Deco Media Oy
940705
Fri, 7th Feb 2014
11:00 UK time
Chaired by Olli Turunen

Olli Turunen

Good morning, ladies and gentlemen, and welcome to Sanoma's 2013 Full Year Results presentation. My name is Olli Turunen and I am Head of Investor Relations at Sanoma. Next to me is our President and CEO, Harri-Pekka Kaukonen, and our CFO, Kim Ignatius. First we will go through the presentation and afterwards you will have a chance to ask questions.

Harri-Pekka, please go ahead.

Harri-Pekka Kaukonen

Thank you, Olli. Ladies and gentlemen, good morning and welcome to our Full Year Results review. I will get us started. The year 2013 was a very difficult one for Sanoma and Q4 was equally pretty much a continuation of what happened during the full year. The combination of continued shift from print to digital media, together with the weak economic environment of core markets was a pretty deadly cocktail. We have done a lot to try to counteract, but it has been impossible to fully mitigate the impact of these two factors.

In short, Q4 was clearly weaker than the year before. Our organic growth was declining at the rate of 5% and, obviously, since a lot of that was driven by the declining advertising markets it went right through to the bottom line. We took substantial measures in terms of increasing our performance and profitability but the net effect was clearly a reduction in the EBIT. As a technical matter, we'd like to remind you that there are also some timing shifts between the quarters and Kim will be opening that up in a little bit more detail in his part of the presentation.

Overall, Consumer Media's struggling but we are doing a lot to reposition that and I'll talk a bit more about that, both what happened in Q4 and over the full year, whereas in Learning we had another solid year and also happy to make some clear progress in expanding into new markets in Consumer Learning (i.e. Tutoring) and also the first gradual steps in emerging markets. If we look at the numbers (apart from the top line and bottom line) our earnings per share were pretty much flat. The dividend proposal to the AGM is €0.10 but there is also a mandate that the Board is looking for, to then have the possibility to have an additional dividend of up to €0.20 later this year.

What are we doing to mitigate the impact of these two very powerful factors? There are three broad areas and the first one is that we are going to renew our offering and look for growth, i.e. shift our portfolio from print to non-print or what we call New Media in

Consumer Sales and then digital/hybrid in Learning. The second bit is really around adjusting the portfolio and improving the performance, i.e. the cost programme of 100 million that we launched. The third bit is to really then also make sure that our organisation, our capabilities and our culture is aligned with the future requirements in Consumer Media and Learning.

A few highlights of what specifically we have accomplished since the strategy announcement at the end of Q3:

- In the most important bucket, i.e. leading and growing the strategic focus areas (i.e. the renewal of our offering both in Consumer Media and Learning) in Holland we've launched Project Focus which is really the substantial rationalisation of our print titles, and that is moving ahead according to plan. We have reached agreement with the unions and are taking very forceful steps, moving forward, according to the plan.
- In Finland we concluded the negotiations within Helsingin Sanomat and also disclosed a number of steps that are aimed at repositioning our offering Helsingin Sanomat, and that is really a fundamental change in the way we work within the editorial teams but also the future look and feel of Helsingin Sanomat, both in the daily paper and the digital site.
- Another point in which we made some significant effort is in certain lead generation businesses where we want to replicate and roll them out in international markets (FashionChick mainly) and we launched them in a number of markets during Q4.

Today, one of the messages you see on this chart is something that we will be sharing with you every quarter, is how we progress in our transformation portfolio and the measure we use is New Media Sales – in short you should read that as non-print, so that includes core TV operations and Radio, but all digital services and solutions on top of that. In Learning, apart from having a solid foundation or year in the core operations, we made some clear steps forward in our Tutoring business where we did a soft launch in the Netherlands and Belgium with our Study Steps concept, and we also disclosed a partnership with TutorHouse in Finland. Furthermore, we initiated a consortium amongst leading Finnish players in Learning and also closed a small deal in China that we hope to be able to build upon in the future.

In managing the costs and the portfolio, we moved pretty much according to plan. Our 100 million programme is where we expected it to be and the run rate of savings after the first year of the programme is 34 million. During Q4 we announced the divestments of Czech and Serbian operations and also closed the 100 million hybrid loan to safeguard our equity covenants. We also managed to do the first substantial part of our sale and lease-back efforts and that was the printing plant in Sanomala where we also reported a gain of 33 million, whereas then the question around what is happening with this house; that is also proceeding according to plan and hopefully within a few weeks we'll be able to say more, but these processes take their time as I am sure you understand.

Some big steps in organisation were taken during last quarter in our operations. Our unit in Finland is now fully operational and Pekka Soini is leading it. We have also made some key appointments in his next layer. We have recruited three people from external sources to really strengthen our capabilities in Consumer Sales and Media Sales and, also, our Magazine Media unit has a new leader. We have moved ahead in combining ICT and

Digital operations into the CTO organisation and then we also announced the management team in our new Sanoma Digital unit. These are all steps that I am very happy to report on, and in that sense the top teams are pretty much there with a couple of vacant spots.

Going a little bit then from Q4 to the full year, this is a picture that we will be repeating. It, on one hand, shows our new operation structure but also shows you a brief snapshot of how we are doing in our core units and also how the different platforms are developing in terms of sales. What I would like to point out here are a few things around this chart. First of all, the Media units are both around 700 million but they are quite different in terms of their profile and performance to date. First of all, if you look at the New Media Sales, i.e. the share of non-print, in Finland we start from a much bigger print portfolio and today we have about 28% in New Media, whereas in Holland we are approaching the 50% mark, being at 45% today.

