Sanoma
Tuesday, 7th February 2012

Chaired by Martti Yrjö-Koskinen

Martti Yrjö-Koskinen

Good morning, ladies and gentlemen and welcome to Sanoma's Q4 presentation. My name is Martti Yrjö-Koskinen and I'm head of investor relations. Today present from management, we have Mr Harri-Pekka Kaukonen, our president and CEO, and our CFO Mr Kim Ignatius. Today's event is webcasted so we also have the possibility to get questions over the phone and if the participants want to ask questions over the phone, you should also dial into the conference call number. Material can be found on our website, sanoma.com. That's enough about the instructions. Harri-Pekka, please.

Harri-Pekka Kaukonen

Thank you, Martti. Ladies and gentlemen, welcome also on my behalf to this Q4 presentation. I will start us off and then Kim will go more deeply into the numbers. I'm very glad to report solid numbers for Q4 and also for the full year.

If we start with Q4 numbers first, sales were flat, slightly declining, if we adjust for structural changes. If you look at the different SBUs or reporting segments, we had media doing well and trade meeting our expectations. Also within learning, the core learning business also met with our expectations, whereas, in the news business, we had a slight deviation mainly because of the external environment and advertising market.

Operating profit came strongly; we report €60 million compared to 34 the previous year and this result improvement is mainly due to operational efficiencies, but also the impact of SBS can be seen in the numbers. Cash flow was also strong during Q4. It's due to the tightening measures that we've done all across our company and then, specifically, Kim will go in more detail, but also working capital management was very strong during Q4.

2011 was a year of major change and we have now a new group management team in place, we also have a new organisational structure and a lot of changes in portfolio. And I will go through them in a little bit more detail. If you look at the top level, our net sales operating profit and cash flow were roughly at comparable levels, which I think in especially in the tough economic environment during the second half of the year can be seen as a solid, good performance.

Our digital sales today or 2011, including also our TV operations, corresponds to 16% of net sales to date. In terms of profit sharing, the proposed dividend is 60 euro cents per share compared to last year's €1.1. And most importantly I would say that we have set new priorities for the next three years, which I will elaborate a little bit more in detail today.

Looking a bit more back towards what happened during 2011, if I start with the portfolio, there were a number of acquisitions and divestments during the year and the biggest one, of course, the SBS acquisition in the Netherlands and Belgium through which Sanoma today is the biggest consumer media company, not only in Finland, but also in the Netherlands. We also made steps forward in the learning business by acquiring the Swedish learning assets from Bonnier and then a number of divestments that were concluded, the most important being the movie operations and the book stores and the divestment of general literature. With these changes, our strategy to focus on consumer media and learning is becoming more and more evident and this, indeed, is the direction that Sanoma is heading.

When we talk about organisation, we have now one of the most international management teams; represented in our executive management group there are five nationalities and all the major businesses the countries are present in the decision making in the top level. And I think that is something that's very important for us going forward.

We have also refined our strategic focus and have set a number of new priorities for us going forward. When we look at our operating business, there are four key areas we want to drive. We believe in the print business and we are going to develop it further. We believe in our strong brands and the content that we have and we will push for our titles and expand our reach and readership and keep developing that part of the business.

We believe also in TV. We're going to focus on developing it and invest in non-linear TV as well as our online platforms and also growing our good and well-functioning free to air franchise. Learning is another growth area for us and we have shown and we believe in strong organic growth in the learning business and the opportunities in the core learning business, but also in the adjacent markets, like tutoring and edutainment.

The biggest challenge and opportunity for us, though, is to really take all these platforms into digital space and we believe the correct approach for Sanoma, given our strong country presence, is really to focus on cross-media and multichannel. And I will explore a little bit more in detail what we mean by that.

In addition to these operational priorities regarding our core businesses, we have to focus on really improving our operational efficiency and then to make sure that our balance sheet gets back to investment grade quality. And there are a number of initiatives launched on group level to secure cash flow and performance and also we're looking at further divestment in the group.

Finally, last but not least, we are also looking into our culture, the mind sets, the behaviours, to make sure that our people have capabilities but also our values and the behaviours and mind sets in the organisation fit with the requirements of the future.

If we then first look at our print business, what are the priorities? We have to have a close look at content. We also have to look at the delivery of our content through the different channels and that means that also the content creation process itself needs to be reviewed and what we believe is the opportunity to look more cross media and combining different types of content in the actual editorial process.

Sanoma is characterised by very strong market positions. We have leading titles in all of our operating countries and these titles represent strong values and also strong content to our readers and our viewers. We believe there's a lot of potential to expand these brands and deliver more content, but also services to our readers and viewers. There is a continuous need to also look at our portfolio; not all titles are going to be successful in the future and there is an on-going process of reviewing them, stopping those titles that we don't see a future in, but also launching new titles, as we have done during this year.

