

Sanoma Publishing Company

The establishment of a new daily newspaper PÄIVÄLEHTI (The Daily Paper) in 1889 was the start of the present-day Sanoma Publishing Company (Sanoma Osakeyhtiö). The company bye-laws state that the purpose of the Sanoma Publishing Company is to publish newspapers and magazines and other publications involving associated areas of interest like printing as well as other industrial and commercial activities.

Board of Directors

Aatos Erkko	Chairman
Teo Mertanen	Vice-Chairman
Aarne Castrén	
Risto Kavanne	(† 8. 6. 1978)
Väinö J. Nurmimaa	
Patricia Seppälä	

Mr. Aimo Autio and Mr. Antti Helenius have acted as Auditors, with Mrs. Ritva Harli and Mr. Aunus Salmi as their Deputies.

Report of the Board of Directors on Operations for 1978

Signs appeared in 1978 indicating a recovery in the Finnish economy, gradually adapting itself to a more permanently low state of business trends. These signs were — admittedly — restricted to certain fields. Promising symptoms included a definite improvement in the pulp and paper industry, and a continued improvement of both the balance of trade and the balance of payments. On the other hand, the order stocks of the metal and engineering industry left much to be desired. But the greatest cause for concern was the continued high rate of unemployment, with hardly any hope of its falling in the near future.

The cycles in the Publishing and the Graphics Industry are up to one year behind the general business cycles in other fields. Thus many developments in our business in 1978 should be compared with the general situation in 1977. In this light the Finnish Press appears to have weathered 1978 quite well. Circulations rose by an average 1.8 %, and volume of advertisement by 2.4 %. The total production of the Graphics Industry, however, only increased by a little under 2 %.

Of the Sanoma newspapers the circulation of Helsingin Sanomat rose more than the average: the week-

day circulation by 3.2 % and the Sunday circulation by 3.7 %. On the other hand, Ilta-Sanomat dropped in circulation by 3.3 %. Of the magazines, Kodin Kuva-lehti (Home Pictorial) showed a strong growth — 24.3 %, bringing the circulation up to 158,241 copies. Me naiset (We women) increased its circulation by 4 %, and Suuri Käsityökerho (member magazine of the Big Handiwork Club) by 6.3 %.

The falling trend in advertising volume for Helsingin Sanomat, an important factor for the Company's result as a whole, now showed a definite levelling off, while the number of advertisements actually showed an increase.

Within the printing industry, there was a definite improvement at Sanomaprint. This was partly due to larger print-orders of Sanoma's own magazines, as well as to improved sales for other customers.

1978 was the first year of action for the newly created experiment in Industrial Participation. The Cooperation Committee organized training sessions and a series of meetings at various departments was started. A solid base was created for future applications of the pending law of Industrial Cooperation.

The most important events of the 89th year of the Sanoma activities were of production nature. By the end of 1977 part of the newspaper production was transferred to the production unit at Sanomala in the town of Vantaa outside of Helsinki.

By early Spring 1978 colour printing was started at Sanomala by Iltä-Sanomat which had to bear the main burden of running-in difficulties arising from the change of printing location and methods. After an additional 15-unit printing line was completed the entire production of Helsingin Sanomat was transferred from the down-town location to the new Sanomala by November 16, 1978, exactly 89 years after the first copy of PÄIVÄLEHTI was published.

The investment value of the Sanomala newspaper production plant which was completed in 1978, was Fmk 200 millions, appr. m. \$ 50.

A substantial equipment investment at Sanomaprint, the Company's commercial printing division, was activated and this greatly improved the Pitäjänmäki production facilities. The new Harris Cottrell web-offset press offers printing customers a new product line for demanding and sophisticated products. The new equipment required an investment of appr. Fmk 10 million, m. \$ 2.5.

For the first time, the Company's gross sales exceeded 500 million Fmk, m. \$ 125, and turnover 400 million Fmk, m. \$ 100. The increase of gross sales over 1977 was 16.7 %, and of turnover 14.9 %. The change in purchase tax law in mid 1978 was reflected in the relatively small growth in turnover. Both figures indicate, however, a real growth as the rise in consumer prices in 1978 was only 6 %.

