Sanoma Q3
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Chaired by Martti Yrjö-Koskinen

Martti Yrjö-Koskinen

Good morning ladies and gentlemen and welcome to [Sanoma's] Interim Report Presentation, January – September 2013. In addition to the interim report presentation we will also walk through Sanoma's Redesign announced today. My name is Martti Yrjö-Koskinen and I the Head of Group Investor Relations as well as CFO of Sanoma Media Finland.

Today, present from management we have our President and CEO, Mr Harri-Pekka Kaukonen, and our CFO, Mr Kim Ignatius. We will start with the Q3 presentation that Kim Ignatius will take us through and then continue with the Sanoma Redesign presentation that our President and CEO, Harri-Pekka Kaukonen, will take us through. With these words I would like to hand over for opening remarks to Harri-Pekka Kaukonen.

Harri-Pekka Kaukonen

Yes, ladies and gentlemen, welcome also on my behalf to our Q3 session. Let me just first comment with a few words how I see Q3. Overall Q3 was a tough quarter for Sanoma and tough in the sense that advertising markets continue to be under heavy pressure in our main operating countries. Having said that we came pretty much according to our expectations, so in relative terms we can be somewhat satisfied about how we did and I think moreover I am satisfied that we were able to compensate for the drop in top line to a large extent through being prudent with cost and also the cost programmes that we have launched.

The other thing which I think is even more important is that today, as you know, we have announced the biggest transformation in Sanoma's history. I think it is a fundamental change and I will talk much more about it later today. But it is a noteworthy shift in the company's trajectory and our strategy.

So with that, those words, I would like to hand it over for Kim who will then go in detail through our Q3 report. Please, Kim.

Kim Ignatius

Thank you, Harri-Pekka. Good morning everybody. My name is Kim Ignatius and also a very warm welcome on my behalf. Q3 actually was a decent quarter for us. Our net sales were 568 million compared to 600 million for the same quarter last year. The EBIT excluding nonrecurring items was 76.9 million, compared to 79.8 million last year, so fairly close to the same levels and actually somewhat better than the market expected.

Still the big picture hasn't changed. The trends are pretty much the same as we have seen during Q1 and Q2, so in Media and in news there is a continued deterioration of the print advertising and circulation which is impacting our performance. In learning, we did see some sales decline during the quarter in the Finnish market, because of the coming curriculum changes and some recycling of learning material. Based on the performance we are still sticking to our outlook for the full year, so the decent quarter hasn't changed our view on how we see the full year outcome.

Going outside the operational performance we did take a fairly significant write downs in our Media Netherlands assets and also in Russia and CEE, plus we booked the negative impact of selling our learning asset in the Hungarian market. So the big picture is pretty much the same as it has been during the first half of the year when it comes to economy, the market conditions are still tough and naturally the migration from print to digital continues.

Regarding the consumer behaviour we do see it stabilising a bit. There are weak positive signals from all of our markets, which naturally is a good thing going forward. What comes to the advertising markets, again the trends are negative, the markets are declining, but still when you compare Q3 with the first two quarters, you see that at least the declines are getting lower and we do have some black numbers in the chart already. So TV picked up a bit in Netherlands during Q3 and also in the Finnish market place, two quarters in a row TV has been improving, so some positives to be seen in the environment.

Going back to the income statements, so sales of 568 million and when you look at the EBITDA margin levels for the quarter, we ended up with 24.4%, so better than the level we had the year before. And this is the result of being able to cut our costs by 6.4% which is actually more than the sales decline for the same quarter. The cost of goods sold has come down by 11% and that is mainly driven by the paper cost, which is naturally impacted by prices but also by volume declines. Also our fixed expenses came down by 2.4% and the main driver in the fixed expenses is the employee benefit expenses that came down by 4.3%. So, all in all, a good improvement in the margins, the EBIT margins actually were above 13% for the quarter.

When you look at the accumulative nine month period then the picture is a bit different in the EBITDA margin level we are clearly below the levels of last year. When you look at amortisations, depreciations, nothing of significance in the numbers so pretty much in line with last year; the same applies for the financial items. Then at profit before taxes level you see the impact of the impairment stake and so the profit before tax is minus 255 million.

Looking at the impairment testing in a bit more detail, in our Q2 release we mentioned that because of the fairly drastic changes in the market environments we saw a need to redesign our consumer and media operations. We worked on this now for some months and have adjusted our thinking and our plans and have also included this in our strategic plans going forward, which plans were approved by our board yesterday and the testing here has been done based on these new plans. We also said in Q2 that the new views that we have for the future might have an impact on the asset valuation and this is what we can now see in our numbers. So the write down in Media Netherlands adds up to 268 million; the write down in Russia and CEE, 24 million, and in addition we had the negative impact from the Hungarian learning asset, as mentioned. On the right hand side of the chart here you can see the discount rates used in the testing.

Our financial loan covenants were we are at the end of Q3 equity ratio of 34.1%, our net debt to EBITDA based on the covenant calculation method is at 2.8, so we are okay regarding the covenant levels.

Moving back to the operations; net sales development we came down compared to last year by 5.5%, at Media by 4.3, News by 5.9, and Learning by 3.5%. What comes to the decline in Learning is really based on the situation in the Finnish markets, where the total market came down a bit and as mentioned that is because of the curriculum changes coming in the near future, plus some incremental recycling of learning material. At the EBIT level, very positively our Media operations were able to have a positive delta versus last year even though the sales were declining, News only a small decline, and Learning fairly flat compared to last year's Q3.

