

# Accounting principles

## SanomaWSOY

SanomaWSOY's consolidated financial statements have been prepared in accordance with Finnish rules and regulations. SanomaWSOY will start to report according to IAS/IFRS in 2005. SanomaWSOY Corporation was created by a combination merger on 1 May 1999, and the comparative data for 1999 take the form of pro forma figures.

### Consolidated financial statements

The consolidated financial statements have been prepared by consolidating the income statements, balance sheets and notes of the parent company and its subsidiaries. The separate financial statements of Group companies have been adjusted in accordance with the Group's accounting principles prior to consolidation.

In addition to SanomaWSOY Corporation, the consolidated financial statements cover those companies in which the parent company, either directly or indirectly, held over 50% of voting rights at the end of the financial year. Intra-group ownership has been eliminated using the acquisition cost method.

Companies acquired during the financial year have been included in the consolidated statements from the date of acquisition or another contractual date and divested companies have been included up until the time of their sale.

Elimination differences between the acquisition cost of shares in subsidiaries and the shareholders' equity of subsidiaries at the time of acquisition generated during the elimination of share ownership have been posted, when possible, to the relevant asset and liability items in the Group's balance sheet. The residual has been presented as goodwill, which is amortised according to the plan over the relevant economic lifetime.

Associated companies are consolidated in accordance with the equity method. A portion of companies' profits or losses in line with the Group's holding has been recorded as a separate item prior to the operating profit. Goodwill generated in the consolidation of associated companies will generally be amortised over a period of 5 to 10 years. Figures for insignificant associated real estate and housing companies have been entered under other shareholdings rather than under associated companies.

Joint companies in which the Group is responsible for management together with the other owner have been consolidated on a line-by-line basis in proportion to the shareholding.

Minority shareholdings have been separated from the Group's shareholders' equity and result and are presented as a separate item in the income statement and balance sheet. Minority shareholders' portion of the losses of sub-

siaries has been deducted from the capital notes given by minority shareholders. The remaining capital notes have been presented as part of shareholders' equity.

All intra-group transactions, mutual receivables and liabilities, together with significant internal margins and internal distribution of profits, have been eliminated in the consolidated figures.

### Transactions in foreign currencies

Items associated with the Group's Finnish companies denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions in question. Receivables and liabilities on the balance sheet at closing have been translated into euros using the rate quoted on that date. Exchange rate differences of trade receivables and trade payables are recorded as sale and purchase adjustment items. Exchange rate differences generated when assessing other receivables and liabilities are recorded under financial income and expenses.

The income statements of foreign subsidiaries have been translated into euros using the average rate for the financial year, while their balance sheets have been translated using the exchange rate quoted on the balance sheet date. Translation differences between different rates have been entered in the Group's shareholders' equity.

Exchange rate differences arising from translating the balance sheets of foreign subsidiaries and associated companies have generally been entered in the consolidated shareholders' equity. Exchange rate differences related to the Group's long-term internal loans have been treated in the same way as those associated with shareholders' equity, i.e., they have been entered in the consolidated shareholders' equity.

### Non-current assets

Fixed assets have been entered on the balance sheet at the original acquisition cost less depreciation according to the plan. The balance sheet values also include revaluations totalling EUR 17.1 million on land and buildings. Investments have been recorded at acquisition cost or at the market value if permanently lower. Depreciation on fixed assets according to the plan is based on the original acquisition cost and the following estimated economic lifetimes:

Intangible rights	3–10 years
Goodwill	3–20 years
Consolidated goodwill	5–20 years
Other long-term expenditure	3–10 years
Buildings and structures	7–40 years
Machinery and equipment	3–16 years

Purchases of film and television broadcasting rights are recorded in the SanomaWSOY Group as immaterial rights under non-current assets and the use of these rights is recorded as amortisation.

### **Inventories**

Inventories are presented in accordance with the average acquisition cost method, at acquisition cost or replacement cost if lower, or at the probable lower selling price. The value of inventories includes only the variable costs associated with acquisition and manufacturing.

### **Liquid assets**

The balance sheet item related to securities primarily covers listed shares, short-term deposits and liquid interest rate mutual fund holdings. Securities have been valued at acquisition cost or at market value if lower.

The Group exercises a cash pooling system covering several European countries. There is a juridically external bank as counterpart for every separate company. In the separate companies, pooling assets are presented under cash and bank, while pooling liabilities are presented under liabilities to financial institutions. Receivables and liabilities from the cash pooling bank are eliminated in the consolidated financial statements.

### **Deferred tax liabilities and receivables**

In respect of recording deferred tax liabilities and receivables, SanomaWSOY follows the requirements of the Finnish Accounting Act, under which items are recorded only on those matching differences affecting the income statement and on consolidation-related measures and year-end provisions with an impact on the Group's result.

Revaluation-related deferred tax liabilities are presented in the notes to the financial statements.

