

Sanoma Corporation

Annual Report 1986



Sanoma Group in Figures

	1986	Change %	1985	1984
Turnover FIM m.	1.480	+ 9,6	1.351	1.218
Wages and salaries including social security payments FIM m.	627	+ 10,8	566	520
Per cent out of turnover	42,4		41,8	42,7
Operating profit FIM m.	269	+ 7,2	251	219
Per cent out of turnover	18,2		18,6	18,0
Depreciation FIM m.	140	+ 7,6	130	79
Taxes payable FIM m.	29	+ 16,0	25	26
Dividends FIM m.	2	-	2	2
Investments FIM m.	330	+ 15,0	287	306
Shareholders' equity (including untaxed reserves) FIM m.	698	+ 19,5	584	382
Per cent out of Balance sheet grand total subscription liability excluded	49,0		49,7	43
Balance Sheet Grand Total FIM m.	1.603	+ 19,6	1.340	1.045
Financial assets compared with outside liabilities without interest	1,6		1,5	1,1
Net debt	226		167	229
Per cent out of turnover	15,3		12,4	18,8
Personnel in average	3.096	+ 4,2	2.972	2.912
newspaper deliverers	2.284	+ 0,5	2.273	2.349

*)Pension liability costs have been included in operational costs for 1986 to make the figures comparable on counting the percentage.

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Board of Directors

Aatos Erkko, Chairman	for the term until 1987
Väinö J. Nurmimaa, Vice Chairman	1989
Aarne Castrén	1988
Pentti J. K. Kouri	1989
Teo Mertanen	1987
Jaakko Rauramo	1989
Patricia Seppälä	1988

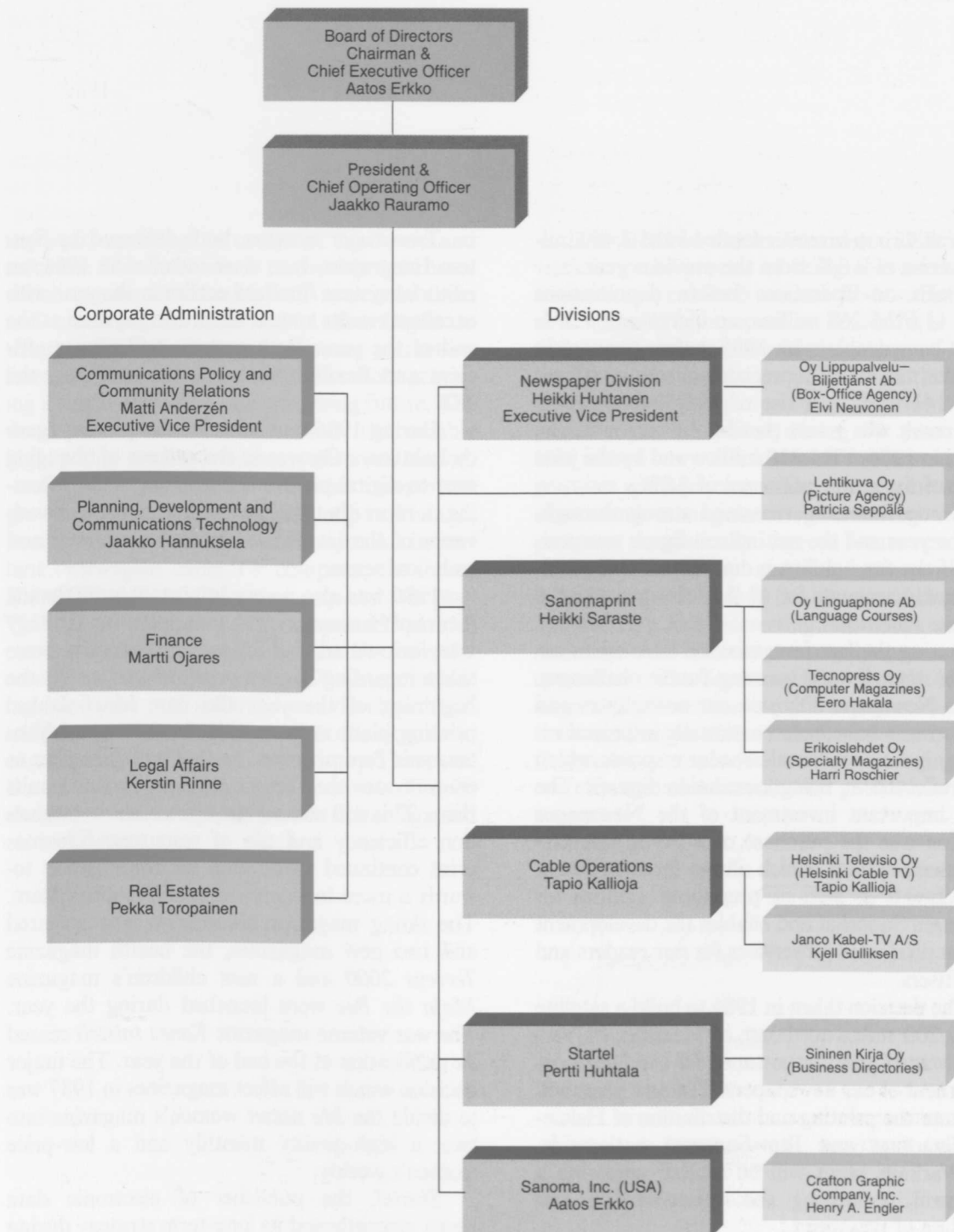
Auditors

Mr Aimo Autio, Authorised Public Accountant, and Mr Antti Helenius, Authorised Public Accountant, have acted as Auditors, with Mrs Johanna Perälä, Authorised Public Accountant, and Mr Aunus Salmi, Authorised Public Accountant, as their Deputies.

Income Statement in Percentage of Turnover

	1986	1985	1984	1983	1982
Sales proceeds	134,2	134,5	134,4	132,7	132,0
Adjustment to gross sales	- 34,2	- 34,5	- 34,4	- 32,7	- 32,0
Turnover	100,0	100,0	100,0	100,0	100,0
Material expenditures	- 23,7	- 22,7	- 23,1	- 23,0	- 24,3
Staff related expenses including changes in pension liabilities	- 42,1	- 42,8	- 44,3	- 45,3	- 45,6
Other expenditures	- 16,0	- 15,7	- 15,6	- 15,4	- 15,2
Profit on operations before depreciation	18,2	18,8	17,0	16,3	14,9
Net interest	+ 0,1	+ 0,1	+ 1,6	+ 2,0	+ 1,3
Taxes paid	- 2,0	- 1,8	- 2,1	- 1,4	- 2,0
Other revenues and expenditures	+ 1,1	+ 0,8	+ 0,3	+ 0,2	+ 0,3
Income finance	17,4	17,9	16,8	17,1	14,5
Maximum depreciation under Business Taxation Act	- 8,8	- 9,2	- 8,5	- 6,9	- 3,6
Profit for the year	8,6	8,7	8,3	10,2	10,9

Sanoma Group



President's Report

Sanoma Group turnover totaled FIM 1,480 million, a rise of 9.6 % from the previous year.

Profit on operations before depreciations came to FIM 269 million, an increase of 7.2 %. Profit comparable with 1985, before changes in reserves, tax relief depreciations and taxes, was FIM 141 million, a rise of 14.6 % from 1985. This result was made possible by major investments in 1986, FIM 330 million and by the joint effort of the entire personnel of 3,096.

Group financing remained strong throughout the year and the net interest figure was positive. If the tax liability is discounted, shareholders' equity accounts for 49 % of the consolidated balance sheet total.

During the last few years we have taken energetic steps toward meeting future challenges. In the Newspaper Division our newspapers and supplements have been continually improved resulting in an enthusiastic reader response which was reflected in rising circulation figures. The most important investment of the Newspaper Division was the purchase of a Ferag insertion equipment system, which allows the insertion of supplements as well as preprinted sections for Helsingin Sanomat and enables the development of new products and services for our readers and advertisers.

The decision taken in 1986 to build a satellite plant, 200 miles northeast of Helsinki, in Varkaus, was of great importance for the future development of our newspapers. The new plant will facilitate the printing and distribution of Helsingin Sanomat and Ilta-Sanomat nationwide. The Varkaus plant will be located adjoining a papermill optimizing the transportation and handling of newsprint.

Two major systems, both delivered by System Integrators, Inc., were installed in 1986: an editorial system finalized earlier in the year with excellent results and an advertising system at the end of the year. Both systems will ensure efficient and flexible basic prepress well into the '90s.

During 1986 our international picture agency Lehtikuva Oy was in the process of changing over to digital picture transmission and processing, a move that will be the most important advance of the late '80s in both the editorial and technical sense.

1986 was also a very important year for the future of Sanomaprint. A new operating strategy was formulated and important decisions were taken regarding Sanomaprint magazines. At the beginning of the year the new Martinlaakso printing plant at Sanomala, in the city of Vantaa, was commissioned in line with the plan to concentrate the remaining production units there. This will mean a major increase in production efficiency and use of resources. Sanomaprint continued to develop its organization towards a more independent profit center system. The skiing magazine *Skimbaaja* was acquired and two new magazines, the health magazine *Terveys 2000* and a new children's magazine *Maja the Bee* were launched during the year. The war veteran magazine *Kansa taisteli* ceased its publication at the end of the year. The major decision which will affect magazines in 1987 was to divide the *Me naiset* women's magazine into two: a high-quality monthly and a low-price women's weekly.