When we look at the Media in a bit more detail you can see that from the sales decline from 338 million to 322 million, the majority, the biggest portion, comes from print advertising and this has been a trend in all four units that we have in our Media segment. Very positively the TV advertising sales were flat in Q3 in Netherlands after we have experienced a fairly harsh minus 13% decline during the first half of that year. Magazine circulation continues to come down and as you can see from the net sales numbers here we are not able to offset the decline by price increases. And it is really mainly the single copy sales that is impacting the negative net sales trends.

On the EBIT level, so sales impact close to 16 million for this quarter, the cost of sales actually has come down quite a bit, offsetting a big portion of the sales decline. Also the efficiency efforts that we have done on fixed expenses contributed to offsetting the sales decline and depreciation also at the lower level. And this is facing off of the programming costs. So all in all, actually a better EBIT this year than what we had in Q3 last year.

On the News side, the sales decline is driven by the weak print advertising market. But there are also some positive things happening in our operations and in the market place. In Ilta-Sanomat, the digital advertising is more than offsetting the decline in the print advertising, so that is very good. And also it represents already more than half of the total advertising. So we are able to adjust to the market changes. In Helsingin Sanomat, the online and mobile advertising is picking up. It is still fairly small numbers, but we are positive about the trends that we see. Also our external printing of the 1.4 million improvement in the News sales, a big portion comes from the external printing services that we provide and that has been working very nicely.

On the EBIT level sales impact 5.8 million, other operating income 2.4 positive, that is an intra group item. We are from the News unit providing news services to our Nelonen Entertainment unit. Cost of sales adjusted, adjusting to the declining sales and again the efforts on improving efficiency, you can see an impact of 1.3 million here in our numbers. But still a small decline in the EBIT level.

Moving to the free cash flow, the EBITDA excluding nonrecurring items, fairly close to the levels where we were last year. A bit higher programming cost as you can see, from 45 million to 53 million. What is very positive in this quarter is the change in the networking capital, all in all, 55.6 million this year, last year 28 million. We have a natural volatility in the networking capital development. It is mainly driven by the timing of Learning sales during the year and then the income in cash based on those sales. But this quarter we also have in the media entities timing shifts in pension payments, in programming, cost payments and so on. So there are fluctuations, but still a very good quarter. All in all cash flow from operations 110 million, last year 86 million.

When we look at the accumulative numbers, maybe a few things to point out there; TV programming costs, the paid cost a bit higher than last year, we have the interest paid being ten million higher. This is because of paying the interest on the bond coupon, which is the once per year event that takes place in March. This we didn't have the year before. It doesn't impact the full year cash payment levels. The other item to point out is taxes paid. In 2012 we had high taxes paid for that nine month period and this is because deferred tax payments for 2011 and higher advances paid during the year. The free cash flow for the nine months period is 40 million lower than we had the year before and that is really driven by the lower performance levels, the lower profitability that we have in our operation.

Finally the savings programme; we launched two years ago, aiming at a 60 million gross savings in our operations. The impact of the programme on our Q3 numbers is around four million and that would indicate an annual run rate of around 17 million when we now are moving towards the end of the year this number will pick up and the run rate at the end of the year is quite well above the levels that we are reporting here. So I am actually fairly happy with how the programme has progressed and now as part of the redesign we will add 40 million to our cost savings potential. Harri-Pekka will come back to that in his part of the presentation.

This actually finalises my part of the Q3 presentation and I will hand back to Martti.

Martti Yrjö-Koskinen

Thank you, Kim. And we now are opening for questions regarding the Q3 financials, before we go over then to Sanoma Redesign presentation. Do you have any questions with regards to the Q3?

Questions and Answers

Kimmo Stenvall – Pohjola Bank

Kimmo Stenvall, Pohjola Markets; about the cost of sales in the Media segment, you said that it came down quite a bit in Q3, what is the sources of this?

Well, one of the biggest components is the paper cost, on the group level the paper cost came down by 16% and of course there is two components in that. It is the declining volumes and then the current market prices.

Sami Sarkamies – Nordea

Sami Sarkamies, Nordea Markets; I have questions on the Learning segment, you were referring to some seasonality variations and then also you were saying that you are somewhat behind in the Finnish market. Can you elaborate on this a bit more?

Well, as you know, Sami, there is usually quite a lot of seasonality and volatility also between the quarters in the Learning business and we made the comment that even in Q3 we saw actually some positives coming into this quarter compared to our expectations, how the sales should have deviated between the different quarters. All in all for the annual expectations, what comes to sales or profitability, there is no change in our thinking. The only—maybe a new thing here is to really comment on the Finnish market, overall market situation which is a bit lower, the total market size is a bit lower than we have expected and there is two components and one is the curriculum change which naturally kind of delays sales and postpones maybe some parts of the sales. And then we do see some increase in recycling of the learning material. There is nothing drastic so the way we see the business is still the same as earlier.

Are you able to quantify the number of business that was transferred to Q3?

No, it is not big. As you can see we are pretty much flat with last year if you look at the sales numbers and we have had very good two quarters behind us. I think it is more just to indicate that there were some smaller items, so that the expectations for Q4 would not be too high.