### **Derivatives and other contingent liabilities**

Derivatives are used by SanomaWSOY to hedge the Group's risks. The Group hedges its interest rate risks as well as its currency and equity portfolio risks. The hedging instruments primarily used are interest rate swap agreements, interest rate options, currency forward agreements and stock options.

The interest income and expenses related to the derivative contracts used in risk management are matched according to the tenor of the relevant contract and are used to adjust the interest recorded for the hedged positions. The premiums paid and received for interest rate options are recorded under accruals and matched under financial expenses and income according to the tenor of the relevant contract.

Interest rate derivatives are used to hedge the Group's floating-rate loan portfolio, and derivative contracts are not valued at market values in the accounts. The market values of contracts are shown in the notes to the financial statements.

Currency forward agreements and stock options are valued at the market values at year-end. Unrealised derivative losses are recorded against income immediately, whereas valuation profits are not recorded until they are realised.

The accounting treatment and classification of contingent liabilities was further harmonised in the Group companies during the financial year. The comparative data have been adjusted accordingly.

### **Convertible capital note**

A convertible capital note valued at EUR 200 million was issued in 2001 as part of financing for the acquisition of the magazine operations from VNU. Trading in the subordinated notes began on the Helsinki Exchanges on 6 September 2001. A total of 3,620 of the convertible capital notes were redeemed during the financial year 2003 and the redeemed debentures will be invalidated. At the end of financial year 2003, the remaining liability is 163.8 million.

Under the Companies Act, the issue is treated as an equity loan. The interest on the notes is recorded in accordance with the interest prescribed in the loan terms of the issue, and the loan is presented in its entirety under shareholders' equity.

The main terms of the issue are presented in the notes to the financial statements.

### **Warrants for management**

SanomaWSOY Group has taken into use a warrant scheme comprising a maximum of 4,500,000 warrants. The warrants have been distributed in three different stages

and each warrant entitles the holder to one SanomaWSOY Corporation Series B share. The statutory provision on social security payments related to distributed warrants has been recorded to the extent that the market price of the share exceeds the subscription price of the warrant.

The detailed terms of the issue and the outstanding amounts are presented in the 'Shares and shareholders' section on page 43.

### **Net sales**

When calculating net sales, sales income has been adjusted for discounts given, indirect taxes, and sales-related exchange rate differences. Commissions are included in the net sales shown on commission sales.

The accounting practice of recording the connection fees of cable TV services (HTV) has been revised from the beginning of the financial year. Connection fees are recorded at once to the income statement, whereas these were previously entered in shareholders' equity.

### **Research and development expenses**

Research and development expenses are generally recorded directly as annual expenses.

These items refer to expenses incurred in developing new products and services intended for commercial sale or significantly enhancing the properties of existing products, or expanding business activities. Research and development expenses are typically incurred before a company is able to begin benefiting financially from the product or service in question.

In respect of development projects, the Group generally uses project schedules of a maximum of two years. The costs associated with launching a new magazine title, for example, are only recorded as research and development expenses for the first two years of the title's existence.

### **Pension cover**

The statutory pension cover of personnel employed by SanomaWSOY and its Finnish subsidiaries, with the exception of Werner Söderström Corporation and WS Bookwell Oy, is provided through insurance policies taken out with pension institutions. Pension cover for personnel employed by units outside Finland is arranged in line with the requi-

rements of local legislation and social security provisions. In some units of Sanoma Magazines, pension cover has been handled through a pension fund which has no uncovered liability.

The statutory pension cover of personnel employed by Werner Söderström Corporation and WS Bookwell Oy is handled through Section B of WSOY's pension fund. Section A of the latter fund is for voluntary pension cover, and was closed on 31 December 1980. The fund has no uncovered liability and its assets exceed its liabilities by EUR 10.9 million.

Additional pension cover for SanomaWSOY Corporation and its 18 subsidiaries has been arranged through Sanoma Corporation's pension fund. The latter has no uncovered liability and its assets exceed its liabilities by EUR 4.5 million. The fund was closed on 31 August 1981.

Voluntary pension cover for personnel employed by Rautakirja Corporation, Finnkino Oy, and Eurostrada Oy is provided by Rautakirja's pension fund. The total liability of the latter as of the end of the financial year was EUR 18.4 million, of which EUR 3.7 million was unfunded. The latter item has been recorded in previous years mainly as expenses and statutory provisions. The fund was closed on 30 June 1974.

The retirement age of the members of the Management Group of SanomaWSOY's parent company, the presidents and deputy presidents of subsidiaries, and the Editors-in-Chief of the Group's largest newspapers has been agreed as 60 to 65 years.

### **Level of accuracy and other information**

The comparative figures for 1999 are based on pro forma financial statements prepared for the Group in 1999. Official financial statements for the year 1999 were prepared for the parent company for the period 1 May–31 December 1999.

The accounting principles for the operational indicators of Group's divisions were harmonised during the financial year. The comparative data have been adjusted accordingly.