We also believe in the transition in the marketing budgets from bought media to own media and earn media and therefore we think also the custom media is an area for us where we already are present in several countries, but expanding that platform also to be able to provide new types of solutions to our customers who are willing and who want to also reach their customers and audiences.

And then finally we need to make sure that our efficiencies in the print side are in good order. And there are a number of initiatives aimed at looking at how are we going to distribute and sell in the future, but also to make sure that our operational efficiencies in all the core processes are at a best practice level. And while doing that, we need to also take care that we meet the requirements of the future readers and viewers and are successful in the digital transformation of our print platforms.

A couple of examples of this direction. First is the point about integrated content creation. This is something that we are already doing Helsingin Sanomat and it's really with the mind-set that when you provide and deliver and develop content, you have to think about all the formats and channels in one row. And that is going to be the future way of working in Sanoma and, as I said, already a way of working in, for example, Helsingin Sanomat.

A lot of questions and comments have been associated with the fact that is print declining and so on. And I think in one sense that also partially misses the point because at the end of the day what is really meaningful is, what is the number of the readers? What is really the quality of our content and whether we can keep our consumers and customers interested in that.

This slide shows the development of our main titles in the news, SBU in Finland, Helsingin Sanomat and Ilta-Sanomat, and it shows how, while, yes, indeed, the fewer subscriptions are going down, but the actual reach is going up. So, we have more people reading the content that our editorial teams create. And I think this is something which is really important to understand going into the future and of course very important for us to think through what is the new world and what are the ways to monetise these audiences, apart from the old subscription based models.

Then a few words about TV. If we look at Finland, Nelonen Media had a very strong year in 2011. And if you look backwards, it is also one of our strong performers. And if you look at the last five years, the growth rates have been quite respectable in the media industry. And if we look at the future development, we definitely want to become stronger in our target group, but there's also very important development in multimedia and online. I'm also very happy to report that our share in the Ruutu.fi and catch up services is clearly higher than our corresponding share of the free to air market, which shows, again, our capability in taking these platforms into the digital world.

A few words about the Netherlands. I'm sure you're all interested about how are we doing with the SBS acquisition. I would say we are taking first steps there. We have a new team. It's not fully in place. We'll have a new programming director in place 1st March. We have a new CEO. We'll have a new concept director in place who will be focusing on developing multi-format concepts which are going to be more and more important and really one of the reasons we believe in the TV platform. The TV platform drives and captures the audiences and then we need to be able to monetise and develop these formats and concepts for multiple channels.

Clearly, there are quite a lot of things to do for us to improve our channel profiles and the quality of our programming, but we are very confident that we will be able to do that. However, it's not going to be a quick fix; it will take some 12 to 18 months for the turn really to take place and be visible in our numbers, but we're working very hard with that.

Then about learning, we're very excited about the opportunities in learning, the shift in the whole business models in learning through the digital transition. And really at the bottom it's about, on the one hand, being able to deliver better learning outcomes, so also increasing the effectiveness of learning and also the efficiency of the total learning investment in the different societies. And with the digitalisation and new solutions, we think we can bring something quite new to this and help in this respect.

And really the focus in learning apart from taking care of day to day business and increasing efficiency is really to drive the digitalisation. And in this picture, you can see on the right hand side the actual teaching cycle of the teachers and the schools and really we see us not the provider of the school books, but actually the provider of solutions to making the teaching cycle and the school year cycle more efficient and effective. And in this sense, we can also in the future have the right to compete for the non-book part of the value chain which constitutes more than 95% of the total value in the educational value chain.

Then a few comments of our digital strategy. We really believe and our strategy is geared at driving the combination of digital and printing and the multichannel approach. And a few elements beneath it and I'll share some examples. The first one is really to think about the combination and the future of print titles and brands. Today, we have some examples like the AutoWeek in Holland, where more than 20% of our revenues are digital today. We also have the combo subscription in Finland, the Helsingin Sanomat, where one-third of our subscribers are actually paying for the print and digital. We also are exploring with subscription models in our single copy market, so, for example, our launch of the Ilta-Sanomat subscription application is an example how we also want to test new models in the single copy market.

Online and mobile, specifically, is going to be very exciting. Online traffic is exploding currently. We have the leading news site in Holland, called new.nl and this year, the latter part of the year, mobile traffic was getting bigger than the online traffic and so far not cannibalising on the online revenues. I think this is something that we're going to see much more of and also if you look at our biggest sites in Finland, Helsingin Sanomat and Ilta-Sanomat, you're seeing similar kinds of rapid development.

Then we have e-commerce and the advertising solutions I referred to a little bit in the custom solutions part, but we also have e-commerce and market places in our key markets and we are constantly exploring new ways to provide new types of solutions with our key customers, including community activation and involving social media features into advertising solutions with the aim of creating more engagement with the consumers and that way providing better return on the marketing investment of our customers.