The Dutch business, overall, has a higher profitability and that is because of the bigger scale of the businesses there. In Finland, also if you look at the 100 million cost programme, a bigger part of that cost programme is geared at Finland so there is a bigger uplift from that that's going to impact the Finnish business. Learning is about 300 million and there the measure that we use in tracking our transformation is somewhat different because of the way revenues are realised in Learning. A lot of these products are sold in combined true hybrid version, i.e. combining digital and print, and we don't separate the digital part of it. 44% of our sales in Learning is clearly something which is driven by the digital offering but it also has a print component to it, so that is why we have chosen this measure and the number is 44% in Learning.

This is, by the way, a chart that we will be sharing every quarter, where you will be able to track how we do in terms of developing the different platforms and also how we track in New Media Sales, which is the new measure indicating our transformation. I mentioned the three broad areas that we do at the core of our strategic execution and the first one is the most important, which is the renewal of our products and offering, and it is shifting from print to non-print, to New Media, and making sure the growth in that part of the business is picking up and, in time, we will go from negative organic growth and then hit the turning point and get back to organic growth.

That is the most important objective that we have from a strategic perspective to be able to accomplish that, and I will share in the next slides some examples and proof points of how we are doing with this transformation. I already mentioned the divestments, the portfolio changes and cost programmes, and I am very comfortable we will hit those targets and the same is true with the organisational change, so I think what we should focus on in this discussion is a lot around the fundamental question about transformation and growth.

Therefore, let me spend a few minutes giving a bit more colour on where we are with the different units, starting first with the Netherlands. There we have big units and if we compare it in terms of transforming the core media businesses, Finland is ahead of Holland, and one of the reasons is that Magazines is a much bigger part of our Dutch operations and Magazines have been slower to get their act together, not just for Sanoma but also for our industry colleagues. You will remember that we are taking very strong measures there – tough medicine – and we are focusing from 60 to 17 strong brands which are clustered around five content domains; these are Women; Parenting; Kids & Teens; Home Deco and Automotive.

We are taking the measures and the portfolio rationalisation is going on as planned, including the process to look for new owners for these non-core titles. If we look at these content domains, we have a few of them that are already quite well into transformation, specifically Home Deco and Automotive are quite far on the journey of transforming from print to cross-media. Now our task, through this focus, is to pick up the speed in also the other domains.

TV has been a mixed picture. We had a good run around Q2/Q3 but, unfortunately, the end of last year was less successful in our programming and thus we ended up the whole year with roughly the same viewing share, slightly above 2012 but not materially improving. The beginning of the year has had some positive development mainly because of the launch of Utopia, a new daily show from Talpa which has been reaching roughly a million viewers every day for the first four weeks. It is a long journey; this needs to last for the full year, but so far so good and it gives us also the flow in accessing prime time for the first time in a long time to build programming on. That is a positive development that we hope to be building on.

Digital had a tough year last year in Holland. The whole digital market was declining for the full-year basis but actually, for us, Q4 was quite good. We gained market share and we were able to grow. As I already mentioned, we are launching some concepts also based on our Dutch operations internationally. I am very proud to announce that NU.nl, which is our new segregation service, was actually chosen as the number 1 media brand in Holland. This is a very interesting business at scale; it is very profitable and growing very nicely, and shows the future potential of our digital services. Finally, we have a new guy on the block, Peter de Monnink, who started 1st January, and he is bringing new energy and momentum into the team.

Then, going to Finland, while the numbers in Finland clearly need improvement in terms of both top line and bottom line, I feel that we are making really good progress in the transformation in Finland, in almost all of our media platforms. In Magazines we are also making radical focusing efforts, so we are going to focus on three areas: Women, Family, and we have taken Kids Media as a separate business unit on the Finnish level, to focus on that segment specifically to seek for growth. We also succeeded in the launch of the Donald Duck library. We have 12,000 subscribers and all of that is pretty much new business to us, so a good launch, on track and it shows also the potential of strong magazine brands when you combine them with clever digital offerings; that you can actually create something that already attracts meaningful numbers of customers.

On the newspaper side, very glad (and you can see it in the numbers) that Ilta-Sanomat on a full-year basis actually managed to grow top line – I think it's a fantastic achievement. Also, in Helsingin Sanomat the total circulation, if you include the digital circulation as well, is showing some improvement. I don't mean positive numbers but we're clearly talking about levels of -3% or thereabouts, instead of -7, so hopefully we are also seeing the impact of the renewed Helsingin Sanomat coming to full fruition during this year and at least it is quite promising. Finally, Taloussanomat after a long journey has clearly turned profitable, so we have a profitable net base to finance new service in-house.

TV and Radio did also very well when you look at it from a transformation point of view. The core offering in Nelonen was strong throughout the year and also has started very strongly this year. We managed to increase our national viewing share. Our ice hockey league initiative is moving, according to plan, and we have reached our subscription objective so far. It is looking positive.

I am very happy to announce that we are the biggest radio player and SuomiPop is the biggest channel; a great accomplishment after the deal last year and very strong momentum. For those of you who have not visited, I suggest you go downstairs and have a look at the radio studios. It's actually a place with a lot of good energy and vibration. As already mentioned we combined the two units and a lot of tough work has been done already, and pretty much the top-level structures are there. We know what we need to do and the new team is full-speed going ahead in achieving and reaching for the synergies and new growth.