Panu Laitinmäki – Danske Bank

I have two questions; firstly on timing shift in Media. So what do you actually mean with this? Do you mean that the costs were lower than they normally are and what do you see for Q4?

Well the reasons behind—or the items in the timing shift, first of all is it is TV related programming cost and what we are saying is that the spending level in Q3 was somewhat lower than we expected it to be in the coming quarters, so we got some benefits of lower spending levels in Q3. We had some VAT related timing items. We also had some magazine subscription operation related timing items. They are not significant but still some millions of benefit into this quarter.

The other question is about free cash flow; so the cash flow was good and you mentioned that it came from networking capital and we know your seasonality, Q3 and Q4 especially are strong, so did you kind of get some of the Q4 items already in Q3 or how should we think of Q4?

Yes, I think that is the case, that some of the positive impacts in the networking capital come from delayed payments or timing on payments going forward. So part of it will in a way kick back in Q4. Still Q4 is a strong cash flow month for us as you know if you look at the levels of last year you see the kind of—you get a good indication on how the cash flow is being creating between the quarters. This year we will also see a strong quarter in Q4 but impacted naturally by the lower profitability levels that we had throughout the year.

Mikko Ervasti – Evli Bank

I wanted to ask about the Media segment and especially the Finnish TV operations. It looks like the share of TV advertising and also the viewing shares have come down in the third quarter. You have quite a strong line up on television plus the ice hockey rights, which should have boosted both. What is the explanation there?

There is actually a temporary dip due to Q3 where we didn't invest so much. Actually when we look at already October when they did a strong line up it has rebounded to the historic levels. So you can see that only as—or just as a temporary dip. So if you just look at the viewing numbers that we had for example the Vain elämää show here in Finland. It is just tremendously strong, driving also video and video advertising. So not concerned—I mean it is a temporary phenomenon.

Okay thanks. And then on the circulation, there is a 21% increase in subscriptions in Finland, what are the drivers there?

Well, one driver in the circulation is the hockey league and the new subscriptions that we have on that. Martti, you want to give an additional comment on it?

I think that the main driver behind is that, as Kim mentioned, that there are some small corrections with regards to the circulation sales and then the main drivers are the new online subscriptions that we have, our digital subscriptions within TV and also within magazine operations.

Sami Sarkamies – Nordea

Sami Sarkamies, Nordea Markets; are you still able to discuss the Media market outlook for the fourth quarter in Finland and in the Netherlands?

Are we talking advertising or are we talking—

Advertising.

I don't think we want to give any comments on it. You saw the trends for the three quarters, so there has been some positives, but I don't want to give an estimate on the total quarter.

But obviously we have to keep in mind that last year we had the elections in Finland, which we don't have this year, so there is some changes in the underlying environment.

There are no further follow up questions, so I think that we can now move over to the Sanoma Redesign presentation. Harri-Pekka, please.

Harri-Pekka Kaukonen

Thank you, Martti. Alright, so as I mentioned the redesign that we today announced is the biggest transformation in Sanoma's history and I will go through first of all the drivers behind it, our starting position and then most importantly spend most of the time on what the plan is and what changes.

It is not a big surprise to anybody I am sure who has been following Media that there is a fundamental change going and just to summarise it, that we have technology and then the weak economy that are strong driving forces for the shift in consumer behaviour that we are seeing. So for example you see new type of media consumption behaviours, sharing, you see the increased use of mobile for example, personalised offers, etc. And there is a new way of consuming media. The good news is that total media spend is increasing, the bad news for a print publisher obviously is that the engagement in print is shifting to other mediums and other ways of consuming media. Also the advertisers are changing. There is much more talk about return on investment, performance and measurement and obviously the importance of digital is increasing all the time. So you see how both important customer groups are shifting and the behaviour is changing, the demand is changing.

That alone would cause important and significant challenges in terms of redesigning and renewing the offering, but what also is happening is that competition is becoming much tougher. The block that print publishers had on distribution is gone obviously and you know just competition in terms of new sources of content is exploding. Also in digital advertising you see new players, new opportunities, new possibilities for our customers to place their advertisement or more importantly to deliver their marketing messages and support their sales. And that means that supply and demand are fundamentally changing, so the whole industry is under big flux and that is what we are seeing.

And obviously you can see the impact of this in time spent, so the engagement, of our consumers. And advertisers obviously want to be the consumers are, so you see big shifts. And noteworthy also in these charts you see the different structure in the Finnish advertising industry, which is much more print dominated than most Western European countries. And that creates a fundamental challenge for us. On one hand to deal with the decline in print, but also how do we capture the opportunities in the growing areas in online and in TV actually?

The media are in very different places in this transformation and you know all this but just to recap, print is under pressure, no big news there, but I think it is important to also understand that our news and magazine business are in different points in the transformation curve. Now we heard from Kim that for example in the Ilta Sanomat our digital advertising is bigger than print advertising, so we are already quite far in the curve. Helsingin Sanomat is not that far yet, but we have then on the other hand we have almost half of our subscribers pay for digital. So that is on one hand.