Operating costs also grew in 1978 in real terms, though somewhat less than sales. The price of newsprint rose relatively more than other expenses. The rise in gross profits, 16.8 %, was clearly greater than the increase in turnover. The fact that costs rose less than sales can partly be explained by governmental anti-employment measures, mainly affecting social benefit costs.

As can be seen from Notes on Financial Statements, the result of operations made it possible not only to make full depreciations according to the Industrial

Tax Act but also some extraordinary depreciations in accordance with the law concerning tax concessions, and thus to strengthen the Company's financial position in order to meet the burdens of additional investments in the years to come.

The Company's strong financial position was considered to be a continued and important guarantee for the independence of Sanoma's newspapers. For this reason every attempt has been made to keep the liquidity level as high as possible. In this respect 1978 saw a development for the better. The Quick Ratio rose beyond the 1.0 level under which it had dropped in 1977. On the other hand, the ratio of the equity to total assets was very low. However, thanks to the favourable structure of long-term liabilities, current portion of long term debt was not very high.

The result of all this was that the Company's books showed an improved profit of Fmk 2.946.237,07, \$ 736,559.27.

At the end of the year the Sanoma Publishing Company purchased the Finnish Oy Linguaphone Ab. The Company is continuing its activities in the field of language teaching. Of the other subsidiaries, the operations of Lehtikuva Oy showed favourable development, but Oy Finnvisuals Ab was under reorganization. Together with the Helsinki Telephone Company and Oy Nokia Ab the TELSET-project was continued.

Mr. Risto Kavanne, long a member of the Board of Directors, passed away on June 8, 1978. All his active working life he held important positions in the Company. His contribution to the Central Association of Graphic Arts Industries and the Employers' Federation of Graphic Arts was of great significance.

The Board of Directors reports that the operations of the Company and its subsidiaries proved very satisfactory during the year under review. Key projects were completed with success both financially and schedule-wise. At the end of the year Sanoma Publishing Company, on the threshold of its 90th Anniversary, was well-equipped to face the future.

Rate of exchange throughout this report 1 US \$ = Fmk 4,00 (rate of exchange 1977 1 US \$ = Fmk 4,10).

Cash Flow Analysis

Financial resources	1978 mmk	1978 m. \$	1977 mmk	1977 m. \$
Income for the fiscal period	13,9	3.5	12,5	3.1
Taxes	-0,2	*	-5,9	-1.4
Depreciations (excluding tax concession depreciations)	42,6	10.6	32,9	8.2
	<u>56,3</u>	<u>14.0</u>	<u>39,5</u>	<u>9.9</u>
Increases in long-term debts (without deducting next year's reductions)	11,5	2.9	15,3	3.8
	<u>67,8</u>	<u>16.9</u>	<u>54,8</u>	<u>13.7</u>
Use of the resources				
Fixed assets investments	49,1	12.3	89,3	22.3
Dividends distributed	1,0	0.2	1,0	0.2
	<u>50,1</u>	<u>12.5</u>	<u>90,3</u>	<u>22.5</u>
Net change in working capital (increase +, decrease -)	+17,7	+4.4	-35,5	-8.8
	<u>67,8</u>	<u>16.9</u>	<u>54,8</u>	<u>13.7</u>
Change in working capital				
Financial assets (increase +, decrease -)	+17,6	+4.4	-20,5	-5.1
Investments, deduction	- 6,7	-1.7	- 8,7	-2.2
Short-term (current) liabilities (increase -, decrease +)	+ 6,8	+1.7	- 6,3	-1.6
	<u>+17,7</u>	<u>4.4</u>	<u>-35,5</u>	<u>8.9</u>