In TV, the big development is really in online and catch up and non-linear TV in general. The best example we have here is Ruutu.fi, which I already mentioned has been extremely successful here in Finland. And the viewing and the video viewer numbers are growing exponentially in Finland.

Then in learning, already mentioned the push for e-learning platforms and solutions, and I'm glad to say that in all our major markets, we have a leadership position in providing new types of solutions to our customers. And these involve teaching solutions, but also new types of game type homework environments, like we have in Bingel in Belgium and also learning modules for tutoring type of learning in languages, as we have, for example, in Holland.

And then, last but not least, we're exploring in new types of services to try to provide digital applications to our target groups. We have excellent knowledge about readership group, for example, through our titles, but also more and more through our online platforms. And the idea is to take this knowledge and then provide new types of application services to our customers. And some examples around that is, for example, dating or dieting applications etc. This is in a very exploratory phase, but one of the major thrusts or focus areas for our product development and innovation.

That's about business development and focus areas in our core businesses. Naturally, in our current situation with our balance sheet, it is really important to take care of cash flow and then the balance sheet. I already mentioned we have a number of initiatives group wide aimed at improving cash flow, improving performance and also improving the balance sheet indicators.

We are looking at ways of improving operational efficiencies through benchmarking efforts. There's a group wide working capital project on-going. We're looking at procurement, shared services etc. to increase the operational efficiency and lower costs in the company. We're also streamlining the legal structures and then looking at the way we spend capital. That means looking at the total spend, but also being more focused and prioritising capital towards, you know, the classic and new businesses and within the different business lines. And then as I already mentioned, we're looking into divesting non-core assets, and here I mean mainly the trade assets which have already been mentioned before. And our ambition is to regain an investment grade that is in terms of the indebtedness.

Then to conclude, a few words about culture. We have strong people, strong capabilities in Sanoma, but with the changes in the world, we also need to revisit our culture, our thinking and mind-sets. The starting point is to really put the customer at the centre. We are good in understanding customers, but we really need to further improve our ability to understand them and invest more in customer insight. And that means equally in the media and the learning businesses.

Our organic growth rates are not where we'd like them to be, so we need to focus on innovation and growth. And that means also that we need to expand and look at the business models; that means going from products also to services and solutions. And that's where also combining the different media platforms, creating cross-media content, and then thinking through how these different concepts and comments can be shared across the different platforms will become very, very important. And then, of course, you have the cross-promotional benefits also launching new concepts through the different channels.

And then, finally, there's a lot of potential looking at what we're doing in the different parts of the company. I believe that there's room for increasing cooperation and sharing and if get better at that, we will also be able to get more from our investments and our capabilities. All of these things require new thinking, new mind sets and, in a way, that leads to re-thinking some parts of our culture.

I will conclude with just a reminder and the reminder is that we've done a number of changes in our business portfolio, but if you look at the seasonality of our revenues and especially our profitability, our EBIT and cash flow, you can see that there are quite strong seasonalities. And these seasonalities are going to stay roughly as they have been before. And that means that while sales recognition is reasonably flat across the different quarters, quarter two and three are the ones were we make most of the EBIT, and then the cash flow generation is really weighted towards the two latter quarters of the year. So, that's just a reminder that not everything is changing; our performance profile is stable.

With these words, I would like to conclude my part. I'm very happy to then take questions after Kim's presentation. So, please, Kim.

Kim Ignatius

Thank you, Harri-Pekka, and good morning, everybody. Very good to have all of you present here again.

We finalised Q4 and the full year in a very strong manner and that applies to the operating income but as well to the operating cash flow. Our sales for the Q4 were at the level of $725 million, growing 1% compared to Q4 last year. Our advertising sales increased by 46%, online sales by 8.7% and our total advertising revenues now represented about 36% of the total sales. Circulation sales were up a bit at close to 1%. The subscription based circulation increasing quite nicely, mainly driven by Veronica. But the single copy sales then are coming down.

Our profitability improved clearly during the quarter. Our EBIT as a percentage of sales was 8.4% compared to the 4.8% level in Q4 last year. And here we again see the impact of the higher margin television business that we have acquired. Cash flow from operations was strong for the quarter, €86 cents compared to the €62 cents in the comparable quarter last year. Because of the structural changes that we have executed during the year, the FTE account has come down quite a bit. We had at the end of last year 15,400 people FTE employed and now we have 13,600.

We have a changing asset mix because of the portfolio management that we have executed. Our media business is growing significantly because of the consolidation of the acquired operation and also good development of some businesses like the Finnish TV operations. The sales of news were negatively impacted by the macroeconomic uncertainty and this was mainly the fact during the months or during the fall months.

In learning, the divestments impacted the sales development, the underlying learning operation continued doing very well; clear change in the sales level of trade, which is classified as non-core operation and where we have done divestments during 2010 and 2011.