In magazines, unlike news where you have a fundamental need to go to the services every day, multiple times, the shift or the challenge with magazines is to take weekly or monthly medium to a 24/7 relationship with the brands and the consumers. And that makes it a bit more tricky, but on the other hand the relationship with the viewers and the brands and the communities is very strong. So that gives us the right to aspire to also be able to transform that medium. But short term clearly—or currently, really magazines is behind the transition curve to news.

TV, as a medium, is you would say more healthy. It actually—we believe TV is a growth market, not just only in terms of the turnaround in SBS but more fundamentally because the viewing time is increasing and actually the scope and engagement and viewing of advertising is increasing. The challenge now in the industry is that we need to be able to measure it. But once we can measure it there is actually more to be gained for also a free to advertising funding medium and then on top of that you have the nonlinear opportunities. Obviously you have also the nonlinear competition, which is global, so not an easy thing to do, but we believe that based on our local content positions and for example the investments that we made in the hockey league gives us a good position in the nonlinear TV. And actually, if you just observe the performance of Ruutu in the video advertising space in Finland, it shows that it is possible to actually create a very interesting business in nonlinear TV as well.

Thirdly, about digital, it is really about both the consumer and advertising side and I think what has been more straight forward is to figure out how to get into the advertising part, given the fact that we have the touch points. What is more tricky is to monetise from the consumer and that is something that in the Finnish organisation, especially, we have a lot of initiatives ongoing but also more and more as we transform the magazine’s business, we are exploring new ways of digital distribution and bundling, plus new types of apps, etc. to get into consumer revenues. And then what is important is, in all cases we believe that having strong brands, strong content, and then—and user experience which is shifting with a digital key to unlocking the digital side. But this is a growth opportunity for us we fundamentally believe.

In Learning the story is on one hand similar, obviously it is a big transformation from print to digital, but I think it is more importantly it is a transformation from push one way learning to actually both creating solutions that help teachers, so make the teaching process more efficient and help teachers in doing it, but then obviously from a student point of view it is the potential now to tailor make the learning path to the individual student and that is done by clever use of software and technology. And what is interesting in the Learning, unlike in Media where we have these talks about digital euro is 10c etc. and mobile is even less, which I think is something of a myth we should correct, but anyway that is part of the reality. In Learning actually digital—with the help of digital solutions we have actually been able to capture more value, so been growing while we do this digital transformation, so there is a substantially significant difference in these markets when it comes to the impact of digital.

Then a few words about where we are in the midst of this transformation, because I think it is important to understand where we are, because one of the messages that our new plan is not just a random plan, it is fundamentally based on our strengths. And those strengths are twofold. It is first of all we are uniquely positioned in our two key markets, Finland and Netherlands. You can see here our position in the media market, this excludes the platform players mind you, so it is not a fully fair picture, but it gives you at least a relative position of the dinosaurs if you want or the old guys. And that is where we are and we are quite uniquely—if you compare any other media company in these two countries.

We have strong positions in Belgium and Russia and CEE as well and these are placed on strategic review; I will get back to that, but what I want to say is that we have strong assets in these countries. The difference is that there are not as multi platform, so the potential for transformation overall is less. And we need to make some choices on where we invest and that is the reason simply. I mean we have great brands, great content, great people, strong assets, so we will need to look at what we do with these assets and that potential also includes selling them if the price is right. But there are other options to be looked into.

Then going a bit more deeper, if you really look at our positions in Finland and Holland specifically, it applies to some degree to other countries. We have strong content. In most of the segments we have the leading brands and we have access to the communities in magazines but also in other businesses. In News, with Helsingin Sanomat and Ilta Sanomat, and actually if you take NU.nl which is digital news services, we have the leading news brands and assets in our core countries. And what is interesting if you just look at the engagement with our news brands, the total engagement time spent is actually growing. So that is a good starting point because if you have something that grows you just have to figure out how to monetise it, versus if it is declining.

In TV, I already mentioned that yes we have the Dutch situation, but actually we are making some steps forward, not as quickly as we had hoped to but it is going in the right direction. We need to get it in better shape but then what I already mentioned that specifically in Finland we have a quite strong position already built up in online and VOD with the investments we make. And overall we see TV broadly, the nonlinear and linear together and video, as a source for growth for us going forward.

And then last, but not least, the digital and this is something we also want to make clear for you what we have here in terms of transparency, but I want to pinpoint here that if you just look at destination sites, we have some of the leading destination sites in Finland and Holland and for example in Finland, out of the top 20 sites in terms of traffic, seven belong to Sanoma. And that is not just the bottom seven of the 20, but also a number of the top five sites. In display advertising we are a clear market leader in Finland and a leader in Holland and then if you just look at the lead generation classifieds assets like Oikotie, Kieskeurig or Startpagina, so we have a number of very strong pure digital service brands to build on. So actually when putting it all together, if you look really at what we have in terms of assets, but more important the capabilities and people to run these businesses it is actually quite a strong starting point.

Similarly in Learning we have one of the leading European learning assets in terms of position but also in terms of the digital transformation. In the previous sessions we have told you that actually we are outgrowing the market. So we are growing in market share and that is because in relative terms in our markets we have the skills and capabilities and also have been able to add the digital service elements to the offering. And this is true in all of the markets and we are number one or number two, but what is common in most of these markets that actually all the markets we have been able to grow our market share.

