

SanomaWSOY Full-Year Result 2006
February 8, 2007

CONFERENCE CALL TRANSCRIPTION

Speaker Mr. Hannu Syrjänen - *SanomaWSOY Corporation - President and CEO*

Ladies and gentlemen, thank you for participating this conference call. I will start by going through the key points of our full-year results of 2006. I am here with Matti Salmi, our CFO, and Kare Laukkanen, our IR Manager. And the slides I am using are, available on our internet site.

Market environment

To beginning with, just a couple of words about operating environment. In general, the advertising market developed favourable in most of our markets. Signals from Dutch market are still a little bit confusing; the GDP and private consumption are increasing but the magazine advertising has not picked up yet properly. In Finland media advertising is developing nicely and the growth figures for Magazines and Online Advertising in Russia and CEE countries look even much better.

SanomaWSOY result

I am very pleased with our performance in 2006. Our net sales grew by about 5% to EUR 2.7b. Net sales grew in all our divisions, especially in magazine operations in Russia and in educational publishing. Our operating profit was EUR 293m. In 2006, we had non-recurring capital gains worth over 4.3m and in previous year, 2005, we had over 32.2m. Without these gains our EBIT grew by 7%. It increased in all figures and reached an all-time high of EUR 288.2m. Our equity ratio continued to improve and is now 45%. Our earnings per share were EUR 1.32 and our market cap in the end of the last year was about EUR 3.5b, so the increase was about 13% compared with the situation in the end of 2005.

Then I go to slide number three. Here you can see the quarterly development. Due to the seasonal fluctuation the first quarter is traditionally the weakest. Second and third quarters are especially strong in educational publishing and the fourth was very strong for most of our businesses. During the last quarter, our operating profit decreased by about 7% compared to previous year. However, in the last quarter of 2005 we had non-recurring capital gains worth EUR 11m. In the last quarter of 2006 we didn't have any of such gains so, excluding these gains, our operating profit in the fourth quarter grew by 7% compared to the same period in 2005. And then last quarter was particularly strong for newspapers and also for our Rautakirja, a press distribution company.

2006 was the first year in our Group's history when over half of the revenues came outside Finland and this was due to both acquisitions and organic growth. The year concerned that our strategy of focusing primarily on the fast growing Central Eastern European markets has been right. In 2007, we will continue expanding our magazine, educational publishing and press distribution operations, particularly in the areas mentioned. We will also focus on digital media, both in our more mature markets like Finland and in the Netherlands, as well as in the emerging markets; Hungary being a good example of strong online position already today. And then a few words about our five divisions.

Sanoma Magazines

In 2006, Sanoma Magazines' net sales grew, mainly due to new operations in Russia and good development here in Finland. Another positive impact was the strong growth of online advertising

sales, up by 55% of our Dutch online operator. The Division's advertising sales grew in nearly all the markets. Also, the circulation sales improved slightly mainly due to the new operations in Russia. Operating profit improved by 2.4%. Last year we made a total of 15 major magazine launches, mainly focused in launching being in Russia and CEE countries mentioned. Our position in niche publishing improved considerably in Belgium, with the acquisition of EPN International, specializing in home and decoration segments. In the Netherlands we acquired Wegener Golf which publishes golf magazines and golf-related web services. The digital media continues to go forward both acquisitions like the Dutch price and product comparison site, Kieskeurig.nl, and our own launches, for instance, wellness sites here in Finland, Belgium and Hungary. Sanoma Magazines continued to develop its online businesses and invest in growth. This year we estimate Sanoma Magazines' net sales to grow and the Division's operating profit excluding major non-recurring capital gains improve.

Sanoma

Our newspaper division Sanoma's net sales growth came mainly from two business units; Helsingin Sanomat, a publisher of the largest daily in the Nordic region, and from a relatively new business unit specializing in free sheet. The divisions total advertising sales increased and online advertising sales were up by 42%, clearly, outperforming the market growth which was some 20% here in Finland. Circulation sales decreased a little. This was mainly due to the decrease in single-copy sales of tabloids. Price increase compensated it partly. Sanoma's operating profit in 2006 improved more than net sales which improved by 5%. The efficiency improvements continue to be a key focus area also in 2007 in our newspaper business. One clear indicator of our business moving towards digital media is the establishment of Sanoma Digital here in Finland. It is a joint operation of our Finnish businesses. Sanoma Digital takes care of existing online classified services but, more importantly, it also develops new customer-oriented services. Our free sheet portfolio is now big enough to be able to really benefit from synergies and we expect to get more out these operations. This year Sanoma looks for growth, for example, from new businesses, also the favourable development of media advertising is expected to continue as single-copy sales are also expected to pick up. So in 2007 we estimate that also Sanoma's net sales increase and operating profit improves.