Statement of Income for the Year Ended, December 31, 1978

Fmk

1977

Sales Revenues	530.770.079,13	454.825.378,30
Adjustment to gross sales		
Discounts	19.653.042,76	
Credit losses (1)	1.692.830,69	
Sales tax (2)	10.519.473,00	
Adv. agency and other commissions	51.660.716,79	
Other adjustment to gross sales (3)	38.108.298,69	121.634.361,93
Turnover	409.135.717,20	356.096.906,46
Variable Expenses		
Material (4)	93.040.679,20	
<i>Mustford</i> Wages and salaries (5)	114.474.342,26	
Other variable expenses	34.831.015,57	
— stock/increase <i>muutus</i>	— 853.461,03	241.492.576,00
Gross profit	167.643.141,20	147.708.650,86
Fixed expenses		
Wages and salaries (6)	41.679.552,75	
Rents	6.254.401,67	
Other fixed expenses	50.709.196,11	98.643.150,53
Earnings before depreciations	68.999.990,67	59.266.234,58
Depreciations (7)		
On buildings	12.266.288,55	
On machinery and equipment	48.322.957,54	
On other outlay with long-term return	335.440,79	60.924.686,88
Earnings after depreciation	8.075.303,79	5.075.187,08
Other revenues and expenses		
Interest revenues	4.584.862,76	
Dividend revenues	191.184,55	
Other revenues <i>työvoimavarojen</i>	2.300.432,20	
Other expenses	— 358.044,33	6.718.435,18
	14.793.738,97	14.198.094,61
<i>varaus</i> Interest expenses	— 11.607.244,80	
Direct taxes	— 240.257,10	
Profit for the year	<u>Fmk 2.946.237,07</u>	<u>2.075.000,29</u>

Figures in parenthesis are explained on page 10 in "Notes on the Financial Statements".

US\$

1977

	132,692,519.78	110,933,019.09
4,913,260.69		
423,207.67		
2,629,868.25		
12,915,179.20		
9,527,074.67	30,408,590.48	
	102,283,929.30	86,852,904.01
23,260,169.80		
28,618,585.56		
8,707,753.89		
- 213,365.25	60,373,144.00	
	41,910,785.30	36,026,500.20
10,419,888.19		
1,563,600.42		
12,677,299.02	24,660,787.63	
	17,249,997.67	14,455,179.16
3,066,572.14		
12,080,739.38		
83,860.20	15,231,171.72	
	2,018,825.95	1,237,850.50
1,146,215.69		
47,796.13		
575,108.05		
- 89,511.08	1,679,608.79	
	3,698,434.74	3,462,949.90
	- 2,901,811.20	
	- 60,064.27	
	<u>US\$ 736,559.27</u>	<u>506,097.64</u>

Balance Sheet as of December 31, 1978

Assets

Fmk

1977

Current Assets

Cash in hand and in banks		18.710.354,14		
Accounts receivable		113.788.923,90		
Loan receivable (8		21.083.781,74		
Payments in advance		95.103,23		
Deferred assets		6.127.810,59		
Other current assets		<u>649.614,92</u>	160.455.588,52	142.860.300,42

Inventories

Materials (9)		21.825.435,14		
Products (finished and in process)		<u>4.899.920,88</u>	26.725.356,02	25.871.894,99

Fixed assets and other long-term expenditures

Land areas	21.920.535,23			
acquisition	<u>100.417,72</u>	22.020.952,95		

Buildings	21.416.418,55			
acquisition	5.170.273,49			
reduction	8.801,98			

(from investment funds)

	<u>918.107,93</u>			
	25.659.782,13			
depreciation	<u>12.266.288,55</u>	13.393.493,58		

Machinery and equipment	87.502.943,86			
acquisition	42.277.003,26			
reduction	407.734,90			
from investment fund	<u>1.610.892,07</u>			

	127.761.320,15			
depreciation	<u>48.322.957,54</u>	79.438.362,61		

Stocks and shares (10)	16.058.743,21			
acquisition	1.161.989,70			

reduction	<u>133.750,55</u>	17.086.982,36		
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Sundry long-term expenditure (11)	632.364,16			
acquisition	<u>989.280,00</u>			

1.621.644,16

depreciation	<u>335.440,79</u>	1.286.203,37	133.225.994,87	147.531.005,01
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Fmk 320.406.939,41

316.263.200,42

US\$

1977

	4,677,588.54		
	28,447,230.97		
	5,270,945.43		
	23,775.81		
	1,531,952.65		
	<u>162,403.73</u>	40,113,897.13	34,843,975.71
	5,456,358.78		
	<u>1,224,980.22</u>	6,681,339.00	6,310,218.29
5,480,133.81			
<u>25,104.43</u>	5,505,238.24		
5,354,104.63			
1,292,568.37			
2,200.49			
<u>229,526.98</u>			
6,414,945.53			
<u>3,066,572.13</u>	3,348,373.40		
21,875,735.96			
10,569,250.81			
101,933.72			
<u>402,723.01</u>			
31,940,330.04			
<u>12,080,739.39</u>	19,859,590.65		
4,014,685.80			
290,497.43			
<u>33,437.64</u>	4,271,745.59		
158,091.04			
<u>247,320.00</u>			
405,411.04			
<u>83,860.20</u>	321,550.84	33,306,498.72	35,983,171.95
		<u>US\$ 80,101,734.85</u>	<u>77,137,365.95</u>