Startel, the publisher of electronic data bases, strengthened its long-term strategy during

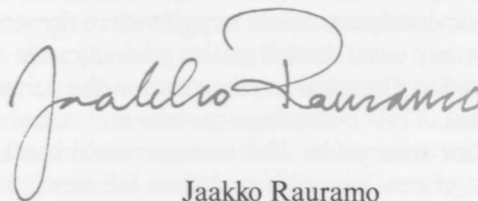
the year, updating its computer hardware and software. The main aim is to develop data bases which can be distributed both in printed form and electronic format. Startel also began to transmit Stock Exchange and money market information and developed related services providing a most interesting and promising future. The development of a comprehensive and reliable high quality creditworthiness system was started.

Cable operations is another important growth area for the Sanoma Group in Finland, Scandinavia and the rest of Europe. An important Norwegian cable TV company, the Janco Kabel-TV A/S of Oslo, was acquired. As pay-TV will be an increasingly important part of electronic media, special attention has been focused on this area. A new pay-TV system including hardware and software was developed and adopted in Finland during 1986 allowing us to engage ourselves in the future in pay-TV operations in a very large scale. The system has 20 channels and it is sophisticated in technology and control system.

The Helsinki Cable Television (HTV) network is in the process of being converted from conventional cable to optical fiber cable. The new network is expected to be ready in 1987 with a sufficient number of channels.

The major investment program of the Crafton Graphic Company, Inc., the New York printers, was completed during the year. This unit is now very efficient and modern in both premises and equipment. The new production facilities and management restructuring are expected to dramatically improve future results.

Both the Group and the environment in which we operate are in the process of changing and creating new interesting as well as exciting challenges to which our personnel has so well responded to. The Sanoma Group has the knowledge, skill, determination and resources to meet these challenges. Our readers, viewers and customers have responded most encouragingly to our efforts, and we are indeed grateful for their support.



Jaakko Rauramo

Report by the Board of Directors on Sanoma Corporation operations in 1986



International economic trends

The world economy was most drastically affected in 1986 by the fall in oil prices from 28 dollars a barrel to an average of 15 dollars, and the decrease in the value of the dollar by one fifth.

However, the impulse this gave to the economies of oil-consuming countries was not as great as expected. Uncertainty about how long the present price of crude oil would remain on this level obviously restrained any growth in demand.

In any case, the fall in the price of crude oil resulted in a marked improvement in the current account of oil-consuming countries and stimulated their economies. The average world market prices of raw materials in dollars fell over 25 % in 1986 as a result of the collapse in oil prices. Consequently consumer prices rose only a little in the industrialized countries, and in the case of some, the trend could even be described as deflationary.

The rise in GNP in the USA had already slowed down to 2.5 % in 1985 and the figure was

the same for 1986. In addition, even this slight increase was achieved by borrowing in both the public and the private sector. The falling price of oil also had negative consequences for the USA. The US oil industry went into recession, which was reflected in falling demand for investment goods. US agriculture found itself in difficulties and the farms were more indebted.

As the US economy failed to revive and the value of the dollar decreased by a fifth, the US balance of trade continued to show a deficit, nearly USD 170 billion in 1986. Japan accounted for some 57 billion of this deficit, Canada for a good 20 billion and Western Europe for over 30 billion. A solution for this balance of trade problem is actively sought. The USA has been employing a more relaxed monetary policy to encourage production. If it does not succeed in bringing the trade balance into equilibrium, the USA may embark on bilateral agreements to restrict trading.

Nonetheless, the immediate outlook for the world economy is fairly good. The upswing is likely to continue in 1987. However, there are several problems overshadowing these optimistic prognoses: unemployment in Europe; debt crises in the Third World; the US budget deficit; and the spread of protectionist attitudes.

Economic trends in Finland

Opposite trends in Finnish exports to the West and to the East bloc have had the effect of balancing out overall fluctuations in exports. As a result, the Finnish economy has been fairly stable in recent years. The 50 % reduction in the price of oil and the one-fifth drop in the value of the US dollar resulted in an appreciable overall

surplus in Finnish trade with the Soviet Union in 1986. The character of this bilateral trade made it essential to cut back on our export to the East bloc. However, due to long range contracts these cuts were not yet as drastic as expected. The accumulated export surplus - worth some FIM 3.5 billion - will inevitably reduce the overall export figure appreciably, despite the various financing arrangements resorted to, unless new imports can be found. The cutback in trade is already causing major adjustment and unemployment problems in several sectors of the economy.

In the first half of the year the Finnish economy was also encumbered by several strikes, inflationary wage settlements, and the fact that trade with the West was picking up more slowly than expected. As a result, the key economic indicators for the beginning of the year showed a slowdown. However, exports to the West was revived substantially in the second half of the year, and at least some of the capacity not needed for East bloc exports was employed for exports to the West. In several sectors, however, opportunities for larger Western exports are limited.



Overall, Finnish exports fell 0.5 % in volume and 4 % in value compared with 1985. Western exports rose well over 1 %, but East bloc exports fell 8 %. Industrial output held steady at the previous year's level, though toward the end of the year it claimed a good growth rate of 3 %. The 1.5 % rise in GNP stemmed entirely from a 3.5 % increase in services.

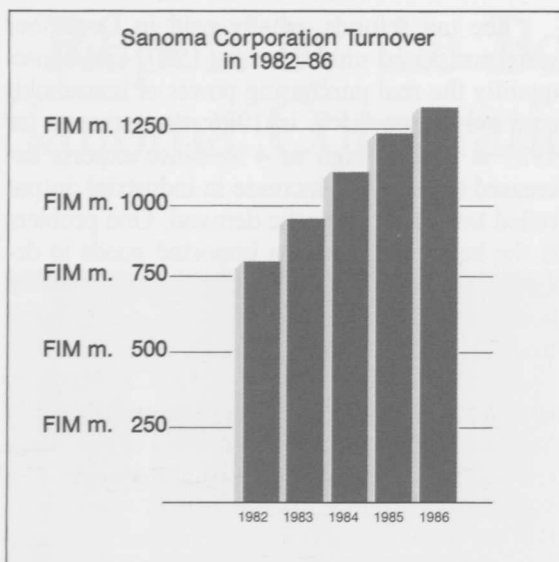
The tax refunds usually paid in December were postponed until January 1987, and consequently the real purchasing power of households rose only some 2.5 % in 1986; the estimate for 1987 is now as high as 4 %. Since exports decreased slightly, the increase in industrial output relied totally on domestic demand. One problem is the heavy emphasis on imported goods in domestic consumption. Total imports of consumer goods rose 5 %, i.e. 2 percentage points more than the rise in private consumption.

According to comparative OECD (Organization for Economic Cooperation and Development) statistics, the rate of inflation in the Western industrialized nations was the lowest since 1964. The rate in Finland - 3.5 % - was fractionally higher than the figure for the European members of the OECD and for the countries in the European Community.

The printing and publishing industry in Finland

The printing and publishing industry has made steady advances in the last decade in terms of both output volume and profitability. Output has in fact risen markedly faster than in other manufacturing industries. In real terms, the overall cost of advertising has doubled in Finland in the last decade. In addition, the market share of printing and publishing products as advertising media has grown, resulting in higher demand for these products. This in turn has made it possible to raise product pricing faster than the overall rise in costs, resulting in a good profitability performance. However, during the last couple of years the slowdown in demand together with the simultaneous rise in capital and financing costs has brought this rising profitability trend to a halt. Profitability declined somewhat in 1985 and 1986.

Turnover of the industry was estimated FIM 12.0 billion, a rise of 4.9 % on the previous year. Export growth slowed down, and reached a mere 7 %. The increase in salaries and wages (exclu-



sive fringe benefits) was 8.1 %. The number of personnel rose 0.6 %. Raw material costs rose faster than turnover, i.e. 9.2 %. Investment was almost at the previous year's level, i.e. FIM 1.1 billion and around 9 % of turnover. Profitability decreased somewhat due to costs rising faster than turnover. However, performance varied in printing and publishing companies of different sizes and types.

During this decade newspapers have done better than the rest of the industry. Newspapers have increased their market share of the total cost of advertising more than the other media. In 1986 the growth in volume of newspaper advertising came to a halt. Total newspaper circulation in 1986 was 3,152,431 – a rise of 1.0 %. Morning newspapers increased their circulation by 0.6 % and evening papers by 4.9 %.

The volume of advertising in Finnish Newspaper Publishers Association member papers totaled 400,473 column meters, a rise of 0.2 %. The average annual subscriptions for daily newspapers published seven days a week cost FIM 483 (automatic renewal) and FIM 514 (fixed period). The former was a rise of 7.1 % and the latter 7.3 %.

Magazine trends have been unsatisfactory in recent years. Circulation figures have been dropping, and magazines are losing their share of the

advertising market. For the second year in succession, total magazine advertising fell about 5 %. However, the upward trend for specialty magazines is opposite to that for general-interest magazines.

Operating environment of Sanoma Corporation

The operations of Sanoma Corporation in 1986 were based largely on the same activities, magazines, newspapers, and products as in 1985. However, a number of important decisions were made in 1986 affecting publications, production capacity, and international operations.