SanomaWSOY Education and Books

SanomaWSOY Education and Books increased its net sales most coming from increased sales of educational publishing. In 2005, the Division divested a lot of its non-core operations and it is now clearly focusing on three business areas; educational publishing, general literature and business information and services. Good margins in educational publishing have also meant improvements in the Division's operating profit. In 2006, SanomaWSOY Education and Books increased its operational result by 22%. The total operating profit was below that of the previous year because we had then 16.5m of non-recurring capital gains. Mainly those gains were in the latter part of the year. With the refined structure of the three businesses we expect Education and Books to continue its success. We still look for expansion, especially in educational publishing, and with those expectations we estimate that this year the net sales of SanomaWSOY Education and Books will increase and operating profit will improve.

SWelcom

In our electronic media division, SWelcom, both commercial TV and also broadband internet developed well last year. TV channel Nelonen increased its share of the Finnish TV advertising and also sales of pay TV and broadband internet grew. Strong growth in sales also meant significant improvement in operating profit which grew by 30%. Nelonen and Welho developed their service offerings with several small steps. But the true year of development, however, will be this year, 2007. In January, SWelcom launched two commercial radio stations covering almost the whole Finnish population. In February, SWelcom will launch a second TV channel, a digital commercial channel, which will help us to reach our target of 40% market share. SWelcom has also been granted a 10-year

license for the new pay TV channel focusing on movies. The current business is performing well and new operations are starting, so SWelcom's net sales are estimated to increase further this year. And the division's operating profit is expected to increase slightly, despite such substantial development investments I just mentioned.

Rautakirja

Finally the distribution Division, Rautakirja. Rautakirja had a good year with all businesses contributing to the success. Customer volumes in our kiosk operations grew and traditional kiosk products sold very well. Our efforts in developing our kiosk concept have proven to be successful and our new point of sale system here in Finland has brought us new customers. We are currently looking at how to roll this know-how out, also, in the Baltic region. Press distribution increased its sales in the Baltic countries. With the transfer of the Dutch Aldipress from Sanoma Magazines to Rautakirja, we have a powerful distribution arm in our hands ready for the expansion this year. Great movie supply enabled our movie theater operations to achieve all-time high sales and customer volumes. Operating profit, excluding major non-recurring capital gains, improved by more than 20%. This year our focus in Rautakirja will be very much in press distribution, in the integration of Aldipress operations and also in actively seeking possibilities to expand our operations in Russia and in Central Eastern European countries. This year Rautakirja's net sales are estimated to grow. Operating profit is expected to be at previous year's level and we have already incorporated Aldipress effects in this estimate.

The Group's outlook for this year we estimate that SanomaWSOY's net sales increase more than in 2006, and the total for 2006 was 4.6%. So we estimate we grow more than 4.6% this year. And we also expect that our operating profit, excluding major non-recurring capital gains, improves and this figure last year was EUR 288.2m. During 2007, we will take care of our core businesses and continue to invest in digital media and we also will strengthen our market positions.

Our last year in very brief, was here. So ladies and gentlemen thank you very much for attention. Now we are ready for questions. Thank you very much for listening.

QUESTIONS AND ANSWERS

Veronika Pechlaner - Goldman Sachs - Analyst

Hi. It's Veronika Pechlaner from Goldman Sachs here. I wanted to get a bit more color from you on this Dutch advertising environment and, obviously, with GDP and consumption now coming back. Why do you think, in your view, magazine advertising is not fully back up to speed yet? And is it more a media-related problem, i.e., do you think magazines are losing share against other media, or is it more something more market specific?

And then the second question I had was on the acquisitions that you mentioned in the press release this morning. You talked about small acquisitions that you are looking for. Could you give us a bit more color on the areas that you are particularly interested in?