Balance Sheet as of December 31, 1978

Liabilities	Fmk		1977
External capital			
Short-term debt			
Accounts payable	22.514.326,32		
Payments in advance (12)	85.666.042,46		
Deferred liabilities (13)	26.308.096,46		
Other short-term debts (14)	<u>8.803.983,03</u>	143.292.448,27	146.907.689,61
Long-term debt			
Pension loans (15)	93.939.998,50		
Other long-term debts (16)	<u>41.317.500,00</u>	135.257.498,50	126.979.234,71
Reserves (17)			
Investment reserve	1.500.000,00		
Other reserve	<u>2.780.000,00</u>	4.280.000,00	6.809.000,00
Shareholder's equity			
Bound			
Share capital	7.100.760,00		
Value adjustment reserve	<u>8.500.000,00</u>	15.600.760,00	
Free			
Operating funds	17.867.447,81		
Donation reserve	1.068,00		
Profit from previous years	1.161.479,76		
Profit for the year	<u>2.946.237,07</u>	<u>21.976.232,64</u>	<u>35.567.276,10</u>
		<u>Fmk 320.406.939,41</u>	<u>316.263.200,42</u>

Appended Information December 31, 1978

1. Changes in equity

Donation reserve	Fmk	US \$
1.1. 1978	24.068,00	6.017,00
Transferred from retained earnings	+ 25.000,00	6,250.00
Donations made	- 48.000,00	<u>12,000.00</u>
	1.068,00	267.00

Retained earnings	Fmk	US \$
1.1. 1978	2.075.000,29	518,750.07
Dividends distributed	- 994.106,40	248,526.60
Transferred to donation reserve	- 25.000,00	6,250.00
Return of depreciations	+ 105.585,87	<u>26,396.47</u>
	1.161.479,76	290,369.94

2. Pension Fund liability deficit 10.502.463,84 2,625,615.96

3. Securities given as collateral against debt 13.272.889,52 3,318,222.38
 Mortgages given as collaretal against debt 57.000.000,00 14,250,000.00
 Guarantees 2.139.647,35 534,911.84

US\$

1977

	5,628,581.58		
	21,416,510.62		
	6,577,024.11		
	<u>2,200,995.76</u>	35,823,112.07	35,831,143.80
	23,484,999.62		
	<u>10,329,375.00</u>	33,814,374.62	30,970,545.05
	375,000.00		
	<u>695,000.00</u>	1,070,000.00	1,660,731.71
1,775,190.00			
<u>2,125,000.00</u>	3,900,190.00		
4,466,861.95			
267.00			
290,369.94			
<u>736,559.27</u>	5,494,058.16	9,394,248.16	<u>8,674,945.39</u>
		<u>US\$ 80,101,734.85</u>	<u>77,137,365.95</u>

Notes on the Financial Statements

Statement of Income

1. Credit losses, the amount of which grew by 0.9 % from 1977, include inter alia the subscription fees of issues delivered and not paid for. Credit losses are 0.32 % of gross sales.
2. The change in the purchase tax law, effective as of mid 1978, increased the purchase tax to be paid — and later refunded — so that the sum is now 144.9 % larger than in the previous year.
3. Of this sum the share of transportation fees for products is Fmk 32,5 million, m. \$ 8.1.
4. The share of paper is Fmk 75,7 million, m. \$ 18.9, an increase of 22.7 % from 1977, though the consumption of paper only increased by 6 %. The reason is a sizeable increase in paper prices.
5. Variable wages and salaries include inter alia those of reporters and editors, printers and delivery persons, according to the general practice in the business. The sum is 8.8 % larger than in 1977.
6. The most considerable items in fixed wages and salaries are those of office and technical staff. The sum is 7.2 % higher than in 1977.
7. Besides the full depreciations permitted by the Industrial Tax Act, extraordinary tax concession depreciations have been made at Sanomala to the value of Fmk 18,3 million, m. \$ 4.6.
12. Payments in advance include commitment for subscribed, undelivered newspapers and magazines to the value of Fmk 85,7 million, m. \$ 21.4. A large part of this sum is also accounts receivable.
13. Half of the deferred liabilities is accounted for by liability arising from vacation pay.
14. Includes the sum of 3,2 million Fmk, m. \$ 0.8 for current portion of long-term debts due in 1979 (reborrowing from pension insurance).
15. From the pension loans the sum of Fmk 50,9 million, m. \$ 12.7 arises from the Pension Fund, and the remainder from the reborrowing of insurance payments from the Ilmarinen Insurance Company.
16. Includes a 10.5 million dollar loan for acquisition of Sanomala production equipment. Repayment of the loan will occur 1982—1986.
17. Of the investment reserve Fmk 2,5 million, m. \$ 0.6 is written down to the Sanomala acquisitions. The credit loss reserve remains as before.