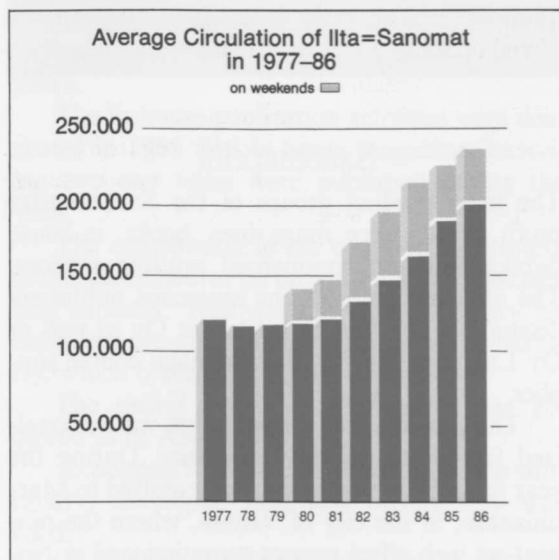
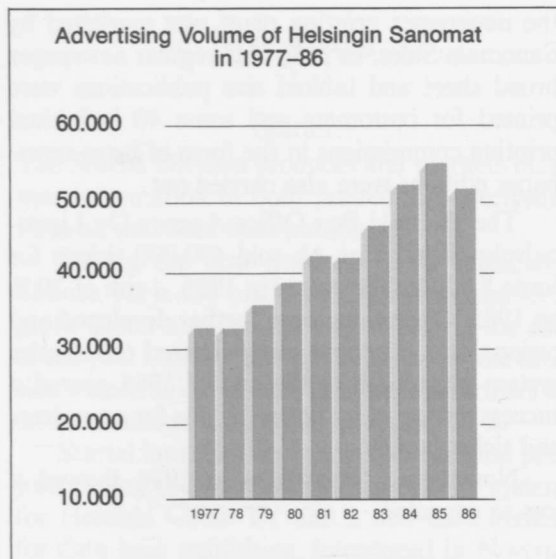
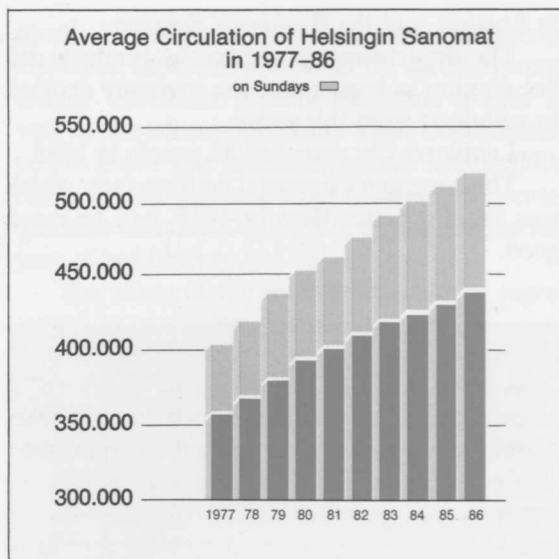
The decision to invest in a satellite printing plant in Varkaus, 200 miles northeast of Helsinki, was the most important one for newspaper production. The main focus chosen for international operations strategy is cable TV; accordingly, the Norwegian cable TV company Janco Kabel-TV A/S of Oslo, was acquired.

The most important decision regarding magazines was to divide the women's magazine *Me Naiset* into two new magazines, one weekly and one monthly starting April 1, 1987. The skiing magazine *Skimbaaja* was also acquired.

Newspaper Division

In terms of major news events, 1986 was an exceptionally interesting year both in Finland and abroad. Domestic news were dominated by the annual round of collective bargaining and the numerous strikes in the spring. Toward the end of the year various preparations for the coming presidential and parliamentary elections grew in importance. The passing away of former President Urho Kekkonen was an event of international as well as Finnish significance. The most important foreign news items were the murder of Prime Minister Olof Palme of Sweden and the nuclear disaster at Chernobyl.

The average circulation of Helsingin Sanomat, the largest daily in Finland, was 430,251 on weekdays and 512,401 on Sundays. The former figure was a rise of 2,637 (0.6 %) and the latter



6,930 (1.4 %). The increase occurred in the Helsinki metropolitan area and elsewhere in the province of Uusimaa. The Helsingin Sanomat magazine supplement, which in 1985 appeared 15 times, came out in 1986 24 times. Also the number of its editorial pages were increased appreciably.

Advertising volume, excluding the supplement, with 51,616.2 column meters was 4.9 %

less than the record figure in 1985. The fall was a result of low economic growth in the country as a whole, and affected mainly the 'Situations vacant' columns. Nonetheless, the 1986 figure for advertising volume is the third highest ever for Helsingin Sanomat. Advertising rates were raised only moderately during the year, by an average of 3 % in November.

The annual subscription price of Helsingin Sanomat was FIM 578 (automatic renewal) and FIM 599 (fixed period) as of July 1, 1986. The former price was a 4.3 % increase and the latter a 4.0 % increase. The street sale price on weekdays remained the same for the second year in succession, i.e FIM 4, but the price of the Sunday issue was raised from FIM 5 to FIM 6 on March 1, 1986.

For Ilta=Sanomat, the daily afternoon paper, the year was of particular success. Both circulation and advertising sales grew. The average circulation figure was 193,971 on weekdays and 230,772 on weekends, a rise of 5.3 % and 4.9 % respectively. Advertising volume rose 3.1 % on 1985.

Ilta=Sanomat was sold in 400 localities, by over 7,000 sales outlets. There was no change in the street sale price in 1986.

The surplus printing and mailing capacity of

the newspaper printing plant was marketed by Sanomala Sales. In 1986 nine regular newspaper broad sheet and tabloid size publications were printed for customers and some 40 individual printing commissions in the form of large newspaper editions were also carried out.

The Helsinki Box-Office Agency Oy Lippupalvelu-Biljettjänst Ab sold 490,000 tickets for some 5,800 public events in 1986, a rise of 20 % on 1985. Operations were further developed and rationalized. The new computerized ticket sales system introduced at the end of 1985 proved a success and provides better service for organizers and ticket buyers.

Nonetheless, operations in 1986 showed a loss as expected.

Newspaper Division personnel

The Newspaper Division employed 1,740 people including the staff of Oy Lippupalvelu - Biljettjänst Ab. 461 of them were journalists, 627 other salaried employees and 652 wage-earning employees. The newspaper delivery system employed 2,284 people.

Lehtikuva Oy

At the beginning of the year the international picture agency Lehtikuva Oy was able to improve and enlarge their picture services on international events by joining the digital telephoto network of EPA/AFP International as well as Reuter's. This gives Lehtikuva Oy an added advantage of being the only picture agency in the country to receive two worldwide newpicture services on permanent telephoto networks. The sales department expanded its activities and acquired the Finnish rights to the New York Times Syndication Sales publications.

1986 was an eventful news year also for picture agencies. The most important picture events were the murder of Prime Minister Olof Palme of Sweden and the funeral of former President Urho Kekkonen. Another major news item was the bank robbery hostage drama in Mikkeli. Other important events were the World Soccer Championships in Mexico, the Royal Wedding

in London, and the Reykjavik Summit.

The department of audiovisual products did not develop as hoped, and the company decided to withdraw from this sector.

Lehtikuva Oy employed 82 people in 1986.

The company's financial performance, which was slightly better than in 1985, can be rated good.



Sanomaprint

The main product groups of the Sanomaprint profit center were magazines, books, in-house publications and commercial printing services. The unit also includes the magazine publishers Tecnopress Oy, and Erikoislehdet Oy as well as Oy Linguaphone Ab, the language course supplier.

The Sanomaprint organization was rationalized further to improve efficiency. During the year production was increasingly shifted to Martinlaakso, in the city of Vantaa, where the new heat-set web offset presses commissioned in November of 1985 achieved the desired output level.

The year was a difficult one for magazine publishers. Circulations continued to drop. However, the circulation of Sanomaprint magazines began to rise slightly in the second half of the year, but because of the lower circulation in the first half, overall circulation declined 1.3 %. This was partly due to deliberate measures to restructure the circulation and make the remaining circulation more profitable. Circulations decreased

mostly in the general-interest magazines group. However, the trend was better for specialty magazines. The senior citizens magazine *et-lehti* as well as the science magazine *Tiede 2000* continued to grow. The health magazine *Terveys 2000* received good response from readers and circulation rose over 18,000 in 1986, during its first full year of publication.

The share of the total media market represented by magazines decreased during the year, though advertising revenues remained at the 1985 level. Sanomaprint's advertising revenues reflected the general trend.

Sanomaprint retained its standing in Finland as the most important publisher of children's magazines. The most recent survey indicates that enthusiasm for reading among young people has not decreased in the face of the electronic media. Reading has actually grown slightly, though the number of other ways of spending their leisure has increased greatly in recent years.

The in-house publication activities were continued in 1986. Ten in-house magazines including two new titles were published during the year.

The competition in the commercial printing sector continued to be difficult due to large surplus capacity. This was the result of heavy investments creating unused capacity in the industry, which overestimated the demand.

The skiing magazine *Skimbaaja* was acquired as of August 11, 1986.

Tecnopress Oy, the computer magazine subsidiary, developed well and profitability was good.

Oy Linguaphone Ab, also a subsidiary, dealt in the same products as in 1985, i.e. language courses. Sales fell below the budgeted figure because of tougher competition. Financial performance was not as good as expected.

Sanomaprint personnel

Sanomaprint employed 780 people, 81 being journalists, 233 other salaried employees, and 466 wage-earning printing workers. The subsidiaries of Sanomaprint employed 43 people.

New Media

Startel

The Startel Division produces and markets business information in both printed and electronic form as well data base publishing.