Hannu Syrjänen

Starting from your first very good question. I think it's partly market specific, we do not have that specific statistics as we have, for instance, from Finnish marketplace, from Dutch market. But all the figures we have available show that magazines have lost somewhat market share to other media sectors and it's not really happening in any other of our operating countries. So from that perspective it's at least partly market specific. But more than advertising, in my mind, the single-copy sales are challenging in the Dutch market and I think that's the main reason for somewhat declining figures in Dutch market.

Acquisitions, we normally don't comment them in detail, but of course what we have announced is that our growth areas are magazines, educational publishing and press distribution. And also digital media and it means that we, of course, look for organic growth but also acquisitions in all those fields mentioned.

Veronika Pechlaner - *Goldman Sachs - Analyst*

So you actually would still be happy to look to acquire in the print field, even in magazines, despite the signs that you are going to see in the Dutch market, the print magazines, potentially at least in some selective markets come under pressure versus other media?

Hannu Syrjänen

If you take last year, 2006, we made all types of small acquisitions. Also, we acquired some very traditional magazines, for instance, in Belgium and also in the NL. So we still believe very much in print media and magazines. But after that, of course, we have to, and we are ready to invest in digital media. Those acquisitions I mentioned are, for instance, EPN and Wegener Golf, which are niche publishers, and they are doing well. Our market position in NL, for instance, is very high and we are doing a good business there. This new world which goes to digital media more than ever so it does not mean that there would not be space for traditional print media as well.

Veikko Valli - *ABN Amro - Analyst*

A few questions if I may. Firstly, on the Sanoma Magazines division, could you clarify somewhat what was the effect of the magazine business at the end of the year? I understand that copies sold are down 2% for the full year and advertising sales are up for the full year some 8%. But both of these measures really were a bit weaker than in the third quarter. Any particular reason for the weakness at the end of the year?

Hannu Syrjänen

Some structural changes. In 2005, we had sort of one-shot worth of 11m in the sales of the fourth quarter. It's more like a bookkeeping issue. Operationally, it was much better than the figures show. And if you take the whole Division both quarter three and fourth improved the profitability and results significantly. The main reason was transfers and timing differences between those quarters.

Veikko Valli - *ABN Amro - Analyst*

Alright. You mentioned that you had some EUR 6m of launch costs in the international magazine operations. Looking at your EBIT margin it's been on quite a good level compared to last year. Does this mean that the launch costs have been clearly higher than last year and the underlying profitability actually in the magazine operations has seemed to improve?

Hannu Syrjänen - *SanomaWSOY Oyj - President and CEO*

Basically that is the case. This EUR 6m you are talking about was in Sanoma Magazines International alone. And why we at this time disclosed it is that because it is relatively high compared to the size of the unit. The net effect of our launches in Sanoma Magazines International last year was EUR 6m. And if you think it in volume-wise we launched 15 new magazines in total, talking on a division level, and it's all time high. We have run this business since 2001 and we never have launched 15 magazines a year. So this was very a busy year for launches and that's why we opened it a bit.

Veikko Valli - *ABN Amro - Analyst*

Where do the profitability improvements stem from? The Dutch operations seemed to be a bit slow, so was it Finland and International that have contributed to the underlying increase?

Hannu Syrjänen - *SanomaWSOY Oyj - President and CEO*

Exactly.

Veikko Valli - *ABN Amro - Analyst*

Then one question on SWelcom still, if I may. The business has been doing quite good there. Have the primary drivers there been market share gains in TV or have they also been affected by price increases on the broadband side?

Hannu Syrjänen - *SanomaWSOY Oyj - President and CEO*

Basically both. Growth and -- let's put it that way that price competition in broadband was not that heavy this year compared to previous years. It was one reason. Also the distribution of set-top boxes increased and sales volume of pay TV was up. At least those three effects are worth to mention in this case or in this respect.

Veikko Valli - *ABN Amro - Analyst*

One last question. Looking at the roughly 1% sales growth that you had during the quarter, your cost base increased with roughly the same amount, a bit less, but you have some cost efficiency measures in the Sanoma division. Do you have any plans for other cost improvement measures?

Hannu Syrjänen - *SanomaWSOY Oyj - President and CEO*

This program in Sanoma will continue. One quarter, of course, is too short to make any final conclusions. But as I mentioned before, we had also those timing differences between the quarters.

Closing

Dear friends, thank you very much for listening. It was a great pleasure to have this opportunity to talk to you. Have a nice day. Thank you very much.