Then a few highlights – I am not going to go through this whole list, but the point I want to show with this is that we have the capability in Sanoma to move audiences to new digital services. In some cases we still are looking for the key to monetise these audiences, to be fully honest, but if we cannot move the audiences the second one is more difficult. In many cases, in all seriousness, we are also starting to see nice businesses forming out of this. For example, our E-commerce platform (SBC), which is part of our Home Deco cluster, is doing very nicely. It's also a platform for selling equipment and basically it is a platform that all our titles are using in their E-commerce initiatives, so we are getting reach from that platform and can start to monetise our audience in the different titles as well.

As already mentioned, NU.nl is a formidable machine, with almost a billion page views per month and clearly something that is really up to our imagination and our partners how we can then continue building on that and also find new ways to monetise that. Finally, I would like to mention that in our digital unit we have now done 3 or 4 accelerator programmes and that means that more than 500 people in Sanoma have gone through Lean start-up training where they have actually been involved in trying to take an idea to a proven concept. I believe that this culture (this mindset) is extremely valuable also in how we deal with transformation that brings new value and a new way of working, and a new attitude, agility and speed in transforming our core business.

Then, a few words about Finland in a similar fashion; strong numbers in Online – we are a big player in Online Media in Finland. We are actually bigger in Online Media than in traditional media, which may be a surprise to some of you, and strong growth (as already mentioned) across all our platforms. Mobile traffic is exploding. We see it in Finland and in Holland, and obviously it is starting to be visible also in our numbers.

The challenge we have to do here and tackle is really the arbitrage of the pricing, but that is something we need to work on so that we then can add value with the profiles and the big data programmes, so that we can again extract more money for our contacts instead of giving discounts when you move from print to online and mobile. I would like to mention also Ruutu; that actually we have one of the strongest video platforms in Finland and we are monetising it very nicely. It is growing. It is sold out and we get good pricing for it. It is clearly something that adds to our advertising offering to our customers.

Then, moving from Consumer Media – I hope that was somewhat helpful in understanding what is going on – and getting into Learning, overall we had a strong year with Learning.

Our core Learning operations did well. There was one exception which was Hungary and fortunately it was not due to our bad performance but really adverse market conditions, really driven by decisions of the Hungarian Government, which led to a situation where there was actually no room for commercial operators to do business in Hungary and we had to withdraw. It was a painful withdrawal and we had to take a major hit on our balance sheet from that.

We are very happy with our five core markets. They are doing well and on top of it, as already mentioned, we are moving ahead with our initiatives to expand from K12 Learning to Consumer Learning and to take, if you want, the Finnish Learning experience into selected emerging markets and there YDP is one of our spearheads as it is a hub for E-learning development sales places in a number of countries. We need to then find a better way to make YDP and our new international team work together, but that is something that the new team will then be working on. Similarly, as with Consumer Media, I wanted to share with you a few highlights of the scope of our digital solutions. You can see the number of million here, in a number of these, so our E-learning solutions are at scale.

We have a substantial amount of pupils and teachers working with them. There is a big amount of experience and data that we are extracting from practical daily online work. For example, for you to see the point around our Sanoma Pro’s Teacher Online Services, 90% of Finnish teachers use it today – 90%, which shows that it is basically a very broad encompassing service in the Finnish market. We have similar services with Malmberg and being in the Belgium and Dutch markets. We are moving ahead and we need to pick up the pace, no doubt, but so far, so good, and this gives us a really strong learning platform also to improve our learning business.

Then, going into the outlook and the markets, last year was (as we have said many times) very difficult. The good part of it is that, quarter by quarter, the picture has become slightly less negative. In Netherlands, if you look at the Q4 numbers, TV was already slightly growing and early indication of this year is that it’s probably a slightly positive outlook for TV. Online was negative last year (this is Online outside of Google) and, as already mentioned, for us Q4 actually was a positive quarter. We did well in Q4 and the indications for the beginning of this year are also quite positive. Finland was quite bleak, apart from Online. Online grew quite nicely and, as already mentioned, we grew faster than the market so we’re able to capture share in the Finnish Online market.

Belgium was pretty much red numbers all across and so far no major change. The good news in all of this bad is perhaps if you look at the consumer confidence numbers, so hopefully this trend continues and could be a leading indicator that maybe, during the second half of this year, we could see some improvement – I’m sure you have a better crystal ball that I! We haven’t planned any of that in our outlook, so we are not assuming any improvement of the market conditions and expect print advertising to decline and the other stuff to be flattish. We are not expecting any help from the market but hopefully are praying for some of it to help our path forward.

Then, going into the outlook, you can read the outlook here – I’ll go through it first as I think it is more important to explain what drives the outlook. Our guidance for 2014 is that our top line will decline. I guess that is rather easy to understand from the point of view that last year our organic growth rate was -6.6%. While we are working very hard on it, the fact of the matter is that we still have a rather big print portfolio and that will decline. Then, mathematically, what we are expecting is organic growth decline but not at the level of -6.6%, so we hope that will improve but there is still going to be a decline. In terms of absolute EBIT, our guidance is that it will be below last year's level. This is where I will go into some of the drivers for that in a minute.

We also wanted to give you a bit of a stick in the ground, what we think will have to happen after we go through our 2-year programme, and the whole aim (which I started off with) is that we need to get Sanoma back on the organic growth track. That is the number one objective and during 2014 and 2015, with the initiatives we are doing including the growth but also the adjusting of the portfolio in print, will lead us to a situation where we can start to enjoy organic growth. Over the mid-term also performance in terms of margins is expected to increase. Then the question is: what will the journey look like to get there? That is where I hope it is helpful to go through some of these factors because we have a number of them and they have substantial impact on our EBIT.