All in all, the organic growth for the year was 0.3%, media declining a bit, news going up by 2%, learning a bit down and trade pretty much in line with last year's level. The Q4 quarter was clearly a softer quarter and to our understanding driven by the uncertainty in the marketplace and the lack of visibility when it comes to the economic development.

Looking at EBIT, excluding non-recurring items, media clearly up by 28 million; naturally, again, the consolidation of SBS having the biggest impact on this development. And as a reminder, we did still have in Q4 11 million of one of items not categorised as non-recurring. In addition to the SBS, many of the media units did improve their efficiency; Belgium having the biggest impact compared to last year. Also news was able to improve their EBIT levels and if you remember from the prior slide that sales of news came down by 3 million during the quarter, then clearly the profitability levels through the efficiency improvement has increased.

Learning down by 5 million mainly because of structural changes, but I would also like to mention that there was a positive pension adjustment of 3 million in the Q4 numbers last year. Trade, again, mainly related to the divestments, slightly negative development underlying business in kiosk and trade services which we still have in place is developing actually very nicely. All in all, an EBIT of €60.6 million compared to last year's 34.5 million.

SBS is impacting our financials heavily during this year since the closing of the transactions and this relates also to the transaction-related one of items. I would like to walk this schedule through so that we understand the differences between our estimates of the impact of the transaction cost compared to the final outcome.

There are two items here that I would specifically like to comment on: one is the transaction costs. We indicated at the time of the signing that the transaction cost would be around 10 million; now we're closing the year, they ended up at the level of 16.8 million. The biggest change on the level of the costs is that the final number also includes transaction costs that our partners, both in Belgium and the Netherlands, have had and which costs together with our costs have been allocated to the acquired entities and consolidated in our numbers.

The second item where we have a major change is the amortisation of the order backlog. During the time of signing, the estimate was 32 million and the final number, 17.6 million. At the time of signing, first of all, the anticipated closing of the deal was two months earlier than the final closing, which of course had an impact on the amount of fixed order that we were acquiring. Secondly, the preliminary PPA was based on estimates and the final PPA finalised in the month of December then based on actual walk through of the individual contracts. If we summarise these two categories, we have a delta 8 million between the total cost estimated at the time of signing and the final outcome.

Looking at the full year cash flow net sales of 2 billion 746 million pretty much in line with last year's level, the acquired operations have compensated to the units that we have divested in 2010 and 2011. Again, at the EBITDA, excluding non-recurring items, we can see the positive impact of the TV operations, the margin improving from 14.7% to 17.1%.

Below EBIT, we have the amortisations related to programming rights, now 92 million compared to 36 million last year. Of course, the biggest portion of the increase comes from the consolidation of SBS, but also a good size increase in investment in programming rights in the Finnish market to enhance the programme portfolio and also to support the growth in the business. The other amortisation includes the PPA amortisations we just looked at the prior slide.

The EBIT percentage of sales for this year, 8.7%, last year it was 8.9%, so pretty close to the same profitability level, all in all. Our total financial items are increasing now 35% at 35 million; last year, 12.8. And this is of course because of the transaction financing for SBS.

The effective tax rates varies quite a lot between the years. This year we had 40.3% and what is impacting the rates are impairments that we have taken and non-taxable sales gains and losses. In 2010, it was mainly impacted by the non-taxable gains on our broadband access and cable TV operations, namely, Welho. Our earnings per share, excluding non-recurring items, this year, €87 cents; last year, €94 cents. Again, the one of transaction costs having impacted on that number as well.

Looking at the operating expenses, what we want to demonstrate with this slide is really the focus on efficiency improvements, our operating expenses came down in 2011 by 1.8%, while at the same time, the net sales decreased by 0.5. And again, we did have the transaction cost included in our operating expenses, so excluding those items, the trends would have been even more positive. Looking at the development from 2008 onwards, you can actually see that this has been an on-going trend during the years.

Moving into free cash flow, starting with EBITDA, excluding non-recurring items, so clear improvement of 63 million between the two years. The improvement at the EBITDA level is pretty much eaten up by the increased TV programming costs and the pre-publication costs. Change in working capital, very positive, 45 million, really reflecting the focus that we are putting into the different parts of the networking capital to improve liquidity. This is a positive development that we see in most of our business units. A big portion of it is something that comes from efficiency; some parts of course are related to timing matters and might be reversed to some extent going forward.

Interest paid and other financial items all related to the SBS transaction, of course, at a higher level. Taxes paid, 11 million higher; these are 2010 taxes paid during 2011. And then the cash CAPEX, 11 million below last year's level. And all in all, a very strong free cash flow of 203 million for the year.

Moving to the balance sheet items here, the gross debt of the company was 1 billion 727 million at the end of the year and the net debt, 1 billion 611 million. The average interest rate currently is still very favourable at 2.5% per annum. The second bullet point here is describing the interest sensitivity and making the statement that 1% currently in the interest rates, the reference rate, would lead to an 8.5 million change in the actual interest.