During the year Startel and its subsidiary Sininen Kirja Oy made good progress and as a profit center attained the targets set. At the end of the year there were some 600 users of the division's electronic data services, and subscribers to on-line business data bases increased 69 %.

Startel launched and carried out several projects during the year, including a pay-TV system for Helsinki Cable TV and a new data system for data base publishing, introduced in November.

Startel started up an electronic Stock Exchange service in April which transmits stock quotation data and news direct from the Exchange. The service rapidly became an important tool for stockbrokers and investors. By the end of the year it was used by 200 securities dealers.

The first electronic banking service application – Union Bank- SYP-Telset – which gives access to account information and makes payments, was also made available to users of the Startel data bank. In November a collaboration agreement was signed with Credit Information Agency on the transmission of corporate credit data to Startel data bank terminal users.

In December, the Finnish PTT, Posts and Telecommunications of Finland, and Startel signed an agreement on the transmission of international data bases in Finland using the Easy Net data retrieval system. EasyNet gives access to over 800 data bases in 16 data banks. In future it will be possible to use the system via the Startel data bank.

A new communications magazine called *Uudet Viestimet* was started, and as of October a Stock Exchange weekly newsletter *Pörssiviikko* was added to the list of publications.

The data base publishing company Sininen Kirja Oy publishes a number of business directories. The company also started to sell address in-

formation and handled the production and marketing of Startel's electronic business data bases.

Sininen Kirja Oy achieved its set targets, and the financial result was fairly satisfactory.

Startel personnel

Startel employed 124 people including the staff for Sininen Kirja Oy.

Cable operations

Helsinki Televisio Oy (Helsinki Cable Television Ltd)

The new pay-TV system and new program services were finalized during 1986. The new system, including decoder and administrative computer systems, was introduced in April. By the end of the year three new pay-TV services were launched: a movie channel, a sports channel, and a children's channel. The movie channel is run by the HTV subsidiary FilmNet Oy.

During 1986 an agreement was reached with Helsinki Telephone Company on the construction of an optical fiber cable network to cover the whole metropolitan area. This was the result of a decision to expand the transmission capacity of the HTV network.

Some 11,900 new homes were connected to the HTV network in 1986, making the total number of households able to receive HTV programs 119,000 by the end of the year. Construction work on new network sections began in nine districts of the Helsinki metropolitan area. At year end altogether 25,830 households received pay-TV services by HTV. The new decoder had already been supplied to 3,000 subscribers, who had access to altogether 3,770 pay-TV channels.

The fixed costs of the decoder system and the new pay-TV services detracted from HTV's financial performance in 1986, as expected. However, as turnover rose 25 %, mainly because of the increase in households connected to the network and in the number of subscribers to program services, overall performance was better than in 1985.

Helsinki Cable Television employed 97 people.

Janco Kabel-TV A/S

Sanoma Corporation acquired in 1986 the Norwegian cable TV company Janco Kabel-TV A/S in Oslo which operates high-quality TV programs. Altogether 142,000 households were connected to the cable network at the end of 1986, 6,500 of them having joined during the year. The network transmitted Norwegian and Swedish public broadcasting programs, local programs and Sky Channel satellite programs.

Growing interest in the new program services brought about a substantial increase in the company's installation work. Thus, Janco Kabel-TV A/S turnover rose 28 % during the year. As a result of this growth in volume and greater efficiency, overall performance was much better than in 1985, and profitability was good.

Sanoma, Inc. and Crafton Graphic Company, Inc.

Sanoma, Inc., which is in the New York real estate business and in the printing business through its subsidiary Crafton Graphic Company, Inc., advanced according to budget, and profitability was good.

For Crafton Graphic Company, Inc. 1986 was a year of upgrading and reorganization. Sales did not grow according to budget and profitability was poor. This was mainly due to the slow demand in the New York area and tough competition, and the test runs of new printing equipment. The unsatisfactory profitability trend was further aggravated by the reorganization of management. The modernization program now completed and new staff appointments provide an excellent opportunity for the company to operate at an expected profit in 1987.

Sanoma Corporation personnel

Sanoma Group employed an average of 2,675 people, an increase of 21 on 1985. In addition,

2,284 newspaper delivery persons and 2,143 sales agents were also employed. Salaries including fringe benefit expenses accounted for 40.7 % of turnover. The Sanoma Pension Fund also paid out FIM 10,787,250.43 in pensions. Company subsidiaries employed an average of 286 people.

Investments

Sanoma Corporation investments totaled FIM 277.8 million. Real estate accounted for FIM 39.0 million of this, machinery and equipment for FIM 150.6 million, securities for FIM 83.2 million, and other items for FIM 5.0 million.

On the newspaper production side the most important investment was the installation of an insert system to all eight mailing lines. The system inserts preprinted supplements inside papers. The innovation also called for greater storage space, and work on an extension began in spring of the year under review. The investment also included the extension of the maintenance premises and added space for the newsprint storage.

On the prepress side, there were fairly substantial investments in new computer systems. The news system was expanded, and a System Integrators, Inc. advertisement system was acquired in 1986. The decision was taken to build a

satellite printing plant in Varkaus; the press chosen was a Swiss Wifag.

Sanomaprint's investments were mainly in machinery and equipment; the biggest was an extension to the Sci-tex picture processing system.

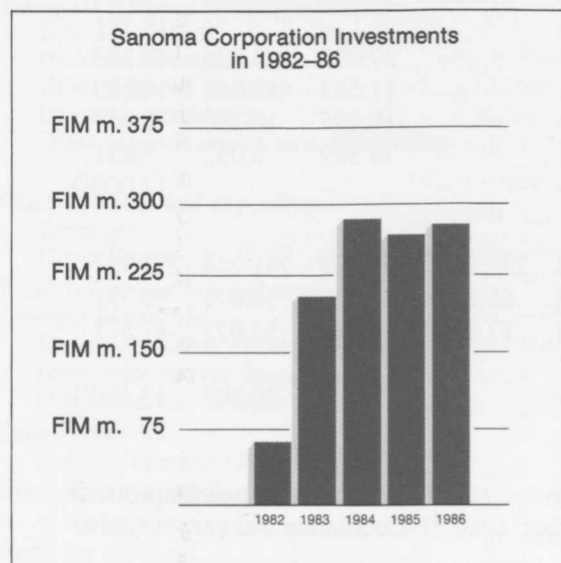
The refurbishing of the Helsingin Sanomat downtown editorial offices at Ludviginkatu 2-10, which had begun in 1983, was completed during the year. The adjoining real estate Erottajankatu 9-11 refurbishing was continued and should be completed by the end of 1987.

Financial performance

Sanoma Corporation's financial performance in 1986 continued to be very good, though profitability was slightly lower than in 1985. The slight decline was expected as well as forecasted and followed the general trend in the Finnish economy. The rise in financing costs was the result of major investments in recent years and various investment projects that are still being installed.

Sanoma Corporation turnover was FIM 1,342.8 million, a rise of 8.7 % on the previous year. Operative costs rose slightly more than turnover, i.e. by 9.5 %. Profit on operations before depreciation totaled FIM 246.5 million, a rise of 5.2 % on 1985, and accounted for 18.4 % of turnover, as against 19.0 % the previous year.

The maximum depreciations allowed under the Business Taxation Act came to FIM 118.1 million, only 3.1 % more than in 1985. After depreciation, but before adjustments to untaxed reserves and taxes, profit stood at FIM 144.4 million. Compared with the previous year, after maximum depreciations, this gave a 10.2 % increase. Using depreciation based on the estimated useful lifetime and replacement value gave a profit figure exactly the same as the previous year's. Net liabilities accounted for only 9.4 % of turnover, i.e. exactly the 1985 figure. This encouraging trend was furthered by good profitability and by the fact that major portion of profits gained this year were mainly retained at the Company's disposal.



Circulation figures

	1982	1983	1984	1985	1986
Newspaper Division					
Helsingin Sanomat (daily)	411.201	420.038	425.943	427.614	430.251
HS-Sunday edition	476.026	491.170	501.539	505.471	512.401
Ilta=Sanomat (afternoon paper) . . .	134.731	148.990	163.791	184.151	193.971
I=S-weekend edition	169.974	189.374	209.689	220.027	230.772
Sanomaprint magazines					
Me naiset (women's weekly)	120.713	123.367	130.065	122.672	101.886
Kodin Kuvaletti (family bi-weekly) .	180.834	183.732	181.484	171.011	162.133
Suuri Käsityökerho (handicraft) . . .	105.437	102.319	106.629	102.035	98.373
Specialty magazines					
et-lehti (for senior citizens)	—	65.359	81.618	95.687	113.271
Eläinmaailma (fauna)	37.207	39.186	43.935	42.166	38.286
Kansa taisteli (war memoirs)	35.585	33.565	33.458	30.545	28.178
Tiede 2000 (science)	20.240	21.927	23.110	25.855	31.067
Terveys 2000 (health)	—	—	—	—	18.391
MikroBitti (microbyte)	—	—	37.097	43.676	42.303
Hifi (hifi)	—	—	11.563	13.046	14.059
Tietokone (computer)	—	—	10.385	10.350	9.967
Proessori (processor)	—	—	6.389	6.037	5.831
Skimbaaja (skiing)	—	—	—	—	14.000 ¹⁾
Children's magazines					
Aku Ankka (Donald Duck)	294.233	292.146	291.852	281.244	279.957
Roope-setä (Uncle Scrooge)	67.190	66.195	67.770	56.071	49.772
Nalle Puh (Winnie-the-Pooh)	47.185	57.802	59.588	53.075	47.572
Liisa Ihmemaassa					
(Alice in Wonderland)	—	—	—	20.897	13.410 ²⁾
Maija Mehiläinen (Maja the Bee)	—	—	—	—	29.705 ³⁾