The first one, which is a positive impact, is really the 100 million cost-savings programme. We have said that the full run rate will be there during 2016. We are now at 34 million, so you can do your own curves on which way it is going to go, but obviously this is something that this year we expect to move ahead in substantial steps. There is another element which will be of the same order of magnitude, difficult to estimate, because I don't know what the economies will look like in Holland and Finland – if you know, tell me and then I can give you a number on this factor – but this is really the impact of the decline of print. You should probably think about the same order of magnitude, at least in the same ballpark as the first one.

We are continuing to invest into our transformation so, during this year, compared to the baseline we are going to add additional investments into the digital business and tutoring, and emerging market launches in learning. The impact of that is roughly 20 million as we see it now. Then there is another technical element which is really the impact on performance from the Sanomatalo and Sanomala sale of real estate, so there is an EBIT impact from those. These are the factors that impact our EBIT outlook and obviously some of them, especially the market developments, are highly uncertain as we speak now. Obviously, once the year progresses, we'll try to give you our understanding of how that develops. That is the outlook.

Then, finally around the dividend proposal, the dividend proposal is €0.10, and this is really based on and consistent with what we communicated before. We have not changed our dividend policy but we highlighted that, given the extremely challenging 2013, in the short term we must give some consideration to the absolute level. There is another element which is the possibility of asking for the mandate for the extra up-to €0.20 later this year, which is really a factor because we don't really know and understand fully how the environment will develop. This is then, if the AGM so approves, solely at the Board's discretion. The Board will then make the decision or not make the decision according to their own judgment.

That concludes my part of the presentation and I'll hand it over to Kim for a more detailed review on the financials. Thank you for your attention.

Kim Ignatius

Thank you, Harri-Pekka. Good morning, everybody. My name is Kim Ignatius and I am the CFO of Sanoma. I will now walk through the financial performance of Sanoma during Q4 and also for the full year. I would like to start by looking at the net sales split during the year from the perspective of how this is reflecting our efforts in working with our business portfolio and also in our efforts of managing the migration from traditional print operations to New Media.

In the Consumer Media, operations 78% of our net sales comes from the Dutch and Finnish operations. We have fairly recently sold our operations in Serbia; Bulgaria; Romania and the Czech Republic and naturally, as you know, are continuing with the strategic review process for Belgium and Russia. All this also going forward will strengthen the role of the two main markets where we are a leading media player. Also, the migration into New Media (being non-traditional non-print areas) is progressing very well. We have 510 million in sales from the New Media already, with 7% of the total sales coming from Digital, 4% from Transformational (being extensions of the print brands and the print products) and 23% coming from TV and Radio, and 2% from other New Media areas.

In Learning our geographical scope is broader. We currently have 5 main markets that we operate in and, as mentioned, we did exit Hungary because of the economical and political environment in the country. All our operations have been doing very well, at least with the way they have been able to strengthen their positions in these markets. As in Consumer Media, also Learning and Learning Solutions are transforming into digital services and products, and here we can see that a big portion of our business - 44% of the sales representing 130 million – is already in digital or hybrid solutions.

Now, moving to the income statement, our sales for Q4 were 554 million, down 5.1% organically compared to Q4 last year. The full-year decline was 6.6%, as mentioned. If we look at the structure of the P&L, we can state that the total operating expenses for the quarter came down by 4.4%. Cost of goods sold came down by 7.3% and fixed expenses by 2.3%. The EBITDA margin as reported, as a result of these trends, was at the level of 19.1% compared to 19.4% last year, which means that to some extent we are able to adjust our cost base to reflect the decline in the sales. Pretty much the same structural changes in the different P&L levels can be found on the full-year numbers and, to mention a few big categories here, paper costs for the year came down close to 16% and the employee benefit cost close to 5%.

We report the programme rights cost below the EBITDA level and here we do see a clear increase. We had 20 million higher costs for the quarter. This is driven to a great extent by the investments that our TV operations are doing now mainly here in the Finnish market which has become more competitive and also investing into the Day TV operations in the form of the Hockey League rights. The quarterly number also includes a bit over 8 million of inventory write-downs, so writing down inventories in both the Dutch and Finnish TV operations – this is a natural feature of the operations.

For the full year the amortisations related to programming rights were 30 million higher than the year before. The EBIT for the quarter was 13 million, which is clearly down from the level of last year's 32 million, and I will come back to this trend. We are below the consensus level for the quarter and if one wants to pick one item that probably leads to the difference that would be the programming rights, of course related to the programming rights where our numbers are much higher than last year and also higher than what has been built into the consensus numbers. For the full year our EBIT excluding non-recurring items was close to 155 million, representing 7% of net sales.

Total financial items for the full year are 53.7 million, down from the 57 million last year. Our profit before taxes is negative, both for the quarter and for the full year. For the quarter we had 42 million of non-recurring negative items, mainly from losses from transactions and restructuring cost. For the full year clearly the majority and the biggest portion of the non-recurring items, being in total 427 million, are write-downs, impairments in our operations and the book values of those in our balance sheet. The majority of the impairments relate to the Dutch business. When it comes to the earnings per share for the quarter, actually we are exactly on the level of the consensus from the market.