On the left hand side, you see the current committed credit facilities, which in 2012 add up to close to 2 billion. These, of course, don't include the commercial paper programmes that we have in the Finnish and Belgium markets. What you can see in the committed credit facilities is that we have maturing facilities in 2012 of 563 million, including payments on term loans plus in 2013 adding up to 760 million. So, there is a clear effort needed in refinancing some of the facilities and the focus in the company really currently is on liquidity, on cash flows and executing the refinancing needed.

Just a short comment on pension obligations. A bit portion of the group pension obligations are covered by insurances. We do have two major funds of our own, one covering the operations in the Netherlands and one part of the operations in the Finnish domestic market. The pension obligations in the Netherlands are currently 352 million and the market value of the assets, 366 million, and accordingly in Finland, obligations of 137 million and market value of the assets, 143 million.

There are naturally risks related to pension funds and the main risk being the interest rates development, the overall equity market development and the longevity related to the insured population. Currently, we don't see any major issues related to the management of the obligations.

Moving to dividend yield, we have here a graph showing, first of all, the earnings per share development from 2004 to 2011. And it's very natural that there is some level of volatility between the years. Looking at cash flow from operations per share, the picture is quite a bit more stable than the EBS and the stable cash flow has given us the opportunity to keep a stable dividend yield throughout the years and also a stable pay out. The dividend yield calculated based on the share price as of the end of the year is 6.8% in 2011.

Then, finally, the outlook for 2012, we expect our net sales to grow slightly. Of course, the inclusion of SBS for the full year has an important impact on the sales development. Our operating profit margin, actually, non-recurring items is estimated to be at the level of around 10%. And as a reminder, the level for the year 2011 was 8.7%. We also believe that our earnings per share will grow. This outlook is based on the assumption that in our main markets the advertising market will develop and vary a bit, but will develop from stable to slightly decreasing.

This ends my part of the presentation. And if I may invite Harri-Pekka to come back to the stage.

Q & A

Martti Yrjö-Koskinen

Thank you, Kim and Harri-Pekka. We're ready to take some questions. We will start from the floor, but please wait for the microphone and please state your name and company before you ask a question. We will start with the questions from the left hand side.

Nina Törnudd, STT Lehtikuva

Nina Törnudd, STT Lehtikuva. What kind of impact have you been seeing from the VAT on subscriptions? Did you have a surge of new subscriptions or prolongations before the change of the year? And how have you dealt with the pricing now? Have you just stuck the 9% directly onto those subscription prices?

Harri-Pekka Kaukonen

Yes, thank you. If we start with the pricing, yes, that's what we've done. So, we've added the price to the subscriptions. It's a bit too early to really say what the dynamic is; we're only one month into the VAT regime. We didn't do any strong push of, you know, pre-selling, so we believe more stability of operations. And, so, we'll see, it's a bit too premature to really comment at this point.

Martti Yrjö-Koskinen

Thank you. Anymore questions?

Matti Riikonen, Carnegie

Matti Riikonen, Carnegie. You have chosen not to give any divisional guidance for this year as you have been doing before. Now, considering that the structure of the company has changed quite dramatically and it would have been very useful to have this information from you. Is there any, I mean, I don't quite understand why you are not willing to give that information to us now. Is there any particular reason?

Kim Ignatius

Yes, first of all, regarding the structure of the company, I hope the structure is actually becoming a simpler one and an easier one to understand. As you know, we are divesting many of the non-core businesses and really focusing on two main areas.

Why not guidance on SBU level? Having them included in the official guidance makes the management of the guidance a bit complicated, meaning that you might have different parts of the business moving into different directions and not really having any impact on the group guidance overall. That's why we have chosen to walk away from it.

But how we would like to offset this change is that our intention is in these quarterly meetings to start opening more our views on the market environment; how do we see the trends? How do we see the activities that we are taking ourselves? And what is our ambition levels and the targets for the activities? In that way, we hope that we can provide you with adequate information that you can build on our view without having separate guidance for the SBUs.

Martti Yrjö-Koskinen

Thank you. Anymore questions?

Mikael Doepel, Handelbanken

Mikael Doepel, Handelsbanken Capital Markets

Harri-Pekka Kaukonen

Sorry, could speak up a little?

Mikael Doepel, Handelsbanken Capital Markets. Firstly, on the SBS, excluding one offs, what was the EBIT performance last year in this unit? And also how much of the yearly EBIT was recorded in Q4?

We haven't disclosed the actual numbers, but if you look at the total year for the SBS, it's roughly in a comparable level in terms of it.

How much of the EBIT was recorded in Q4?

That's, again, something that we haven't disclosed, but in terms of the seasonality, it follows, you know, roughly the Finnish TV.

And in terms of this year, what are your expectations for SBS?

This year we have said that this will be a year of investment, so we'll be investing into programming and we'll expect that the performance will slightly decline this year.

Okay, then finally, on dividends, why was there such a dramatic cut in the dividend this year?