Balance Sheet

8. Of this sum, receivables from personnel account for Fmk 0.2 million, \$ 50,000.00 and from subsidiaries Fmk 0,4 million, \$ 100,000.00, the remainder from external sources.
9. Inventories are valued at acquisition value. The sum of Fmk 8,6 million, m. \$ 2.2 has been taken from previous inventory reserves.
10. The total stock of Oy Linguaphone Ab, acquired during the year. In addition the Company participated in all the share issues made by companies in which the Sanoma Publishing Company is a stockholder.
11. Payments for computer software of advertisement system.

Proposal for Use of Retained Earnings

The profit for the fiscal period is 2.946.237,07 mk, \$ 736,559.27. Of the retained earnings from the previous year 1.161.479,76 mk, \$ 290,369.94 are left unused. Thus the General Meeting of the Company has at its disposal a total sum of Fmk 4.107.716,83, \$ 1,026,929.21.

The Board of Directors proposes that these earnings

	4.107.716,83 mk	\$	1,026,929.21
— be distributed as dividend to the amount of 4,80 mk \$ 1.20 per share	1.136.121,60 mk	\$	284,030.40
— be transferred to the reserve for donations	200.000,00 mk	\$	50,000.00
— and that the balance	2.771.595,23 mk	\$	692,898.81

be left in the Profit and Loss Account, and that the Board be given the power to use these funds for payment of taxes in 1979.

If the General Meeting approves this proposal, the Company's own funds will be as follows:

Share capital	7.100.760,00 mk	\$	1,775,190.00
Reserve funds	26.367.447,81 mk	\$	6,591,861.95
Reserve for donations	201.068,00 mk	\$	50,267.00
Undisposed retained earnings	2.771.595,23 mk	\$	692,898.81

The amount of the investment reserve is 1.500.000,00 mk, \$ 375,000.00, and the credit loss reserve is 2.780.000,00 mk, \$ 695,000.00.

Helsinki, March 14, 1979

Aatos Erkkö

Teo Mertanen

Aarne Castrén

Väinö J. Nurmimaa

Patricia Seppälä

Auditors' Report

In our capacity as auditors elected at the Annual General Meeting of Sanoma Osakeyhtiö on April 11, 1978 we have examined the administration and the accounts of the Company for the 1978 period, on the basis of which we give the following report:

In his examination performed during the accounting period the undersigned Autio has found the Company's bookkeeping properly carried out and the funds carefully supervised.

The closing of the accounts, which reveals a profit of Fmk 2.946.237,07, \$ 736,559.27 for the period, has been arrived at correctly from the balance sheet and is correctly based. Depreciations for the acquisition outlay on the Sanomala buildings have been performed in accordance with the law concerning tax relief.

The balance sheet items are verified by the appropriate balance sheet specifications. The bank accounts agree with the bank statements on the day of the closing of accounts. The securities are in safekeeping and the insurances are in order.

The shareholders' equity in the balance sheet has been divided into bound and free capital in accordance with the new regulations of the Corporation laws.

We have read the minutes of the Annual General Meeting and of the Board of Directors and the Annual Report. In addition we have received information concerning the running of the Company. In our opinion the finances of the Company have been handled with care and successfully.

We propose to the Annual General Meeting that the closing of the accounts be approved and that the persons accountable be absolved of responsibility.

We agree with the proposal of the Board of Directors concerning the use of retained earnings.

Helsinki, March 30, 1979

Aimo Autio
KHT

Antti Helenius
KHT