Just a big comment on Hungary at this point; so we sold it. It had nothing to do with our view on the Learning market as such, it was just because of the political situation. So the country risk in Hungary actually exploded in short words, so that is why we saw no other way than actually you know to take the hit and withdraw from the Hungarian market.

Then going into the strategic plan; strategy is fundamentally always about choices, where to be and where not to be and we have made some very big choices today on a number of levels. Why have we made just these choices? It is really about three broad objectives, the first one clearly is that we have been declining in terms of top line for now, several quarters. And we have to stop this. We have to get to a business mix and to a position of strength where we can start growing again. That is an absolute necessity of what we need to do. And these choices that we are making today help us get to that point.

Secondly many of you have criticised us for good reason that our business portfolio is just way too complex. I mean if you look at geographies, the business models and the businesses, and we agree with you. It is too complex to manage the transformation. It is simply too complex. And given the size of the company and the resources we have, we need to focus, we need to put our resources in places where we get most benefit for it and not try to transform everything in one go.

Thirdly it is about taking care of our balance sheet. It is too weak and we need to create also headroom for investment. Today we have practically none. So we need to take care of that and make sure that also if a suitable acquisition comes along that supports our business that we have some headroom. Today we can manage organic growth and operational improvements, but given where we are with the debt levels it gives too little headroom.

Then to the strategy; our ambition has stayed the same. So I think to be the number consumer media and learning company in those markets that we operate in. The big change obviously is how we define these core markets. And in one word you could say today I am sure a lot of focus in discussion, rightfully so, is around the personnel discussions, the potential personnel reductions. But really this is about renewal of our offering. It is restoring our competitiveness in the face of the changes in Media and Learning. So that is really the core of why we are doing all this. There is this other side which is really about improving efficiency and managing the balance sheet and getting the funding in place. And then the organisation to support that, but really what we are trying to do is to restore competitiveness and renewing the offering. And with that also really being able to focus on those spaces where we believe we can grow. And then be more transparent and more focused in driving that growth.

The same story in a bit more detail; so we launched our vision last spring, which is getting the world and that stays. So we believe that our mission is here to help people understand the world and help themselves to develop. We are in consumer media and learning, quite distinct businesses, but we think we have a right to be there and actually when we look at our positions of strength we believe that we can create value going forward in these areas. And specifically the choice we make is that our core business is really built on three pillars. It is Finland and Holland in terms of consumer media and then it is learning. As I said for both of areas it is—the key is to renew the offering. So the industries are undergoing transformation and I will go a little bit deeper what we mean by renewing the offering. Secondly it is about driving—so that is the transformation part.

Secondly it is about driving growth and we have identified two broad areas of growth. One is in terms of lead generation and pure play digital growth and we are reorganising our assets to support and foster that growth. The second broad area is learning in total and specifically we have also identified a couple of places outside the traditional K2 learning where we want to grow, namely in B2C services and then in some other geographic markets through a different approach; so transformation and growth.

The second element is really then funding this strategy. So there is no strategy if we can’t fund it and this deals with really the geographic focus, so indeed as I mentioned we are placing the Belgian and Russian CEE media assets under strategic review. We will continue divesting noncore assets, including real estate and there are also some sale and lease back arrangements, including this house here that are under consideration to again improve the balance sheet and create liquidity.

Kim mentioned about the cost savings programme and I will get back to that in a separate slide, but we are upping the stakes here by 40 million. We communicated 2016 but actually what we believe is that most of it we can get done by end of 2015 in actually the actions, but the impact will then be delivered in 2016. We are also taking a hard look in the countries. Today we announced a big change in focus in our magazine operations in Holland and that is—again it is a question of focus. It brings some cost savings, but here again the main driver is not the efficiency, it is about going from a declining print to focusing on power brands, our strongest brands and create the brand community, the whole brand business and actually trying to grow some of them. At least stop the decline and the bleeding.

And that is a fundamental shift and we believe that that will be a first step and it will be very interesting to see how competitors react, because that can lead to also an improvement of the magazine business in total. Hopefully.

Then third thing that we want to—or that we are doing here, is that we need to align the leadership and the organisation structure to meet with the new plan. It is in this context that we announced a while back the combination of our Finnish Media operations, so there is a merger of the Finnish unit and also we are making some adjustments in Holland, to bring TV closer to the other businesses. To become stronger in driving those benefits that make sense to extract from having both TV, magazines and online in the same group.

Technology is a really important part of our transformation and therefore we are also regrouping and reorganising, not the—so traditional ICT support but also digital development, you know the technology development under CTO office to again create stronger competencies but also to get sharper view on architecture, of those choices, and also create agility in product development. And finally we are establishing a new unit called Sanoma Digital which will be focusing on the pure play digital businesses and I will explain a bit later what I mean what that.

So that is the story in Media. In Learning it is really the transformation is what I already explained. It is from books to solutions and services. And it is digitalising the whole business. And then the two growth areas, really is in tutoring specifically, we have new fully digital tutoring services launched in Belgium and Holland, very excited about that, very early stage yet, but a good high potential market, tapping into new revenue streams, but building on the capabilities that we have in the learning space. And then we are exploring some opportunities in emerging markets and we are building a team to also bring the learning capabilities and solutions to selected markets, also building on the Finnish PISA experience and this in partnerships with other players in the ecosystem.