I think on dividends, our policy has been to give more than 50% of net profits and I think we're in line with that. And every year when we look at it, it's a combination then of the actual earnings and the liquidity situation, so this year this is the proposal.

Okay, thank you.

Martti Yrjö-Koskinen

Thank you. Can we go back with the microphone? Here in the middle. Sorry, can you raise your hand?

Matti Riikonen, Carngie

Matti Riikonen, Carnegie again. Regarding cash flow, you had some 25 million negative one-time items in the Q4 report. Were these provisions for future payments or are these included in your cash flows in Q4?

Kim Ignatius

No, there's actually very little one of related cash flow items in the cash flow for 2004. There will be some for 2011. Sorry, there will be some for the year that we have started now, which is a result of the reductions in personnel that we have executed in the different operations. But no major impact in 2011.

Pprovisions that you made as costs in Q4 and then the cash flows will begin in this quarter and the next.

That's correct.

Thank you.

Martti Yrjö-Koskinen

Thank you. Anymore questions from the floor? No? We will then move over to the operator. Do we have any questions over the phone?

Mohid Sherma, ING

Hi, my name is Mohid Sherma. I'm calling from ING on behalf of Simon Wallace. You mentioned going forward your focus is going to be on learning and consumer media. But if you look at the results, they've been a bit disappointing. How do you see the turnaround happening?

Harri-Pekka Kaukonen

Sorry, I missed the last part of that.

Martti Yrjö-Koskinen

The consumer media and learning focus, has it been disappointing in Q4?

Harri-Pekka Kaukonen

Oh, in learning. Well, the Q4 sales, there is a seasonal adjustment between Q3 and Q4, so I think it's much better in learning to look at the rolling 12 month performance. In learning, if we had disappointments, they were not in the learning business as such. The learning units did well; we had some challenges in Hungary because of the economic and political environment, but other units were doing fine.

Then there are two other things that you need to take into account. There's the language and business and the other non-core business in learning that did not perform well and then you have the impact of general literature. We had this year, I mean, most of the profits of general literature is done around Christmas time and we sold ours end of Q3, so we had, in a way, the three bad quarters and we lost the good quarter. So, that is part of the explanation between, you know, 2010 and 2011.

But isn't that going to impact your next year results as well?

Well, next year, you know, there should be a corresponding improvement because we don't have the negative impact of general literature business next year. So, that's a structural improvement and result that would be expected with the same logic reversed.

Thank you very much.

Martti Yrjö-Koskinen

Thank you. Next question over the phone.

Panu Laitinmäki, Danske Markets

Hi, this is Panu Laitinmäki from Danske Markets. I have two questions. Firstly, do you have a number, how much was the cash flow impact of all the non-recurring items in 2011? And, secondly, about your guidance and expectations, your guidance implies an EBIT of something a bit about 280 million for 2012 while 2011 would have been something like 273 million, including or excluding those costs related to transaction. So, this means that you're guiding about 10 million in EBIT for this year. Can you open up a bit where you are expecting the underlying EBIT to decline, since you will be having the SBS seven months more in your figures this year than in the past year? Thanks.

Kim Ignatius

Yes, first of all, on the non-recurring items, you have one offs, which are the transaction costs related to the SBS transaction, which, of course, have had an impact on the cash flow. But those were not plus they are, kind of, considered to be non-recurring items. When it comes to the actual reported non-recurring items, they haven't really had any major impact on the cash flow from the operation this year.

What comes to the guidance for next year, I will not go to commenting your 280 million number. First of all, we are giving a sales guidance the sales to growth slightly. There is a range, of course, in that guidance and also the EBIT guidance is around 10%, so it's not an exact map.

What will improve our profits going forward next year is, of course, as you mentioned the SBS being consolidated for the full year and then the transaction costs disappearing from our cost base. Otherwise, I will not go into the SBU levels of profitability development.

Okay, thanks.

Martti Yrjö-Koskinen

Thank you. Next question over the phone.

Sami Sarkamies, Nordea

Yes, thank you. I have two questions. The first one is around the media division. You were able to improve EBIT by 28 million in comparison to last year. In terms of margins, we are talking about 400 base points improvement. Could you elaborate a bit on how you break this up between the new SBS that wasn't part of the figures last year and then the operational improvements you've been carrying out it in all operations?

And then the second question relates to your balance sheet. I may have missed this, but please could you give us the, sort of, current net debt to EBITDA multiples? And then also do you have anything to update regarding the refinancing that you briefly discussed in your presentation? Thanks.

Martti Yrjö-Koskinen

Sorry, Sami, can you just repeat the last question?

Yes, so I was asking for net debt EBITDA multiples regarding your balance sheet. And then, secondly, anything you can update us with regarding refinancing as well.

Okay, thank you.