Then, moving to the SBU level, net sales in Q4 down from 586 million to 554 million and down in Media by 17 million, mainly driven by print advertising that had a 40 million impact in the decline, with circulation impacted negatively by 5 million; this is partly offset by increasing online sales, representing a positive number of 3 million. In the News operations the delta for these two quarters is -7.6 million, again driven by print advertising which declined by 8 million and circulation which declined by 3 million, again partly offset by a positive online development of +1.5 million. In Learning the differences between the two Q4 quarters is mainly related to timing matters.

Moving to EBIT development again on the SBU level, in Media the EBIT came down by 18 million, which is naturally driven by the sales decline. If we try to work the sales decline into a gross-margin number, we get a decline of 10 million. In addition to this 10-million decline in gross margin, we have 13 million higher programming costs for the quarter. This negative trend is then partly offset by efficiency improvements and savings in operating expenses at the level of +5 million.

In News, again the print advertising sales had a negative impact of 6 million and pretty much this development has been offset by positive development in the operating expenses and in Learning, as already mentioned, partly timing shifts but also investments into tutoring operations building for future sales. Also, a comment on the 'Other elimination', this is a category where there were some differences between the market consensus and the actual final numbers; the holding operations inside this category – our non-core businesses did actually fairly well – that was a positive thing during the year. Another matter impacting this positive picture is the amount of cost allocation from Corporate to the units.

Moving to free cash flow, the way I look at this is, if we take the EBITDA development, the TV programming cost and the prepublication cost; that really reflects from the cash flow perspective what has happened with the operational performance. Adding these three lines for the full year together, you will get a negative development of about 87 million and, if you go all the way down to the free cash flow for the full year, it's pretty much at the same level where we are compared to last year, so operational performance really driving the free cash flow development.

Other items to comment on here: change in working capital last year negative -11 million and this year +16, so 28 million positive in the annual comparison. When it comes to interest paid, we have 10 million higher paid interest cost; you will remember from the P&L that the booked interest level was actually lower than the year before so this is purely a timing question and relates to the bond issue and the 400 million bond of the Group where interest is paid once per year, in March, and in 2013 for the first time.

Then I would like to look at the savings programme which, of course, has played an important role in the 2013 financials and will also play a major role in our profitability development going forward. Structurally we can see that the gross margin percentage has increased. We can see that our fixed costs are lower in absolute terms but, at the same time, we need to comment that the TV programming rights costs have picked up quite a bit. You will remember that we launched, 1.5 years ago, a 60 million savings programme which is now extended to 100 million. The impact on the 2013 financials from this programme was at the level of 21 million. The full run rate at the end of the year was 34 million. I am very happy with this number. It means that we have been able to already execute 34 million out of the 60 million target originally set, and this should build confidence also going forward in our ability to reach the 100 million target, as has been stated.

Capital structure: our net debt at the end of the year was at the level of €1,135mn; this is about 100 million (as you can see) below the level of last year and it is mainly the result of the hybrid bond issue that we did a few months ago. You can see in the graph on the right-hand side, the upper graph, where our net debt to EBITDA adjusted has been; we are, at the high level at the year-end, at 4.6. This is clearly below the long-term target of 3.5 set by the Company. You will remember the comment on the mid-term outlook that by 2016 we target to get back to the level of around 3.5. When it comes to our loan covenants, there are adequate buffers currently regarding this matter. The interest rate is around 3.5%, the average interest rate, and I would think that the credit profile that we currently have is actually a very good achievement.

This pretty much finalises my part of the presentation and I'll hand back to Olli.

Olli Turunen

We are ready to move on to the Q&A session. Before asking questions, please wait for the microphone and please state your name and company. Do we have questions from the floor?

Questions and Answers

Question from the floor

I would like to ask about the outlook. In 2016 you return to growth but where does it come from? You say cost savings, decline of print, learning and profits from the sales of this house, but basically there's no media so the actual growth of revenues comes from Learning, right?

It comes from Learning but it also comes from growing this one-third; we have 37% which is non-print that is actually growing, so that part is growing and we are refocusing the print portfolio. If we conclude – when we conclude, for example, the initiatives in Holland – that will actually reduce our print portfolio, so the relative size of the non-print and print will shift. Dynamically, if you do the maths, we have a part of the company which is a growth company, which is the non-print and then we have part of it which is print, which is declining, and these are the two factors we're fighting against.

Then we are also looking for additional growth outside out core markets in Learning and in pure Digital Services. It's multiple streams that we are working on, but that is how you should look at it and that is also, by the way, why it will take some time, because we have quite a big print position that we need to transform.

Just a follow-up question – in this sphere of declining print and then declining also advertisement sales, how are you going to do the profit in two years' time, in the future?

Well, we are improving profit – you can do it two ways – you can increase sales or reduce costs and we are planning to increase sales on the non-print side and we are cutting cost on the print side. That is where the 100 million cost programme comes in; that is going to basically fund the transformation. Then, once the company gets to growth and we have our costs in check that will lead to increasing margins. We believe that many of the digital services that we have at scale have very nice margins. The small practical problem is, when you add them up, they still are less than the print.

Do we have any other questions from the floor? Here, in the first row? *(Question in Finnish).* The question was about commenting on the relative performance of Ilta-Sanomat advertising sales compared to Helsingin Sanomat and it is true that our Ilta-Sanomat unit has had a very strong year 2013, so the advertising sales are growing very nicely, and Helsingin Sanomat is not doing equally well but we are making some measures, first of all to increase the online inventory to get more things to sell because we've been sold out also, and there is also some work to do on the relative positioning of the brands, Helsingin Sanomat and Ilta-Sanomat.

