never compromised our future performance. Our aim is to be one of the leading media companies in Europe, also, in the future, with a focus on sustainable growth and profitability. And I'm also very confident that we have the model to reach this goal.

So, ladies and gentlemen, thank you very much for your time. Now we are ready for your questions, please.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). The first question comes through from the line of Andrea Beneventi of Exane. Your question, please?

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**Andrea Beneventi** - *Exane BNP Paribas - Analyst*

Good afternoon, Mr. Syrjanen, and thank you for taking my question.

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**Hannu Syrjanen** - *Sanoma Corporation - President and CEO*

Good afternoon.

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**Andrea Beneventi** - Exane BNP Paribas - Analyst

I have two of them, actually. The first one, could you please help me to understand, given your guidance for Group revenues growing in 2010, in which quarter you expect to come back to positive growth and if you already see growth in some countries in Q1?

**Hannu Syrjanen** - Sanoma Corporation - President and CEO

We have never given any sort of guidance concerning quarters alone. So we have always given our guidance for the full year and so is the case, also, this time. So we will grow and our EBIT will improve slightly as we say here in our guidance.

**Andrea Beneventi** - Exane BNP Paribas - Analyst

Okay. Can I also ask you on cost, by how much do you expect the cost base to increase in 2010 for the Group, please?

**Hannu Syrjanen** - Sanoma Corporation - President and CEO

That is basically the same case, also. We have-- because we don't budget, so we don't have any exact figure what comes to our cost base. But what we, of course, want to keep is our performance and our profits and our margins. So it means that our cost base, percentage-wise, will follow the top line.

If there is recovery in top line, so it gives us some space to maneuver on the cost side to invest in product development and so on and so forth and in the case of decline so that this recession continues, so then we are ready to take some more cost-cutting measures, as we did last year, in 2009.

**Andrea Beneventi** - Exane BNP Paribas - Analyst

Thank you. I will try a third one, then, if I may. Are you planning any price increase in 2010 for Helsingin Sanomat or Ilta?

**Hannu Syrjanen** - Sanoma Corporation - President and CEO

We have not made any decisions concerning that, but normally, for instance, the price in Helsingin Sanomat, if you are talking about the readers' market, if you are talking about the subscription price, it has pretty well followed inflation and, of course, when it comes to advertising prices, there is, of course, heavy competition. And, also, of course price is one issue to think about, but, of course, we want to keep our prices as well as possible, even in this situation of competition.

**Andrea Beneventi** - Exane BNP Paribas - Analyst

Okay. Thank you very much for that.

**Hannu Syrjanen** - Sanoma Corporation - President and CEO

Thanks a lot.

**Operator**

Thank you. The next question comes through from the line of Alex Wisch of SP Equity Research. Your question, please?



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**Alex Wisch** - Standard & Poor's - Analyst

Thank you. Good afternoon. I had a couple of questions. Basically, are there expected restructuring costs in 2010? I think most of it has been absorbed in 2009, but can we expect more and how much in 2010 and where?

Also, I wanted to know about the drain in the cash flows from the restructuring activities and your view on the dividend going forward. We've had an 11% cut this year and in the main numbers -- and I imagine some of the consensus numbers -- it looks as though there could be further cuts down the line to preserve cash flow if we expect more restructuring costs to drain cash flow in 2010. What's your view on that?

And also, if I may ask, as well, your view on Trade. There was an announcement at the capital markets day about possible restructuring the way Trade operates, allowing it sell anything, different products in different ways. How far are we on that strategy?

**Kim Ignatius** - Sanoma Corporation - CFO

Maybe I could start -- this is Kim Ignatius -- on the first parts of your questions and maybe Hannu can continue on Trade. When it comes to the restructuring, all the decisions that we have made to restructure our operations or processes, then a full provision has already been taken and is included in the 2009 numbers, which means that there isn't any decisions already for the coming year.

If we see a need, still, to improve or restructure, then that will take place and the booking will take place when the decisions are taken in the future. There isn't any additional information currently that I could give you.

**Alex Wisch** - Standard & Poor's - Analyst

Okay.

**Kim Ignatius** - Sanoma Corporation - CFO

When we look at the non-recurring items that we have booked, of course, some of them do have a cash flow portion, people being laid off and so on. I can't tell you an exact percentage of how much that would be, but some impact it would have. When it comes to the total cash flow from operations on the Group level, the impact is not significant.

**Alex Wisch** - Standard & Poor's - Analyst

Okay.

**Kim Ignatius** - Sanoma Corporation - CFO

When it comes to dividend policies, we have a profile of being a good dividend payer and we have a clear policy saying that we aim to pay at least-- or over 50% of our net results in dividends and if you look at 2008 and for the year 2009, we are actually paying a much higher percentage, over 100% of our net result, per share in dividends and this is justified by the fact that our cash flows have continued to be very strong, in the area of EUR1.5 per share.

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So with that, we have been able to continue with the stable dividend levels without having a negative impact on our capital structure. What the actual level next year will be, that, of course, there is-- I can't comment it now and I don't have a clue, actually, where we end up. That's a process of its own next spring.

What was your question on Trade?

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**Alex Wisch** - *Standard & Poor's - Analyst*

On Trade, basically in the capital markets day there was some announcement about allowing Trade to sell different products--

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**Hannu Syrjanen** - *Sanoma Corporation - President and CEO*

You're talking about the business model?