Kim Ignatius

Okay, if we start with the media EBIT improvement of 28 million, as we reported, of course a majority of that comes from the SBS consolidation, but still we are very pleased with the performance of the other entities as well. But the majority is coming from SBS.

What comes to the net debt to EBITDA, so looking at the, kind of, face value of the reported numbers, it's a bit tricky of course to calculate the PPI because the major transaction took place during the summer. If we look at it on a rolling 12-month basis, kind of, reflecting the businesses that we currently have, you could look at the KPI in two different ways. You can look at it from a covenant calculation basis or you can have a look at it so that the programming costs which are amortised are calculated above the EBITDA.

So, if we take the cash flow from the programming costs and prepublication, right about EBITDA as annual cash flow, then the KPI would be around 3.4. If we go to our covenant calculation, whereas according to IFRS, the programming costs and prepublication costs are below EBITDA and then the KPI is at 2.5

Martti Yrjö-Koskinen

And then refinancing.

Kim Ignatius

Refinancing is something that we are working on an on-going basis. Of course, the important matter for us is the development of the capital markets. As you know, part of the financing for the SBS transaction was in the form of bridge to bond and, as the name says, we would like to have a bond issue to replace that bridge. The bridge is now maturing at the end of this year, so we still have some adequate time to follow the market development. Currently working on the refinancing that bridge, but also the other maturing facilities during the coming two years.

Martti Yrjö-Koskinen

Thank you. Are there more questions over the phone?

Mark Braley, Deutsche Bank

Yes, good morning, it's Mark Braley from Deutsche Bank. Just two questions. First of all, the increased spend on programming in the TV business, can you, sort of, help us with the phasing of that? I.e. when you're spending it and also when we will actually see that on screen. So, when does the programming schedule start to improve?

And then the second question was I know you're not giving guidance on the SBUs, but could you, sort of, talk about what you're seeing in the year to date in terms of advertising in your three big markets? So, Netherlands, Belgium, Finland.

Harri-Pekka Kaukonen

All right, in terms of the programming, there's roughly it can account for a six month delay between investment and the actual realisation, you know, given or take. It's going to be pretty steady and we are investing in the Netherlands mainly, but there is also, you know, we are going to continue investment also in Finland. So, I think from a modelling point of view, I think I cannot really distinguish any season as such. I think, you know, it's going to be reasonably steady.

Then the other question was about the advertising markets, I believe, currently, what is the outlook? If we take our big markets, it follows pretty much the general sentiment. In Finland, the initial part of the year is looking, you know, quite okay. In Holland, our TV market is doing, you know, okay. We're seeing when we look at the print advertising, you know, there's a little bit of softness, but it's very early in the year, so it's too early to draw any conclusions. January, in general, is a small month in general, so I wouldn't, you know, put too much weight on it yet.

But I think, sort of, moderately positive is the sentiment all in all in our big, big markets; at least better than what we feared in October.

Okay, great, thank you.

Martti Yrjö-Koskinen

Thank you. Next question over the phone.

Niklas Kristoffersson, Cheuvreux

Hi Niklas Kristoffersson from Cheuvreux. Three questions, if I may. Firstly, as the second largest owner in DNA, I just wondered a bit why the dividend is reduced by 40% there since they seem to have increased their EBITDA, at least.

And then just secondly regarding your debt side, just a rough ballpark figure, what kind of interest rate one should expect on the refinancing needs you have for this year?

And then just finally regarding the capital structure ambition, given how you defined the net debt to EBITDA, at what level would you be regarded as saying that's not great?

Harri-Pekka Kaukonen

Well, I can comment on the first and Kim takes the two. I mean, this is a Sanoma investor meeting; I don't think I can comment on decisions of DNA or the proposed DNA board. So, with that, I guess I'll hand it over to Kim.

Kim Ignatius

Yes, thank you. On the interest rate, I think the only comment I would like to give is that it will be higher than the current average rate. The spreads in the marketplace have been coming down quite a bit lately and how the markets will develop going forward, I would not want to give any educated guesses here. But, of course, it will be higher than we had in 2011.

What comes to the capital structure and any net debt to EBITDA target, as you know, having an investment grade credit profile, we're not a rated company, but having that profile is a combination of multiple factors. But clearly the net debt to EBITDA ratio has to come down quite a bit for us to be in that category.

Martti Yrjö-Koskinen

Thank you.

Okay, thank you.

Martti Yrjö-Koskinen

We'll take the next question over the phone.

Jutta Rahikainen, SEB Enskilda

Yes, hello, regarding the programming investment…

Martti Yrjö-Koskinen

Sorry, could you please state your name and company?

Yes, my name is Yuta Durahika (?) and I'm calling from SEBA (?) (). And I'm still interested in the programming rights, although it was discussed at a few occasions *already. I believe earlier you talked about programming investments going up by some tens of millions in 2012. Is that still a working assumption we should have?*

Harri-Pekka Kaukonen

Yes, I think the order of units order of magnitude is €10 million, right.