Given figures show the average officially inspected circulation for each newspaper and magazine. ¹⁾ Circulation estimate July–December 1986 ²⁾ Circulation January–October 1986 ³⁾ Circulation November–December 1986

Consolidated Income Statement

1 January to 31 December 1986

(FIM 1,000)	1986	1985
Sales proceeds	1.992.045	1.820.193
Adjustments for gross sales		
Discounts	114.479	107.346
Credit losses	4.994	5.375
Purchase tax	65.208	54.075
Commissions and advertising agency fees	167.188	157.237
Other adjustment items	160.158	145.331
	- 512.027	- 469.364
Turnover	1.480.018	1.350.829
Leasing income	+ 9.439	+ 12.003
Variable expenditures		
Materials	346.272	302.145
Variable wages, salaries and fees	364.310	340.910
Other variable expenditures	120.997	119.540
Change in stock	+ 13.728	+ 17.562
	- 845.307	- 780.157
Gross margin	644.150	582.675
Fixed expenditures		
Fixed wages, salaries and fees	143.728	127.222
Rents	26.788	23.963
Other fixed expenditures	204.259	186.673
	- 374.775	- 337.858
Profit on operations before depreciations	269.375	244.817
Depreciations		
Buildings	16.593	17.613
Machinery and equipment	111.176	104.428
Immaterial rights	843	583
Other outlays with long-term return	6.312	5.316
Additional depreciations of the Group	4.638	2.342
	- 139.562	- 130.282
Profit on operations after depreciations	129.813	114.535
Financial revenues and expenditures		
Interest revenues	33.398	26.834
Dividend revenues	5.497	2.824
Other financial revenues	508	85
Interest expenditures	- 35.991	- 29.681
Other expenditures on outside liabilities	- 2.048	- 1.605
	+ 1.364	- 1.543
	131.177	112.992
Other revenues and expenditures		
Revenues	11.560	6.064
Expenditures	- 2.142	- 2.277
	+ 9.418	+ 3.787
Profit before reserves and taxes	140.595	116.779
Changes in reserves		
Inventory reserve, increase, decrease +/-	+ 4.588	- 9.609
Investment reserve, increase	- 61.550	- 45.413
Other reserves, increase	- 28.400	- 22.518
	- 85.362	- 77.540
Direct taxes	29.196	24.560
from the operating fund	- 27.016	- 23.134
	- 2.180	- 1.426
Minority share of the profit of the subsidiaries	- 450	+ 360
Profit for the year	<u>FIM 52.603</u>	<u>FIM 38.173</u>

Consolidated Balance Sheet

31 December 1986

Assets

(FIM 1,000)		1986		1985
Financial assets				
Cash in hand and in banks	102.274		77.426	
Accounts receivable	234.352		225.640	
Loans receivable	181.590		155.942	
Advance payments	3.010		3.084	
Deferred assets	44.855		34.538	
Other financial assets	104.873	670.954	85.901	582.531
Inventories				
Materials	48.820		62.101	
Products (finished and in process)	17.344	66.164	14.915	77.016
Fixed assets and other long-term expenditures				
Land areas	93.114		94.595	
Buildings	220.230		182.976	
Machinery and equipment	321.583		269.614	
Other material goods	30.897		10.175	
Shares and holdings	131.742		85.012	
Immaterial rights	5.269		4.005	
Other long-term expenditures from balance sheets of the companies	24.712	823.877	23.784	670.161
Corporation intangibles		41.333		8.657
Appreciation items		877		1.340
		<u>FIM 1.603.205</u>		<u>FIM 1.339.705</u>

Liabilities

(FIM 1,000)		1986		1985
Outside liabilities				
Short-term				
Accounts payable	69.761		79.039	
Advance payments	177.339		164.144	
Deferred liabilities	151.767		124.635	
Other short-term debts	<u>48.759</u>	447.626	<u>36.390</u>	404.208
Long-term				
Loans from financial institutions	158.940		76.121	
Pension loans	266.114		245.638	
Other long-term debts	<u>24.343</u>	449.397	<u>22.709</u>	344.468
Reserves				
Stock reserve	19.994		24.172	
Investment reserve	267.770		206.383	
Other reserves	<u>125.729</u>	413.493	<u>97.082</u>	327.637
Minority share		8.421		7.516
Shareholders' equity				
Bound capital	72.180		75.501	
Free capital	159.485		142.202	
Profit for the year	<u>52.603</u>	284.268	<u>38.173</u>	255.876
		<u>FIM 1.603.205</u>		<u>FIM 1.339.705</u>

Notes to Consolidated Financial Statements

as of 31 December 1986

1. Companies in the Group

The Group includes the parent company, Sanoma Corporation, and the following subsidiaries: Erikoislehdet Oy, Helsinki Televisio Oy, Janco Kabel-TV A/S, Lehtikuva Oy, Oy Linguaphone Ab, Oy Lippupalvelu – Biljettjänst Ab, the sub-group of Sanoma, Inc., Simonpaino Oy, Sininen Kirja Oy (with subsidiaries Suomalainen Yritystiedosto Oy and Liiketieto – Business Information Oy), Tecnopress Oy and Kodin Kuvalehti – Terve Lapsi Oy, and the following apartment corporations: Asunto-Osakeyhtiö Ilkantie 13, Asunto-osakeyhtiö Laajavuorenkuja 3, Asunto-osakeyhtiö Paloheinäntie 7, and the real estate corporations Kiinteistöosakeyhtiö Paloaukio, and Fastighets Ab Skillnadsgatan 9.

2. Changes in shareholders' equity

Bound shareholders' equity

As of 1 January 1986	75.501.157,59
Value adjustment of gain of sale of real estate subsidiaries	- 1.782.709,82
Decrease in exchange rate	- 1.538.110,00
As of 31 December 1986	<u>72.180.337,77</u>

Free shareholders' equity

As of 1 January 1986	180.374.774,02
Dividends distributed	- 2.840.304,00
Donations made	- 406.495,00
Taxes paid	- 27.015.718,69
Profit on sold shares	+ 1.782.709,82
Connection fees to Helsinki Televisio Oy	9.480.799,83
Decrease in exchange rate	- 1.890.536,29
	<u>159.485.229,69</u>
Profit for the year	<u>52.602.545,10</u>
As of 31 December 1986	<u>212.087.774,79</u>

3. Securities given as collateral against debt	17.560.992,79
Mortgages given as collateral against debt	127.000.000,00
Guarantees	3.317.586,30
Conditional liability	700.000,00

4. Taxation values of fixed assets

Land areas	33.349.330,00
Buildings	133.112.144,00
Shares and holdings	208.097.975,00

5. Liability deficit of the Sanoma Pension Fund	25.250.085,82,00
-------------------------------------------------	------------------

Sanoma Corporation Income Statement

1 January to 31 December 1986

(FIM 1.000)	1986	1985
Sales proceeds	1.814.613	1.672.885
Adjustment to gross sales		
Discounts	112.101	105.799
Credit losses	4.752	4.938
Purchase tax	61.560	50.960
Commissions and advertising agency fees	166.842	157.224
Transport costs for newspapers and magazines	113.827	106.804
Other adjustments to gross sales	12.772	11.662
Turnover	1.342.759	1.235.498
Leasing income	+ 9.163	- 8.355
Variable expenditures		
Materials	307.049	265.512
Variable wages, salaries and fees	337.453	316.248
Other variable expenditures	122.084	120.271
Change in inventory	+ 13.361	+ 16.837
Gross margin	571.975	524.985
Fixed expenditures		
Wages, salaries and fees	119.199	108.999
Rents	29.482	23.522
Other fixed expenditures	176.816	164.741
Profit on operations before depreciation	246.478	227.723
Depreciation		
Buildings	14.102	14.086
Machinery and equipment	99.380	96.548
Immaterial rights	702	521
Other outlays with long-term return	3.894	3.335
Profit on operations after depreciation	128.400	113.233
Financial revenues and expenditures		
Interest revenues	34.203	28.662
Dividend revenues	5.498	2.824
Dividend revenues from subsidiaries	100	1.200
Other financial revenues	392	1.966
Interest expenditures	- 33.431	- 27.093
Other expenditures on outside liabilities	- 1.610	- 1.593
	133.552	119.199
Other revenues and expenditures		
Revenues	10.981	5.661
Expenditures	- 94	- 291
Profit before reserves and taxes	144.439	124.569
Changes in reserves		
Inventory reserve, increase, decrease +/-	+ 4.677	10.099
Investment reserve, increase	- 61.550	45.300
Other reserves, increase	- 26.000	23.829
Direct taxes	26.915	23.112
Out of the operating fund	26.915	- 23.112
Profit for the year	<u>FIM 61.566</u>	<u>FIM 45.341</u>

Sanoma Corporation Balance Sheet as of 31 December 1986

Assets

(FIM 1.000)		1986		1985
Financial assets				
Cash in hand and in banks	66.613		66.306	
Accounts receivable	191.911		189.690	
Loans receivable	247.236		170.380	
Advance payments	759		2.030	
Deferred assets	40.912		31.412	
Other financial assets	<u>100.668</u>	648.099	<u>77.518</u>	537.336
Inventories				
Materials	42.881		58.982	
Products (finished and in process)	<u>11.369</u>	54.250	<u>8.630</u>	67.612
Fixed assets and other long-term expenditures				
Land-areas	56.406		57.023	
Buildings	129.971		105.184	
Machinery and equipment	237.164		230.102	
Advance payments, machinery	42.416		1.635	
Shares and stock	126.819		81.837	
Shares and stock, subsidiaries	165.904		145.414	
Immaterial rights	4.541		3.432	
Other long-term expenditures	<u>10.849</u>	774.070	<u>11.525</u>	636.152
		<u>FIM 1.476.419</u>		<u>FIM 1.241.100</u>