In Learning there are less in terms of the efficiency side, but also the organisation will be somewhat changed to reflect also these growth areas. What is common across Sanoma is that the next few years will be a time of a lot of change and not in terms of just the announcements today, but in terms of building capabilities. And it is also about building the right mindsets and culture and we will continue the work that we are doing during the last two and a half years to also shape the mindsets and create the right environment and culture for a new media company.

Then a little bit more about what do we mean by renewing the offering? We approach it from two sides and in terms of headlines, these are not news, I think it is in terms of creating the right structure and making more investments in this that is the big change. We approach it—and then thirdly about making some of the choices in terms of the brands that we will actually put our resources behind. The first viewpoint is around platforms. So it is the media by media approach. And that is something that we have been doing for quite some time, which is really simply we take those brands offerings that we believe and make sure that they play in the modern way. First of all multichannel but also that the user interfaces, sharing, mobile access, everything you know plays, so that they are fit for purpose for the future media usage. And that is the same for all our media platforms.

The other one is really—and that is where the structural changes also will be, I believe, important ways to catalyse this development further. We are seeking for more synergies across the media along three dimensions. First of all it is around content, it is really about innovating new offerings, but it is also getting more value from our content investment. We spend a lot of time in buying and creating content and we traditionally used it on single media at one time only, a kind of silly way to do your business. And with the digital opportunities we can paste, combine third party sources and create new ways of combining that media. We can also improve the efficiency of our content creation process by that. And we can then also start from not only the brands but start from the consumer groups and create offerings from a pure digital point of view. And during next year we will be announcing a host of new services that are purely digital that start from a very different development angle in this content space.

Second dimension is consumer; what is unique with Sanoma is that we touch basically every Finn and Dutch person every day through some of, or many of our media. We have subscription relationships with them, we have different relationships, what is now important that we transform that into a strong relationship in a digital way. In a way that first of all delivers more value to the consumer, to the reader, to the viewer, and to the listener, and with that we get the right to also understand more about their needs, their behaviours and that is something we can use in our product development, but also in terms of cross selling, bundling, creating a better offering, creating also loyalty programmes; so giving a bigger reason, a benefit of being our customer across multiple services.

And then the link of these two obviously is to advertisers. So our advertisers have—the brands have a need to communicate and become more efficient in reaching target groups. So obviously we can offer content, we can offer better targeting and we can offer the broad media. And not only that, we are also actively building new services around content marketing that help our customers to deliver and create their own messaging towards their target group. So in their own and earned media space. So these three, what I call horizontals are even more in the focus. I would still say 80% of the game is really about the platforms, but this is the add on, it is the extra value that we can get from being in multiple media.

Then the other point which I already mentioned is Sanoma Digital. So in order to speed up growth of pure play digital services we are establishing a new unit called Sanoma Digital that pulls our lead generation; lead generation are those assets that drive convergence—for example price comparison—our classified assets, our pure content, including nu.nl into one unit. That unit also has the task of creating internal and external innovation and running our digital and analytics centre which is a core element of this transformation. We have during the last year and a half made major investment in terms of people and resources to really be able to use big data, fashionable word, but basically understand and use the information we have about media usage and our customers and take that back into the business and the consumers. And this competence centre sits under Sanoma Digital. These are, if you just look at those brands, they are leading brands in Finland and Holland, some in Baltics and the turnover is about 90 million and the ambition is to really grow this faster than we have been able in the past.

Then just for clarification, digital is everywhere. So we are not carving out all digital. The other part is transforming the core business and all our brands as I mentioned need to go, not only digital, but they need to be multichannel, work on mobile and anything in the future. And that means that Helsingin Sanomat, as well as Aku Ankka or Libelle or Me Naiset or SBS6 need to play multichannel. And our pure digital revenues in the branded business is today 60 million. So this is pure additional digital revenue and obviously that is something that grows. Then some of you may wonder how does that fit with the consumer media digital revenues that have been discussed and there is obviously Learning and some other things that are out of this, but we will be in the future giving more light and clarity around obviously these numbers.

Then quickly around Learning; quickly, because there is less change in Learning than in Media, not quickly because it is less important; so learning it is really about the three broad areas. So the core businesses continues to be K-12 market while learning in our core markets we want to solidify our position, create the software layer if you want in those businesses and then selectively in the future also look at opportunities outside in new markets. I mentioned already tutoring and emerging markets; you might say well aren’t those kind of all over the place, but what is common for all of this that they use the same technology platform. So the same functionality that we are building is actually applicable across the board. So it is about eLearning, it is about testing and assessment, it is about personalised learning path, adaptive learning, etc. and these are investments that are doing and they will benefit all these three areas. So there is a common core when you come to the methodology and this is something that we are building on. And that is at the core of the learning strategy.

Then going to the cost savings programme; Kim mentioned most of this and what I want to say a couple of things. This 100 million is hard savings. Actually if you look at the whole impact on our fixed cost it is substantially higher, but we have netted for the gross margin contribution of the corresponding sales decline that Sanoma activities will create. But for example if we sell certain magazines that means our fixed costs are there and then we need to take those out so that means that that is why the actual number of fixed cost savings is higher. But this is the hard number and we communicated 2016, it is correct, but what you should assume is that by the end of 2015 the run rates, so the actual savings and the decisions are there in the bank. It is the same story as Kim said about you know the difference between actual obviously generated savings and the run rate.