So, 10 million in 2012?

Well, you know, 10, 20, you know, that's probably a safe assumption.

Okay, thank you.

Martti Yrjö-Koskinen

Thank you. And we'll take one more question over the phone.

Gianmarco Mondani, Arkos Capital

Hi, yes, I'm calling from Arkos Capital in Switzerland. And just two questions, first, on learning, could you maybe help me understand the impact that those estimates will have on next year's or, sorry, 2012 EBIT, so what the consolidation impact, if you want, will be? Because from an earlier answer you gave, I think I understood you said you expect learning to grow in 2012, but I would have thought that the negative impact from the divestments would not allow that.

And the second point is what you just answered to Yuta regarding the 10 to 20 million for investments in TV. I was wondering if that is going to be all expense through the PNL or part of it would be amortised. Thank you.

Kim Ignatius

Yes, on the learning business, the earlier comment made here was mainly on the profitability of the SBU and when this year we had the general literature business during the quarters where they actually make losses and lost the last quarter where they make their profits. And at the same time, we acquired some learning operation from the Swedish and Finnish markets where, again, for the learning business Q1 and Q4, our loss making, and Q2 and Q3, profit making. So, there were double negative impacts this year on the learning operations and both of these in a way will reverse. We will not have the negatives of general literature next year and we'll get the full year profits of the learning operation, so positive impact on the learning profitability. Really, it's not a major impact actually on the net sales from these changes.

And then with regards to these TV programming rights and how will it be booked?

Harri-Pekka Kaukonen

Well, as the flow goes, you purchase the rights, then it goes to your stock and then once you've consumed the rights, then it goes through your PNLs. But I guess from, you know, practical purposes you can assume that we'll be increasing the consumption of rights. So, exactly how it will go to PNL, you know, then we'll see. It also depends on how the market develops and how successful we are. So, that's something that we keep that's a major tool that we have in the TV business. So, therefore, it's also a bit difficult to put really number here.

Kim Ignatius

You can see in our numbers for 2011 that there isn't a major change in the cash flow base and the PNL base impact of the programming costs.

Okay, thank you.

Martti Yrjö-Koskinen

Thank you. Do we have any further questions from the floor? Yes, we have a follow up question here. Could you please hand the microphone?

Matti Riikonen, Carnegie

Matti Riikonen, Carnegie. Question regarding your working capital change in the free cash flow statement on page 22. You had a positive 50 million item there, which is a quite nice improvement. Congratulations. How would you expect working capital change to affect your cash flow statement for this year? Do you still have room for further improvement there or should we expect, kind of, flat development there?

Kim Ignatius

Yes, as mentioned here already today, we have a net working capital optimisation project on-going and that project covers our main entities. So, what we hope to accomplish with that is additional enhancements in the liquidity regarding net working capital. So, that's a positive thing for next year.

Then as I said earlier out of the 45 million, part is related to the additional focus that we have put already on the net working capital, but part is related to just on a timely matter. As you know, the balance sheet and the net working capital development is just a situation of one day and, in many of our businesses, there can be major differences in how the networking capital develops at the given point of time. So, there's no way I can say today that where we are at the end of the next year and where we are at the end of each given quarter, but the focus is really here and we're really putting an effort to keep control and hopefully we'll see a positive development also next year.

Martti Yrjö-Koskinen

Thank you. Any further questions from the floor? Yes?

Mikael Doepel, Handelsbanken

Mikael Doepel, Handelsbanken. In terms of divesting non-core assets, you previously mentioned that it mainly related to the trade, but are there any other business units that you are scrutinising right now?

Harri-Pekka Kaukonen

Without putting a finger on individual units, it's clear that during this year we'll be reviewing all businesses and also product lines and, you know, if we have areas which are not performing, or where we don't think we're the right owner, we'll review them. But I don't want to, you know, name any of the units. I think it's quite natural that in general to do it and as part of our balance sheet operation to continue the process.

Martti Yrjö-Koskinen

Thank you. Do we have one more question here on the front row? Could you please raise your hand?

Pekka Rouhiainen, Swedbank

Yes, it's Pekka Rouhiainen from Swedbank. How do you see your capital expenditures going into 2012 with the current structure and how about the appreciation levels?

Harri-Pekka Kaukonen

In terms of the CAPEX, I think, we're not anticipating big changes. Most of the CAPEX that we have goes into IT and maintaining print capacity, so what we want to do is to reallocate, you know, some of that expenditure more to development. If there's an increase, then that will be investment into developing new solutions and businesses. So, you know, roughly the same level as we've had before.

Martti Yrjö-Koskinen

Thank you. Any further questions? No? Over the phone, do we have any questions, operator?

Closing Comments

Martti Yrjö-Koskinen

Okay, thank you. That concludes this presentation. Thank you for participating and see you in three months' time.

Harri-Pekka Kaukonen

Thank you very much.

Kim Ignatius

Thank you.