Liabilities

(FIM 1.000)		1986		1985
Outside liabilities				
Short-term				
Accounts payable	54.791		66.799	
Advance payments	163.465		156.169	
Deferred liabilities	140.582		116.824	
Other short-term debts	<u>32.140</u>	390.978	<u>27.068</u>	366.860
Long-term				
Loans from financial institutions	115.494		36.347	
Pension loans	258.071		240.294	
Other loans	<u>10.231</u>	383.796	<u>10.231</u>	286.872
Reserves				
Inventory reserve	18.987		23.664	
Investment reserves	261.886		200.336	
Other reserves	<u>120.413</u>	401.286	<u>94.413</u>	318.413
Shareholders' equity				
Bound				
Share capital	14.202		14.202	
Value adjustment reserve fund	<u>1.399</u>	15.601	<u>1.399</u>	15.601
Free				
Operating fund	214.001		198.916	
Donation reserve	—		7	
Profit from previous years	9.191		9.090	
Profit for the year	<u>61.566</u>	284.758	<u>45.341</u>	253.354
		<u>FIM 1.476.419</u>		<u>FIM 1.241.100</u>

Notes to Sanoma Corporation Financial Statements as of 31 December 1986

1. Changes in shareholders' equity	
<i>Operations funds</i>	
As of January 1986	198.916.028,93
Transferred from retained earnings	+ 42.000.000,00
Taxes paid out of operations fund	- 26.914.817,02
Balance as of 31 December 1986	214.001.211,91
<i>Reserve for donations</i>	
As of 1 January 1986	6.495,00
Transferred from retained earnings	+400.000,00
Donations made	-406.495,00
Balance as of 31 December 1986	-
<i>Retained earnings</i>	
As of 1 January 1986	54.431.094,71
Dividends distributed	- 2.840.304,00
Transferred to operations fund	- 42.000.000,00
Transferred to donations	- 400.000,00
	9.190.790,71
Profit for the year	61.565.939,04
Balance as of 31 December 1986	70.756.729,75
2. Securities given as collateral against debt	14.523.466,90
Mortgages given as collateral against debt	122.000.000,00
Guarantees	2.581.663,65
Guarantees on behalf of the subsidiaries	14.136.163,51
Liabilities on behalf of the subsidiaries	5.637.676,61
3. Receivables from subsidiaries	67.961.545,35
Debts to subsidiaries	13.018.357,94
4. Taxation values of fixed assets	
Land areas	27.881.512,00
Buildings	117.945.218,00
Shares and holdings	203.592.187,68
Shares and holdings, subsidiaries	70.005.346,10
5. Liability deficit of the Sanoma Pension Fund	25.154.616,81
6. Liability from pension commitments	1.339.245,00

Sanoma Corporation, Annual Report 1986

7. Holdings by the Sanoma Corporation in other companies as of 31 December 1986

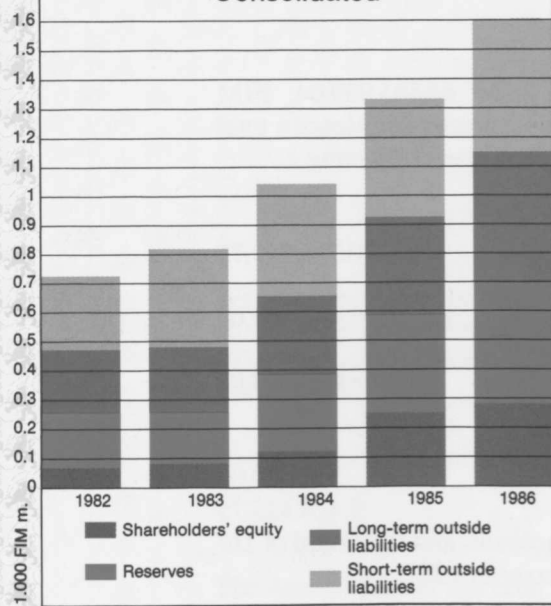
	Number	Change from previous year	Per- centage of all shares	Nominal value	Book value	Change from previous year
<i>Subsidiaries:</i>						
Fastighets Ab						
Skillnadsgatan 9	3.678	—	100	367.800,00	58.395.130,00	
As. Oy Ilkantie 13	1.207	—	100	6.493.660,00	6.493.660,00	—
As. Oy Laajavuorenkuja 3	14.902	—	100	30.549.100,00	30.549.100,00	—
As. Oy Paloheinäntie 7	—	—	304	—	—	-1.450.080,00
Erikoislehdet Oy	10.000	+	9.900	500.000,00	500.000,00	495.000,00
Helsinki Televisio Oy	3.298	—	72,09	3.627.800,00	3.627.800,00	—
HS-Invest A/S	500	+	500	NOK 50.000	34.095,00	34.095,00
Janco Kabel-TV A/S (X)	1.000	+	1.000	NOK 225,00	13.425.106,10	13.425.106,10
Kiinteistöosake- yhtiö Paloaukio	—	—	578	—	—	- 764.650,00
Kodin Kuvalehti						
- Terve Lapsi Oy	10	—	100	100,00	100,00	—
Lehtikuva Oy	75.000	—	100	750.000,00	1.025.400,45	—
Oy Lippupalvelu- Biljettjänst Ab	3.000	—	100	120.000,00	831.200,00	—
Oy Linguaphone Ab	25.000	—	100	250.000,00	461.320,00	—
Sanoma, Inc.	400	+	100	USD 400,00	17.222.480,00	5.184.000,00
Simonpaino Oy	1.000	—	100	1.000.000,00	20.493.782,50	—
Sininen Kirja Oy	1.000	+	490	100.000,00	9.226.021,70	3.566.901,70
Tecnopress Oy	708	—	100	354.000,00	3.619.233,94	
Subsidiaries, total					165.904.429,69	
<i>Other companies:</i>						
Enso-Gutzeit Oy	18.157		0,02	181.570,00	137.809,34	
Finnair Oy	292.011	+	14.480	1.460.055,00	1.868.285,81	589.625,60
Helsingin Telset Oy	50	—	33,34	500.000,00	150.000,00	- 450.000,00
Kajaani Oy	21.996	+	21.996	439.920,00	2.670.381,65	2.670.381,65
Kansallis-Osake-Pankki	166.949	+	148.147	3.338.980,00	5.807.123,52	5.426.794,49
Kymi-Strömberg Oy	202.743	+	109.277	10.137.150,00	17.061.696,18	3.626.470,71
Metsäliiton Teollisuus Oy	57.120	+	36.000	2.856.000,00	3.617.325,30	2.562.840,00
Oy Nokia Ab	630.760	+	575.630	12.615.210,00	39.292.028,65	21.750.465,52
Nordic Investors Limited	100	—	20,00	USD 10,000	5.630.750,00	—
Oy Radio Ykkönen -						
Radio Ettan Ab	10	—	14,28	100.000,00	100.000,00	
Rauma-Repola Oy	21.934	—	0,02	219.340,00	285.174,70	
Rautakirja Oy	62.422	+	1.903	15.605.500,00	5.976.339,72	3.814.829,60
Spontel Oy	1.000	-	199.000	50.000,00	49.746,90	-9.950.253,10
Oy Ekokem Ab	60	—	0,71	120.000,00	120.000,00	—
Oy Suomen Yhdys- pankki Ab	389.348	+	358.225	3.893.480,00	9.037.922,28	8.638.935,00
Others					1.541.917,29	145.018,65
Other companies, total					93.346.501,34	
Housing and real estate					33.472.241,95	6.156.882,00
Grand total				FIM	292.723.172,98	65.472.362,92

(X) Including shares owned by HS-Invest A/S.