Today we announced two significant parts of this programme. In Holland we communicated that we will be focusing our digitalisation and brand investments on 17 titles. That means we have over 60 of them that means many of them will not be the recipients of similar focus. Again these are good titles, they are good in their specific areas, but what we need to do is we need to again focus. So we are looking for new homes for these titles predominantly, but the gross number of people impacted in these titles, plus then the back office support associated with this 500.

And to make clear also there are no plans to close any titles in 2014. Eventually obviously any title that doesn't give a positive contribution needs to be shut down. But this is a plan we have, we will work on reducing the coat, so to speak, the overhead cost and we will be working on finding better homes for those titles where we don't see the future potential for Sanoma and a less fit to our overall portfolio in terms of target groups and the brands.

The second announcement today was around Helsingin Sanomat and this is really around three areas there, it is about Nelonen news, it is about Metro and then broadly the editorial team. And this needs to be put in a broader context. We have had these announcements during the last months and a year and a half in other units and there will be other things going on, so the change doesn't stop here. This time around we are ready to go out with the plans to initiate the discussions around Helsingin Sanomat and here the impact can be up to 70 redundancies. So big news, sad news, tough news, tough messages, but when you undergo this big change and you need to make these choices, it is just unavoidable that we will have an impact on our jobs as well.

Then how will Sanoma look and how will our reporting look like in the future? So Finland and Netherlands in consumer Media and Learning will be our three core SBUs. And then we report the other units through Other bucket. What we will be doing—so we will give you the financial numbers, sales and all the way to profit, in these three pillars and you can see here also the last 12 months rolling sales and profitability numbers for these segments. We are going to also start reporting the platform numbers, so the pure play digital and then the TV, magazines and newspapers and then we will also tell you the corresponding 60 numbers. So we will give you the pure play plus the transforming digital sales in media units going forward. So you will be able to track our transformation as we go.

I also want to mention here something which, if you would now look at our three core pillars, we are today about 45% screen based and non print in Holland. We are close to 30% screen based and digital in Finland. And if you take hybrid including in Learning we are 45% digital and hybrid. So I think if you just call us a pure play print player in the future I will challenge you on that notion. So just again our job is to tell you where we are going with the transformation and we will try to do a better job going forward.

There are some changes in leadership. Some have been announced earlier and one change was announced today. Already some time ago we told you that Pekka Soini will head our combined Finnish unit, Peter De Mönnink will start leading our Dutch business starting from Jan 1. And then today we informed you that John Martin, who has done a great job in building our digital side, will move and start heading the Learning business during Q1. John will kick start Sanoma Digital unit and build it up and we have a search ongoing for then finding a successor for him. And Jacques Eijkens, who is currently CEO Learning, will continue supporting us and supporting John during next year. So we managed a good transition there to secure a smooth handover of responsibilities.

That leaves then me to target; our long term financial target will be focusing on the balance sheet health and then you have the dividend policy which is unchanged, but obviously given the transformation and the path we need to go through it is prudent to—or we need to be prudent about dividends and that means that in absolute terms the plan implies lower absolute dividend levels than what you have seen during the last couple of years. So that is something that you should keep in mind.

So I hope that clarifies our plan. I believe that we now have a good plan and it will take us in two years to a position where we have a somewhat smaller consumer media business but which is on a stronger basis, on a solid footing, starting to grow and then we have a learning business that already is growing, we will speed up the growth there. And then in addition we have identified the lead generation in pure play digital as a new—not a new area, but a focus area where we have pooled the capabilities and the assets and given them also an international mandate to grow. And then we have a host of costs and balance sheet activities and a new organisation structure to support it that will help us implement this plan.

Thank you for your attention. Ready to try to answer any questions that you may have.

Martti Yrjö-Koskinen

Thank you, Harri-Pekka.

Questions and Answers

Sami Sarkamies – Nordea

Sami Sarkamies, Nordea Markets; I have questions related to two areas. Let's start with long term financial targets. You are dropping the only P&L related KPI you had as a long term target, but you are not sort of adding any sort of top line or profitability targets. Why is that? So one could assume that the previous margin target would be more easily reachable through the new structure.

You are probably right with all the plans that we have now on the table it would be maybe an easier target to reach and naturally we are focusing on getting back into growth track during the years and improving our profitability. But we had long discussions on what should be the targets that we now focus for the time being and understanding that we are in the middle of changing our portfolio quite a bit as well. And there is quite a lot of moving parts in doing the strategic review and so on, with some of the assets. So this is the outcome of the discussion, this is what we want to focus on right now.

Can I continue on the divestments or noncore assets slash operations? If we look at goodwill for the assets that you have categorised as noncore, do they sort of describe the potential sale value if you chose to do so? And then the second part, many of the noncore assets are actually joint ventures, where you are one of a few stakeholders, so how do the current shareholders agreement allow you to exit those operations if you chose? And then thirdly on Belgium, you are not number one there, but you are sort of close to that target, so is this totally out of the question that you would still have a focus on the Belgian market?