We are looking at it from a pretty fundamental perspective and that is something that is part of the whole turnaround of Helsingin Sanomat where the editorial stuff is one element of it, so there is a very big initiative in Helsingin Sanomat that includes brand positioning, the whole digital offering and pricing, etc. We do need to improve the performance of Helsingin Sanomat, frankly; Ilta-Sanomat is doing well but Helsingin Sanomat needs to pick up.

Kim Ignatius

If I may comment on your questions, or on the reporting going forward, saying this is the last time we will report News as a separate segment and also as a separate business unit – that is correct but naturally we will also in the future continue telling about the business development in News operations, so I am sure we'll get back to Ilta-Sanomat as well in the future.

Just a follow-up question on Helsingin Sanomat... *(Question in Finnish).* The question was: is Helsingin Sanomat making profit these days? It is a simple question and the simple answer is yes. *(Question in Finnish).* The question was: can I give more light on that? Unfortunately not – we are not sharing the performance numbers of our brands separately.

(Question in Finnish). The question was around performance and profitability of Online. We have not given the profitability numbers of Online separately and, actually in my mind, I really don't think we should look at it like that. What we should really focus on is the profitability of the brands in total. That is what matters because it's the brands and the content that's relevant to the audiences. We know many of us use Helsingin Sanomat as an example in print and online, so that is the way at least that we are looking at it; we are looking at the brand and we actually want to explore the brands and make them work multi-channel. That is at the core of what we are trying to do, so it's a little bit artificial, but at the same time we need to measure the different revenues of the different channels to understand where we are headed, but really it's about transforming the brands in total.

Do we have any other questions from the floor? Here, in the first row?

I would like to ask about the magazines in the Netherlands – you picked 17 – what, in general, were those that weren't picked and what are the reasons? How did you make the decisions and what are the good brands?

This is something that we explained a lot in our strategy presentation. What we really looked at was, first of all, we looked at the content domains of the target groups and our positions in those, which are the most attractive ones where we felt we had an opportunity to create offerings that play across multiple media. That is why we ended up choosing these 5 clusters, if you want, which we specified in one of the slides (Women; Parenting; Kids & Teens; Home Deco and Automotive) and, as part of this process, we had a closer look at other clusters as well, including Men and some speciality interests which were predominantly print, quite small communities where at least we had not found the path to a multi-channel world.

It does not mean that somebody else could not do it and in some cases we also received a lot of interest from specific players that can actually maybe do a better job in taking those titles forward. We really were thinking about what it is that we as Sanoma (our culture, our capabilities) can transform that are consistent with our approach, which is really to combine it with a different type of media. That was broadly the way we chose it and that led to 17, but it was really done from this cluster point of view.

A follow-up – Men, small communities' magazines – were those...

-yes, there is a comprehensive list that we can provide you maybe off-line, if you are interested, on the structure.

Another question about the goodwill in the Dutch businesses – how big of risk do you see the goodwill...

Kim Ignatius

Put in that way, I think I have given the sense a few times that whenever you think there is a risk that your book value does not meet the fair value, you would need to do the test actually, and we have just recently done it so currently we believe, on the plans we have in place, that the value we currently have in our books is the correct value. There is no additional information available that would lead to anything else. How will the environment and the businesses develop in the future? That is always a question-mark. If there are changes in the environment that will impact our views of the future or if there are differences in the performance versus the plan then we need to have a look at it, but currently the view is based on the current plans and the current assumptions on the market development.

Panu Laitinmäki – Danske Bank

I would have three questions, firstly on the assumptions behind your guidance; you mentioned that you don't expect the advertising market to improve this year and you expect print to continue declining, which seems fair, but Online and TV to remain flat – isn't that a bit too conservative, as you are saying that in Q4 in the Netherlands TV already turned up? Thanks.

Panu, I think the message was more when you look at the big picture; we have not built into our guidance a major recovery of the advertising markets, but if you start picking the different mediums and the different markets, naturally there are variations of the development expectations. It was more an overall comment on the total markets.

Thanks. Then, on these investments that you are saying are 20 million this year, should it be seen as a one-off for 2014 which will decline going forward, so you will reach the targeted 10%, or is it a level that you will have to keep?

We have in our plans increased investment levels for the next couple of years. I don't know what you should put in your model - it is a bit of a flux, because obviously the return on what we get from this year's investment will have something backed on it, and why is that? Some of these areas like Tutoring are untested waters, so we are trying to create a completely new online base scalable offering, the Tutoring market, and this is what we believe is going to be there – we've planned for something obviously for the years to come so there is an uncertainty but, yes, this is not a one-off. We'll continue investing over the two-year programme that we have.

Thanks. Lastly, on the TV programming costs, could you please talk about what increased in 2013 and what is the outlook for 2014? Do you see pressure to increase further the costs in the Netherlands, given that the viewers share have been quite flat in 2013? Thanks.

On 2013, first of all, I mentioned that in Q4 we did some inventory write-downs that add up to 8 million and we'd done some earlier during the year as well, but in 2013 a bit more than what would be a kind of long-term average for one specific year. The increased spending otherwise reflects the competitive environment that we have had in the markets, mainly in this case the Finnish market, and the investments in the Hockey League, kind of building a long-term Day TV offering, as already mentioned.