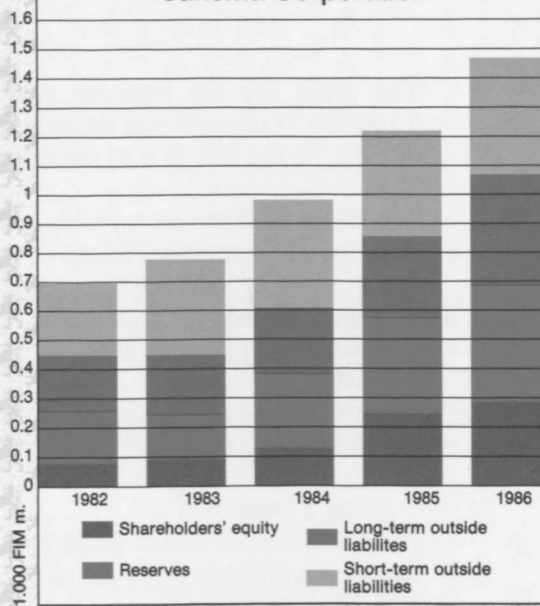
Changes in Financial Position 1984–1986

Sources of Funds (FIM m.)	Consolidated			Sanoma Corporation		
	1986	1985	1984	1986	1985	1984
Income financing						
Operating profit	274,8	240,3	230,7	251,6	235,0	202,3
Financial revenues and expenditures ...	1,4	- 1,5	16,6	5,2	6,0	20,9
Other income financing (net)	- 1,3	10,3	- 2,7	0,2	-	-
Income on fixed assets	29,7	116,0	3,4	32,4	110,3	3,4
Sale of subsidiary shares	3,4					
- Taxes	- 29,3	- 24,6	- 26,4	- 26,9	- 23,1	- 23,2
Capital financing						
Increase in long-term outside liabilities	109,0	71,0	32,2	98,6	59,0	26,8
Connection fees to Helsinki Televisio Oy	13,2	12,2	-	-	-	-
Decrease in appreciation items	0,5	-	0,2	-	-	-
Difference in exchange rate	-	-	1,8	-	-	-
Total (A)	401,4	423,7	255,8	361,1	387,2	230,2
Use of Funds						
Distribution of profit						
Dividends	2,8	2,7	2,4	2,8	2,8	2,5
Other distribution of profit	0,4	0,3	0,2	0,4	0,4	0,2
Transfer to the Sanoma Pension Fund	5,5	7,5	-	5,1	7,3	-
Investments						
Investments in fixed assets	295,8	281,3	302,2	277,8	263,6	281,7
Subsidiary shares acquisition	34,0	5,6	3,7	-	-	-
Increase in appreciation items	-	1,2	-	-	-	-
Decrease in minority share	-	0,1	-	-	-	-
Difference in exchange rate	3,2	3,4	-	-	-	-
Total (B)	341,7	302,1	308,5	286,1	274,1	284,4
Change in Net Working Capital						
Financial assets:						
increase +/-decrease -.	81,9	148,4	- 49,2	+ 110,8	+ 120,9	+ 49,7
Fixed assets:						
increase +/-decrease -.	- 13,5	- 18,2	+ 36,8	- 13,4	- 16,8	+ 36,3
Short-term outside liabilities:						
increase -/decrease +	- 8,7	- 8,6	- 40,3	- 22,4	+ 9,0	- 40,8
Grand Total (A-B)	59,7	121,6	- 52,7	75,0	113,1	- 54,2

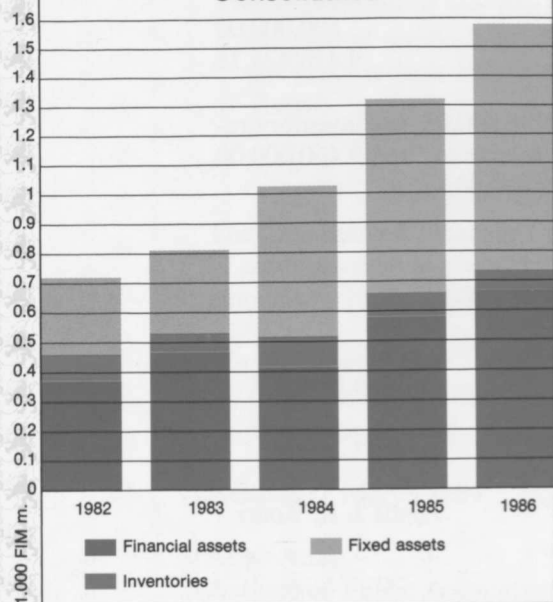
Changes in Financial Position
Consolidated



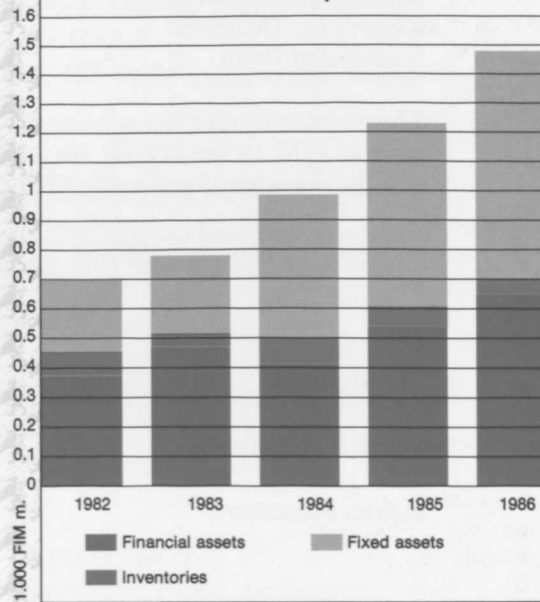
Changes in Financial Position
Sanoma Corporation



Assets
Consolidated



Assets
Sanoma Corporation



Proposal for Distribution of the Profit

The profit for the financial year totals FIM 61.565.939,04. FIM 9.190.790,71 of profit was retained from the previous year. Hence a total of FIM 70.756.729,75 is at the disposal of the General Meeting.

The Board of Directors proposes that, from the above mentioned sum of	70.756.729,75
- a dividend of FIM 6.00 should be paid for each share	2.840.304,00
- a sum should be transferred to the operations fund	58.000.000,00
- a sum should be transferred to the reserve for charitable purposes for the discretion of the Board	500.000,00
- giving a balance of	9.416.425,75

The balance is left on the Profit and Loss Account, and the Board of Directors is entitled to use it for payment of taxes in 1987.

Provided the Annual General Meeting adopts the above proposal, the Corporation's own fund will be as follows:

Share Capital	14.201.520,00
Value Adjustment Reserve	1.399.240,00
Operating Fund	272.001.211,91
Reserve for Donations	500.000,00
Undisposed Profit	9.416.425,75

The investment reserve comes to FIM 261.886.000,00, the inventory reserve to FIM 18.987.000,00, the credit loss reserve to FIM 9.460.000,00 and the operational reserve to FIM 110.953.000,00.

Helsinki, 20 February 1987

Aatos Erkkö

Teo Mertanen

Patricia Seppälä

Väinö J. Nurmimaa

Aarne Castrén

Jaakko Rauramo

Pentti J. K. Kouri

Auditors' Report

We have examined the accounting records, the annual report and the administration of Sanoma Corporation for the year ended 31 December, 1986. Our examination was made in accordance with generally accepted auditing standards.

Salmi, Virkkunen & Helenius Ky, Authorised Public Accountants have performed the supervisory audit during the financial year.

Parent Company

The Annual Report has been prepared in accordance with prevailing legislation. The profit for the year ended December 31, 1986 is FIM 61.565.939,04.

We recommend that

the Income Statement and the Balance Sheet are adopted,
the members of the Board of Directors and the President are discharged of responsibility for the year 1986,
the profit is dealt with in accordance with the proposal in the Annual Report.

Consolidated Financial Statements

The Consolidated Financial Statements of the Group have been prepared in accordance with prevailing legislation. The free shareholders' equity amounts to FIM 212.088.000.

We recommend that

the Consolidated Income Statement and the Consolidated Balance Sheet are adopted.

Helsinki, 7 March 1987

Aimo Autio
Authorised Public Accountant

Antti Helenius
Authorised Public Accountant

Income Statement Information 1982-1986

USD, in millions, (*)					
Income before depreciation and adjustments to untaxed reserves and income tax expense (**)	1982	1983	1984	1985	1986
	29,1	40,4	45,7	52,9	54,9
Depreciation	- 5,9	-13,6	-13,6	-23,9	-24,7
Income before additional depreciation, adjustments to untaxed reserves and income tax expense	+23,2	+26,8	+32,1	+29,0	+30,2
Additional depreciation allowed by special tax relief legislation (***)	-	-18,6	- 5,8	-	-
Adjustments to untaxed reserves	-16,4	- 1,0	-18,0	-19,5	-17,3
Income before income tax expense	+ 6,8	+ 7,2	+ 8,3	+ 9,5	+12,9
Income tax expense(****)	-	-	-	-	-
Statutory net income	+ 6,8	+ 7,2	+ 8,3	+ 9,5	+12,9

(*) The exchange rate as of 31. 12. 1986, quoted by the Bank of Finland was 4,786 FIM per USD.

(**) Figures for 1982-1986 have been made comparable.

(***) For Finnish tax purposes companies are allowed to claim various tax deductions principally by charging income for adjustments to untaxed reserves and accumulating these charges on the balance sheet in accounts entitled "Untaxed reserves". These adjustments must also be reflected in the financial statements. Earnings per share calculations are based on income exclusive of untaxed reserves.

(****) As permitted under Finnish accounting practice the Company reduced income tax expense by 2.3; 3.6; 4.8; 5.6 FIM m. in 1982, 1983, 1984, 1985, 1986 respectively and reflected such an amount as a reduction of retained earnings.

Net Income Information 1982-1986

USD, in millions, except per share data (*)	1982	1983	1984	1985	1986
Income before depreciation and adjustments to untaxed reserves and income tax expense	29,1	40,4	45,7	52,9	54,9
Pension expense (Sanoma pension fund)	- 1,6	- 1,7	- 1,8	- 1,9	- 1,4
Depreciation (based upon useful remaining lifetime and replacement value)	-11,1	-13,0	-16,3	-18,0	-24,7
Adjusted income before income tax expense	+16,4	+25,7	+27,6	+33,0	+28,8
Income tax expense	- 3,4	- 2,8	- 4,8	- 4,8	- 5,6
Deferred income tax expense	- 4,6	- 9,8	- 8,7	-11,4	- 8,5
Net income	+ 8,4	+13,1	+14,1	+16,8	+14,7
Earnings per share USD	17,7	27,7	29,8	35,5	31,1

(*) The exchange rate as of 1986, quoted by the Bank of Finland was 4,786 FIM per USD.