So if I start with the last one and you remind me of the two other ones; so the strategic review is a strategic review. And it can have different outcomes. The key difference in Belgium is our weaker position in online. And then there is another difference that there we are one third owner of the TV, so we don't have operational control. Obviously things can change, but we are approaching this—you know we will test the potential for selling. If there would be acceptable prices that the buyers and sellers approve, then that could be an outcome or it could be even a likely outcome. If not, as I stated, these are good assets. I mean there is nothing— I mean they are solid performing assets and we have plans to develop them, so then we may keep them, or we may find even some other opportunities. So we are actually doing all these things, but there is obviously a need to also test the markets for the appetite regarding all these assets.

And then there was a question with regards to these assets under strategic review, if they will be sold, would be the goodwill or the asset values of these correspond to the sale prices?

Let me put it that way, that in Russia and CEE we have taken some impairments like we just did. And you know the way we test these assets, so that gives you some indication of what is the relationship with let's say a fair value and the book value. So I think you can get on a good track there. When it comes to Belgium, we have never had any issues regarding impairment testing with that asset body so maybe that gives you another—other indication. I don't want to start speculating. First of all we are in the middle of review, so there isn't an outcome in our mind yet, but I think with this you can probably get the grip of where would roughly be.

And then there was the shareholder agreements—

I mean each agreement is different, but—and in most cases we can move rather freely and normally you know there is a shareholder agreement and then there are shareholder discussions. Right, so I think in any such situation the shareholders need to sit down and come to a sensible agreement regardless of what it is. We have many very long standing relationships that go back tens of years with different partners, and that means also that our relationship with these partners are normally on a very good level, which then makes it rather straightforward and having different kinds of discussions. And then it is, at the end of the day, it is a question of value and who wants to do what and what I am saying here in a long winded way is that I am confident that we can find solutions in the right spaces with the shareholders. I think it is more about what is their anticipated and accepted price levels, etc. That is maybe a bigger question after all. If that is established, I am sure we can find ways with the shareholders.

Kimmo Stenvall – Pohjola Bank

Sami Sarkamies, Nordea Markets; one additional question on the CEE and Russia and the impairment charges you took. Just to clarify, these charges are taken on the assets that you still own, not the one you divested.

Yes, correct.

Mikko Ervasti – Evli Bank

Your comments regarding the dividend and the near term lower payment, what do you consider now as the near term? Is it one year or perhaps until the end of this review and restructuring programme; maybe '15/'16 that will be facing a lower dividend?

Well let's put it so that—when you say near term it is definitely more than one year, but I don't think we should make a clear cut at any point of time. The statement is because of the investments we have done and because of the situation where we are with our capital structure and performance levels. So naturally how quickly we strengthen our capital structure and how quickly we can get back to growth track will have an impact on the length of that definition. But it is intended to make a statement of a longer period than one year.

Panu Laitinmäki – Danske Bank

I have two questions related to costs savings, firstly did I understand correctly that between this point and the end of 2015 you expect to implement 83 million cost savings? And secondly, could you please repeat, what was the difference in your definition in gross and net savings?

If we start with the gross and net; it means that—and with the 60 million programme maybe it is an easy example here. When we say it is cross savings, it means that it doesn't have the full impact on your operating income. You have other categories which—where the costs increase according to inflation, your salaries get higher according to inflation, you might invest in digital development for example so the gross savings mean that we will save the 60 million but part of that money could go then to inflationary development or some other cost categories. When we then move to the 100 million programme the definition stays but there is an additional element that Harri-Pekka referred to, which was that when we streamline the magazine portfolios the savings levels will be even higher than the 100 million but we have netted the loss gross margin from those businesses that we have exited. So those are the components you should understand. And then 100 million gross could be some other areas where you have growth in cost, but in that 100 million number we have taken away already from the savings number the amount of gross earnings, gross margin earnings.

Another way to say it is that this 100 million is hard savings, so it is fixed cost savings. It is not variable costs that go with volumes. It is really something that will implemented.

Thank you and then there was a question with regards to this 83 million and the timing of the savings or the decisions for savings.

Yes, the 83 million is, you just calculated the current run rate of 17 and I made a comment earlier that when we come to the year end it means that 17 million number will be a higher number, so we are quite a bit further with our 60 million programme, but otherwise the logic is correct. That towards the end of 2016 we should have evidenced the full run rate of these savings, reaching or executing most of the transactions already earlier.

Specifically you know referring to around 2015, most of this what do you call 83 additional should be in the bank in terms of that the decisions have been made and you know the savings starts to tick. Technically not all of them, there is a tail that goes still, there are system related stuff for example, but the big part of it is, according to our plans and estimates there end of 2015.

Mark Braley – Deutsche Bank

Just two things; just to double check. Of the original 60 million of savings, how much, if any of that related to Belgium and Russia? And then my second question again on Belgium and Russia, apologies if this is somewhere in the releases today, can you just remind us what the actual carrying value of those businesses is now?

The Belgium and Russia are part of our programmes and have been part of our programmes when we launched the 60 million project here. And naturally we continue seeking savings in these two businesses as well as long as we have them. That is natural. The savings included from Russia are very small and we have actually reached that level already. In Belgium there were higher targeted savings, but again regarding Belgium, a big portion of the savings is already part of the 17 million that we have indicated. So we have progressed fairly well with these two markets.

What is the carrying value? We haven't given that number out. We have earlier given you an indication of how much buffer we have between the fair values and book values but we haven't communicated exact values.

Closing Comments

This will end the presentation. That you for your participation and I wish you a very good day.