You ask about the need to increase investments in programming rights in the Dutch market – it is really about the quality of the choices you make and how you are going to build your channel profiles and your programme grids – I don't think that extra investment is what we need to look at here, and overall I would say that the best assumption currently (building your thoughts going forward) is that you pretty much use the same level that we had in 2013 overall for the two combined markets.

Thank you.

Mikael Doepel – Handels Banken Capital Markets

You might have said something about this and in that case, sorry, I did not hear it – in terms of the headquarters which, as I understand it, you are about to do a sale and lease-back agreement on, when can we expect this to happen? Also, relating to this, I saw that you had on your balance sheet some assets classified as held for sale, for around €91mn; is this relating to the headquarters or something else?

This is related to the sale and lease-back – the two real estates, one Sanomala and the other one Sanoma House. The Sanomala deal we have concluded. There has been a press release out on that and it has been mentioned here as well. When it comes to the Sanoma building (the building we are in right now – it's actually not the headquarters – today the headquarters are in Ludviginkatu), this process of doing the sale and lease-back on this building is progressing as planned. I can't give you any kind of estimates on the transaction and I don't want to do that either, but it is going forward very well.

In terms of the sale that you mentioned that you did... the real estate – this wasn't booked in Q4, I guess?

No. It's an event where the deal is closing in 2014.

Another question in terms of your total costs – how much were they for the full year 2013, if you exclude the non-recurring items, the depreciation; amortisation and impairments?

I would also recommend that you look at it from the press release – you have the full P&L there.

Excluding all these items?

Yes, there is a clear reconciliation of it.

Okay, then just a final question – you are talking about some pressure on the top line, looking ahead, which is obviously coming from the print side – could you specify what you mean by 'somewhat' declining sales? Is that 0-5 or something else?

The way to look at it is what I actually tried to say, which is that it is declining but the rate of decline will be less than what we had last year, so we should see an improvement in the organic growth performance which was -6.6 last year. We should have a better number but still a number that is a negative number.

That is clear. Thank you very much.

Jeroen Segenhout – Financial Daily

I have some questions about the rationalisation in the Netherlands of the portfolio. Are you already in talks with some companies about selling the business? Can you say anything about that?

Yes, I can say that we have a structured process around these titles. We have approached a number of interested parties so that is ongoing and, beyond that, I cannot unfortunately say...

-when do you think that will be finished, the process?

I wish I could tell you – this is a process that involves a number of titles and a number of potential interested parties, so it is rather a complex undertaking. It's impossible to say how long it will take, but everybody's interest is to try to get through it as quickly as possible.

Is there a lot of interest and were you surprised by the interest, or is it just as you expected?

There is a good level of interest.

A good level of interest, okay, and when you talk about TV – I am just curious – can you say anything about the profit margin; the development in 2013 of the TV business in the Netherlands?

Again, we are not disclosing the margins or the profitability levels for the separate businesses in our Dutch SBU but, clearly, the development has not been as expected so we are coming down with the profitability level.

Last year that happened quite a lot in this field, when you look at the TV business, because Mr de Mol showed interest for bidding on your stake, and then there was an interview in our newspaper where he said some quite bad things about Sanoma – how would you describe the relationship nowadays?

As you know and as John de Mol also mentioned, we have discussions ongoing in figuring out the best way to cooperate in the future, so we are on good speaking terms and still trying to find the best way forward.

Are you confident there will be a solution for that?

I am comfortable with the spirit and the direction of the discussions, but there are a number of open questions that we need to resolve.

Can you say anything about those open questions?

No, I think that rather, if and when we reach full agreement, then we'll shed some light on what we've accomplished and comment on something...

-but do you expect a solution in the next coming weeks?

All I've said is there has been a good constructive spirit in the discussions with John de Mol and Talpa, and I am happy about that. We will try to find an amicable solution here.

The last question on TV – have I heard Mr Ignatius right, that there will be no increase in the investment in TV programming in the Netherlands this year – is that right?

Kim Ignatius

No. I said, when you look at the total TV operations that we have mainly in the Netherlands... when you look into forecasting 2014, if you use as the basis the levels that we had in 2013 for the two markets, that gives you a very good indication. I did not specifically comment on SBS in the Netherlands.

Can you comment on SBS in the Netherlands, then?

No.

Thank you for your questions. Next one, operator?

Mark Braley – Deutsche Bank

A couple of questions – the first one: within the Learning business, I just wondered whether you had any thoughts on the proposals from the Polish Government around the provision of free textbooks in primary or perhaps just in early years education – is that something that you are concerned about vis-à-vis your business in Poland? I think that is your second-biggest learning market.

The other one was just in terms of the net debt situation and whether the facilities are the cash you've got on the balance sheet at the year-end, €170mn; am I right in thinking that's rather higher than you would normally expect to have for day-to-day operational and working capital needs, reflecting the recent disposals, so you can probably net the balance sheet down a little bit over the next 24 months?

Harri-Pekka Kaukonen

Let me take the Polish one and then Kim can answer the second question. Obviously, at face value, what we heard from Poland could be of concern now, a few things – it is still somewhat unclear what the real intent is and in which way that will be implemented, so it is a bit difficult to really have a clear view on that but in general it seems there are some forces in multiple countries where governments are looking for ways to reduce the spending. In our discussions it is important also to help governments understand that it is actually in the interest of the whole learning ecosystem to have high quality and vibrant learning methods and tools because the learning materials are just 1-2% of the total spending.