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**Alex Wisch** - *Standard & Poor's - Analyst*

Yes.

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**Hannu Syrjanen** - *Sanoma Corporation - President and CEO*

Yes, that's how I understood it. So we have, of course, sort of the concept development is sort an ongoing process. We, of course, do concept development all the time. But we have, this time, because we have a new CEO there in trade, so we have started a heavy process to improve our concept, both in kiosk side and also in bookstores.

And we have, now, some pilots already up and running, some 10 new kiosks, some new product groups like takeaways, for instance, on the book side and sort of a new type of setup there. It's too early to say, of course, what will be the final outcome, but we test different types of new concepts there.

When it comes to our bookstores, so I think the development goes to the direction where we change our concept from-- more from traditional bookstore to sort of new entertainment centers, taking new product groups into our assortment and so on. So less traditional bookstores, more entertainment if I put sort of long story short.

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**Alex Wisch** - *Standard & Poor's - Analyst*

Thank you.

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**Hannu Syrjanen** - *Sanoma Corporation - President and CEO*

Thanks.

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**Operator**

Thank you. We have another followup question from the line of Andrea Beneventi. Your question, please?

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**Andrea Beneventi** - Exane BNP Paribas - Analyst

Yes, thank you. A couple of follow-up questions, actually. This one is on Ilta Sanomat. What is the rate of advertising decline that you saw in Q4 and what do you see, actually, in Q1?

And the second question is on investments. You mentioned many times the possibility of scaling up the investments in education and digital. When should I expect more detail from that?

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**Hannu Syrjanen** - Sanoma Corporation - President and CEO

Again, normally we don't get any quarters, so we don't have any figure when it comes to Q1 advertising development. But what we can say and what you can see from the numbers is that our top line, all-in-all, Group level declined a bit less than during the three first quarters. So, all-in-all, our top line went down by 8.7% and during the last quarter 8.2%.

In newspapers, so the market development during December it is public figures, so newspaper advertising here in Finland went down in December by 7% and if you look at the full year numbers, then the decline is as much as 21.7%. So 7% compared to 21.7%, so December was much better or much less worse than the rest of the year. So that is the sort of definite conclusion from these figures.

What is going to happen during this year, so remains to be seen. The start has not been that fast, so that's why we have sort of estimated or said that the recovery will not be very fast. It will be a sort of slow recovery in ad market.

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**Andrea Beneventi** - Exane BNP Paribas - Analyst

And among newspapers, should I expect tabloids to remain weaker than Helsingin Sanomat?

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**Hannu Syrjanen** - Sanoma Corporation - President and CEO

The business logic is different. So Helsingin Sanomat is very dependent on advertising, so-- especially classified advertising and our tabloid is not that much. So advertising there is much more marginal. It's based on circulation, single-copy sales and the readers' market has remained pretty stable. That's why we lost only a few percentages when it comes to top line in our tabloid business, compared to about 15% in Helsingin Sanomat. So the business logic is completely different.

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**Andrea Beneventi** - Exane BNP Paribas - Analyst

Okay and on acquisition, please?

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**Hannu Syrjanen** - Sanoma Corporation - President and CEO

Sorry?

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**Andrea Beneventi** - Exane BNP Paribas - Analyst

When should I expect acquisitions in digital or education and what type of acquisitions?



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**Hannu Syrjanen** - Sanoma Corporation - President and CEO

So we have done all the time sort of small ones and, of course, as we have said, we look for the growth in learning and literature, as you said, and also online. Of course, also elsewhere, but, of course, our focus to really maintain this balanced portfolio is in those two areas.

So-- but we don't have anything to announce at this point of time, so we will-- we'll come to the public when something is happening.

**Andrea Beneventi** - Exane BNP Paribas - Analyst

Okay, thank you.

**Hannu Syrjanen** - Sanoma Corporation - President and CEO

Thanks.

**Operator**

Thank you. (Operator Instructions). We have no further questions coming through, so I'll hand back over to your host to conclude-- We do have another question, once again from the line of Andrea Beneventi. Your question, please?

**Andrea Beneventi** - Exane BNP Paribas - Analyst

Yes. I will ask you another minute of your time, sorry. I'm curious to know how much of your book revenues come from e-books.

**Hannu Syrjanen** - Sanoma Corporation - President and CEO

Good question. So I do not have any figure in my head. But to be frank, it's still very, very marginal. So we are talking about a very, very small market at this point of time. But, of course, we are active there, because we, of course, understand that it will jump up and maybe pretty fast, as well. But today's it's marginal.

**Andrea Beneventi** - Exane BNP Paribas - Analyst

Okay and do you see it as an opportunity going forward, or are you planning to--?

**Hannu Syrjanen** - Sanoma Corporation - President and CEO

To me, it's a huge opportunity. I really think so, that for books, for instance, it's a huge opportunity.

**Andrea Beneventi** - Exane BNP Paribas - Analyst

Okay, thank you.

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**Hannu Syrjanen** - *Sanoma Corporation - President and CEO*

Thanks a lot.

**Operator**

Thank you. We have no further questions coming through.

**Hannu Syrjanen** - *Sanoma Corporation - President and CEO*

Okay. Then I thank you very much for participating, ladies and gentlemen, and have a really nice day. Thanks.

**Kim Ignatius** - *Sanoma Corporation - CFO*

Thank you.

**Operator**

Ladies and gentlemen, thank you for attending today's conference call. You may now replace your handsets.

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