Sanoma Corporation personnel

The trend in Sanoma Corporation personnel figures between 1982 and 1986 was as follows:

	Total excluding delivery personnel	Delivery personnel
1982	2.562	2.234
1983	2.592	2.114
1984	2.652	2.349
1985	2.654	2.273
1986	2.675	2.284

Staff turnover was 4.5 % during the year (5.2 % in 1985).

Employer – employee cooperation

Further steps were taken to enhance cooperation and an effective information flow between management and employees, and within peer groups. The advisory committees set up within the Corporation and in the profit centers continued to operate as before.



Staff health service

The health units provided occupational health, nursing, and general health services.

As of the beginning of the year, Sininen Kirja Oy also began to use the health units' services.

The ratio of absence because of ill health was 3.4 % (1985 3.2 %).



Training

The 11th journalists' training course, which had begun in spring 1985, ended on December 19, 1986. Twenty-two journalists graduated; 10 obtained permanent posts with Sanoma Corporation and 5 fixed-term appointments.

Training of permanent staff was planned to meet the needs of each profit center division by individual training committees and various expert teams. Training was arranged on both internal and external courses.

Pensioners

As of the beginning of 1986, legislation on flexible retirement age came into effect, as a result of which provisions on early old-age pension and

partial pension were added to the regulations of the Sanoma Pension Foundation. Decisions on individual early retirement will be made to conform with the policy followed by the pension insurance company.

Pensioners are an important group helping to maintain the Corporation's traditions and the Sanoma spirit. A pensioners' organization called Sanomain Seniorit, which has Company backing, arranged a varied program of travel and cultural and entertainment functions during the year.

Sixty-seven Sanoma employees retired during 1986. There were 1,065 pensioners at the end of the year, 726 of these receiving old-age pensions, 192 invalidity pensions, and 147 survivors' pensions.

Awards

Retiring employees who had served the Corporation for at least 10 years were presented with the Central Chamber of Commerce award corresponding to their length of service. These awards were presented to 24 people, four of whom had served the Corporation for 30 years or more.

Internal information

The Sanomia in-house bulletin provided a source of rapid information, being distributed within the Corporation roughly every week. It came out 53 times during the year.

The HESA staff magazine came out eight times. It is mailed to the home address of every regular employee and pensioner. The Sanomain Asiamies subscription sales agents' magazine came out three times, and Sanomia jakajille (for delivery personnel) twice.

Recreation

Sanoma Corporation supported staff hobbies and recreational activities in 1986 through the Sanomain Kerho r.y. club's 31 sections. The club arranged the traditional winter and spring gatherings at Jalassaari and a fall gathering at Suomalainen Yhteiskoulu school. The club's 40th

anniversary was celebrated on All Saints' Day, on which occasion club medals were awarded to five members who had worked particularly hard for the club. A large number of Sanoma staff and their families took part in these events.

The staff leisure centers – the fell lodges in



Ruka, Lapland, the row house at the Bomba complex in Karelia, and the Jalassaari club house on lake Lohjanjärvi – were heavily used.

Sanoma day-care center

The Sanoma day-care center is run by the Sanomain Päiväkodin Kannatusyhdistys ry association, which is subsidized by the local authorities of Vantaa, Helsinki and Espoo, as well as by Sanoma Corporation itself. The day-care center has 40 places, for mainly children one or both of whose parents work primarily for the Corporation or one of its subsidiaries. During 1986 special attention in the day center's operations was given to music education, for which the staff received training and regular guidance.

Occupational health and work safety

Occupational health and work safety was handled through the line and work safety organization as before. The number of accidents in the Corporation did not rise. No serious accidents took place during the year.

Wages, salaries and social security payments of Sanoma Corporation

	1986	1985
Wages and salaries paid to personnel for hours worked	350.312.092,15	329.050.703,95
Pay for sickness and maternity leave	10.563.553,39	9.823.405,60
Annual holiday pay, including change in reserve	81.004.852,07	73.285.763,15
Wages and salaries and similar items	441.880.497,61	412.159.872,70
Employer's social security payments	29.914.852,16	29.052.335,90
Social insurance payments	52.449.256,54	54.260.061,00
Other statutory fringe benefits	8.002.248,45	7.406.545,15
Total	90.366.357,15	90.718.942,05
Non-statutory fringe benefits	15.970.811,65	14.070.389,69
Transfer to Sanoma Pension Fund	5.100.000,00	7.312.000,00
Total	21.070.811,65	21.382.389,69
Wages and salaries to non-members of personnel	17.518.793,58	16.350.348,52
Grand total	570.836.459,99	540.611.552,96

Social security payments do not include rents on premises, equipment etc., or other internal charges.

The above figures for 1986 include salaries and fees totaling FIM 2.503.103,88 paid to the members of the Board and the President.

Salaries and fees paid by the Group were 506.258.006,26 including a sum of FIM 4.801.522,39 to the members of the Board and the Presidents.

Finland tops world statistics for newspaper circulation

Efficient distribution one factor in success

More newspapers are subscribed to and bought in Finland than anywhere else in the world. Newspaper circulation per 1,000 population is 543 copies, as against the next highest figure in the list, 526 for Sweden. In Britain the figure is 421, in the Federal Republic of Germany 408, in the United States 269, and in France 191.

The deciding factors in the success of Finnish newspapers are the reliability and high quality of the contents. Production techniques are also exceptionally advanced here. The adoption of new technology has been speeded by the main labor union agreements, which both employers and employees find acceptable.

The fact that Finns primarily subscribe to their morning newspapers and that distribution is effectively organized is the third key factor explaining why Finland is the world's top newspaper country.

The province of Uusimaa, Helsingin Sanomat's special responsibility

The circulation of Helsingin Sanomat is 314,300 on weekdays in the province of Uusimaa and this is house delivered. We handle ourselves the delivery of 310,700 of this total, leaving only 3,600 to be delivered in some other way, mainly by mail.

But in the province of Uusimaa Helsingin Sanomat also delivers 231,700 copies of other morning papers. Our distribution system is available to any paper that wants an early morning

delivery service and comes off the press in time for it. A special service we offer in some parts of the Helsinki metropolitan area is weekend delivery of leading provincial and other morning newspapers published outside Helsinki.

The distribution situation, which in Uusimaa reflects in miniature the joint distribution of newspapers and the division of labor between them, is operative all over the country. The National Early Newspaper Delivery Scheme drawn up between the newspapers and the postal system in 1980 (familiarily called SAVA) is the founding document which lays down the rules agreed to and the distribution responsibilities of the various newspapers and the post office. The final stages of the SAVA scheme are presently being implemented.

Television provided the impulse

The fast expansion of television in the late '50s opened the newspapers' eyes to how poor their delivery services were at the time. Helsingin Sanomat offered early delivery only in Helsinki. A subscriber in the outskirts received his paper in the morning mail. Furthermore, one did not need to live very far from the downtown offices of the Helsingin Sanomat to receive the paper not earlier than in the afternoon mail. If you lived any further than 200-300 kilometers from Helsinki, you usually did not get your paper until the following day. There were Sunday deliveries, but they were handled by the subscription sales agents as a special service to their own customers.

Helsingin Sanomat was the pioneer when rapid measures were taken to improve the distribution service. The paper set up its own transport network, established branch offices to manage local distribution, and developed a new nationwide system of unlabeled delivery. To meet the new goals the production schedule of the newspaper was reorganized from the very beginning.

By the mid '60s the early delivery service had almost reached its present level. Fortunately for the whole daily press, the newspapers began to compete in serving their readers through improved delivery. Some distortions occurred, however they have since been ironed out through the SAVA scheme.

Helsingin Sanomat distribution

The combined length of Helsingin Sanomat's current transport network is some 10,000 km. Distribution is managed locally by 38 branch of-



fices which are jointly responsible for the delivery of 597,400 annual subscriptions (including Helsingin Sanomat 7-day and Sunday subscriptions and subscriptions to other newspapers distributed by Helsingin Sanomat). Early deliveries handled by other newspapers include 52,400 copies of Helsingin Sanomat and early mail deliveries 17,000 copies. Of all subscribers, 83.5 % get their paper delivered by 6.30 a.m.

Helsingin Sanomat is Finland's biggest supplier of early deliveries, being ahead even of the Posts and Telecommunications of Finland.

The planned inauguration of the Varkaus satellite printing plant in 1989 will be a new step forward in Helsingin Sanomat distribution.

Best newscarriers in the world

Many experts in other countries consider Finland's newscarriers to be the best in the world. They can boast high morale and a conscientious attitude to their work. Of the total of nearly 7,000, 2,284 work for Helsingin Sanomat. The number of male newscarriers is rising quite rapidly: only 10 years ago female newscarriers accounted for 75 % of the total, whereas now the figure is only 55 %. Personnel turnover is very low – 6.0 % in 1986 in the Helsinki metropolitan area. The average age is 41. Some 37 % use a car to make their rounds.

Information technology

The use of computers marks a new step forward in newspaper distribution. In the future, information on subscribers and deliveries will pass via telecommunication networks between those who buy and those who produce the delivery services, computers will list the subscribers in delivery order for the newscarriers, a computer will help keep a nightly eye on the delivery situation, and planning models will design optimum transport routes and delivery areas.

Information technology will speed things up and reduce the possibility of error. But the actual early deliveries will remain in the reliable hands of our own newspaper delivery people.

Matti Huopaniemi
Vice President, Marketing,
Helsingin Sanomat

Directors and Officers 1.1.1987

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Eero Sauri, Vice President, Business Publications

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