If you really want to make both strategic impact, i.e. effectiveness and efficiency improvement in terms of cost efficiency, there is a real risk that if you cut in the wrong place the actual dynamic effect is actually the opposite of what you get. As an example, I can give you that in many markets where you have fully-controlled content and distribution of learning materials, in many countries you also have an education system that for whatever reason is not performing well and that leads to a vibrant black market and private education system where, actually, the teaching is done outside school hours and that bodes inequality and high costs; all kinds of negative effects. I hope that the policymakers understand both sides of this so, broad perspective, I am not that concerned but obviously we need to pay attention and have a continuous dialogue with the decision-makers.

Kim Ignatius

On your second question, the cash at hand – the amount of cash we have in our system is fairly high – at the same time there are certain positions that we cannot fully utilise for the cash management at Group level. This could be cash in joint ventures where the utilisation is also depending on the partnership arrangements, etc, and its impact on the net debt – naturally any cash we have in the system reduces the total net debt level, so reducing the cash and paying down debts would not really have an impact on the net debt number. What we are trying to do naturally, going forward with the sale and lease-back arrangements and also through the strategic review process in improving our operations, is to take down the net debt levels, and with that also reducing the pressure longer term than in rearranging....

-what I was trying to understand is, looking at those facilities as laid out on slide 21 and looking at where your gross debt is (which I think is slightly over €1.3bn) and then thinking about the amount of cash the business is likely to generate over the next couple of years – it still looks as if you need to do something else in terms of more disposals, more capital raise, to have a sufficient comfort level, and what I am trying to understand is this: is some of the comfort level built into that 170mn of gross cash which you have, which is perhaps a rather higher level than you would normally expect to operate with?

I would say that the comfort level in today's situation in being able to manage the liquidity and position supporting the operation is very good, so there are no concerns there. Moving forward into renegotiating some of the facilities that are maturing namely in 2017, there will be a big help from the sale and lease-back arrangements that we do... we did a hybrid bond which, of course, does not extend over that period but helps us in today's situation. Then, the strategic review processes that we have ongoing, regarding Belgium and Russia, in addition to selling some of the non-core assets that we have already mentioned – all these transactions together will reduce quite a bit the level of the future gross debt and therefore also the arrangements needed to be able to continuously have a good liquidity position and facilities available.

Sorry, just one more – the dividend proposal and the proposal to seek the authority to pay potentially as much as another €0.20 – can I just ask why you have structured it like that? Why have you not paid say €0.20 and not ask for any additional capacity? What was behind the Board's thinking in this staggered two-step process of paying 10 and then potentially paying another 20?

It was pretty much a reflection of the performance last year, if you include non-recurring items, heavy loss-making and prudence there, but also if you want the answer regarding the economic outlook for this year, rather to go prudent low-end with the flex to then distribute more if and when things brighten up; that was the logic that the Board chose this time around.

Thank you very much.

Sami Sarkamies – Nordea

Thanks. Before asking a couple of questions on short and mid-term guidance, I just want to verify that I heard correctly – did you say that the TV programming costs were hit by 8 million in the write-down in Q4?

The questions on guidance are the following: when you were describing the business outlook it all sounded quite promising, going into this year – could you still walk us through the basis for negative EBIT margin guidance? For example, I think you said the guidance does not assume any market improvement even though that may already be happening, at least in some areas of your business (for example TV and Digital were named) so are improvements assumed in these areas, even though print will potentially still decline?

Further, the 20 million extra investments you're making this year, are you planning on investing roughly the same number next year or will we see that going down when we enter next year?

On the long-term or mid-term guidance, isn't the bar a bit too low if you are targeting 10% EBIT margin post restructuring, just looking at existing profitability for the business you have and thinking how difficult last year was? Thanks.

Let's try to take these items and please remind me if I forget something. The 8 million inventory write-down; that is correct. It is pretty much 50/50 between the two markets of the Netherlands and Finland and it's truly based on the plans going forward and the usage of the programme rights that we currently hold.

When it comes to the guidance, if we look at 2014 first and maybe go back to how we communicated in Q3, I do feel that we came out with the components which we are now communicating again for the full year. We said in Q3 that we continue to believe the markets will continue pretty much in the same shape that they have been (the 100 million cost efficiency improvement programme was on the table) and we mentioned that we'd invest in building for the future; building for the Digital, building for Tutoring, building for the international market for Learning, and this we are doing again. Why we wanted to give a number was really to give you a clearer picture of what our current thoughts are, and what is the magnitude of the investment.

When you invest in new areas, I don't think you can ever say clearly that this is the level two years or three years in a row. It naturally depends on how successful we are. There might be, in some cases, reasons to increase and in some cases reasons to get out of some areas which are not progressing successfully. This is the view we have for 2014 and let's hope there is a reason to continue with this investment, because that would then mean that you are creating new digital sales that will help you to grow organically then, in the future, and improve your profits. This guidance is not just for 2014.

Long-term, 10% - I think there are still a lot of moving pieces here – the portfolio restructuring; the strategic reviews and question-marks on the market development, and also the fact of how much do we want to, in the future, invest in going into new areas? There are so many pieces here. This is based on our views on the different parts and different components of today. When we go forward, if something changes, we'll naturally discuss it with you. This is how we see the picture as we speak.

Sami, is that okay?

Yes, thank you.

Thank you, Sami.

Closing Comments

Do we have any further questions? (No further questions). If not, I would like to thank all participants and wish you a very nice weekend.