Notes to the consolidated financial statements

1. Accounting policies for consolidated financial statements

Corporate information

The Sanoma Group comprised six Strategic Business Units ('SBU') in 2013: Sanoma News, Sanoma Media Belgium, Sanoma Media Finland, Sanoma Media Netherlands, Sanoma Media Russia & CEE and Sanoma Learning. In 2013, Sanoma ('Sanoma Group' or the 'Group') reported in three segments: Media, News and Learning. Media is one of the leading media producers with its magazines, custom media, events, websites, mobile sites, apps and TV operations. News is the leading newspaper publisher in Finland and a digital media producer. Learning is a significant European provider of learning materials and solutions. Sanoma has operations in more than 10 countries.

The share of Sanoma Corporation, the Parent of Sanoma Group, is listed on the NASDAQ OMX Helsinki. The Parent Company is domiciled in Helsinki and its registered office is Ludviginkatu 6–8, FI-00130 Helsinki.

On 6 February 2014, Sanoma's Board of Directors approved these financial statements to be disclosed. In accordance with the Finnish Limited Liability Companies Act, the shareholders can either adopt or reject the financial statements in the Annual General Meeting held after the disclosure. The AGM can also resolve to amend the financial statements.

+ Copies of the consolidated financial statements are available at Sanoma.com or from the Parent Company's head office.

Basis of preparation of financial statements

Sanoma has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) while adhering to related IAS and IFRS standards, effective at 31 December 2013, as well as SIC and IFRIC interpretations. IFRS refers to the approved standards and their interpretations applicable within the EU under the Finnish Accounting Act and its regulations in accordance with European Union Regulation No. 1606/2002. The notes to the consolidated financial statements are in accordance with Finnish Accounting Standards and Finnish Limited Liability Companies Act.

Financial statements are presented in millions of euros, based on historical cost conventions unless otherwise stated in the accounting policies. All figures have been rounded and consequently the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures.

Applied new and amended standards

The Group has applied the following new standards, interpretations and amendments to standards and interpretations as of 1 January 2013:

- Amendment to IAS 1 *Presentation of Financial Statements*. According to the amendment the items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss. The amendment has an impact on presentation of other comprehensive income.
- Amendment to IAS 19 *Employee benefits*. Sanoma has adopted the revised IAS 19 Employee Benefits standard as of 1 January 2013. The revised standard eliminates the possibility of using the corridor approach in recognising the actuarial gains and losses from defined benefit plans. The revised IAS 19 standard requires the actuarial gains and losses to be recognised immediately in the statement of other comprehensive income. This change in accounting principles leads to faster recognition of actuarial gains and losses and higher volatility of equity than the corridor approach. As a result of the change the Group now determines the net interest expense on the net defined benefit plan by applying the discount rate used to measure the defined benefit. The change in accounting principles has been applied retrospectively as of 1 January 2012. The impact on comparison figures presented in the comprehensive income statement, balance sheet and cash flow statement are shown in the following tables.

STATEMENT OF COMPREHENSIVE INCOME

Continuing operations, EUR million	1–12/2012
Employee benefit expenses	-1.3
Operating profit	-1.3
Income taxes	0.3
Result for the period from continuing operations	-1.0
Defined benefit plans	-61.0
Income tax related to defined benefit plans	15.6
Total comprehensive income for the period	-46.4

CONSOLIDATED BALANCE SHEET

EUR million	1.1.2012	31.12.2012
ASSETS		
Pension assets	-16.2	-33.0
Deferred tax receivables	-2.8	11.2
ASSETS, TOTAL	-19.0	-21.8
EQUITY AND LIABILITIES		
Equity		
Equity attributable to the equity holders of the Parent Company		
Other reserves		-45.4
Other equity	-5.4	-6.4
Non-controlling interest		-0.2
Equity, total	-5.4	-52.0
Deferred tax liabilities	-4.1	-6.1
Pension obligations	-9.5	36.3
LIABILITIES, TOTAL	-13.6	30.2
EQUITY AND LIABILITIES, TOTAL	-19.0	-21.8

CONSOLIDATED CASH FLOW STATEMENT

EUR million	1–12/2012
Cash flow before the change in working capital	-1.3
Change in working capital	1.3
Cash flow from operations	0.0

- Amendments to IFRS 7 *Financial Instruments: Disclosures*. The amended standard requires the reporting entity to disclose information in order to judge the impact of netting arrangements on the balance sheet of the reporting company. The required disclosures shall be presented retrospectively. This amendment has no impact on Sanoma's consolidated financial statements.
- IFRS 13 *Fair value measurement*. The standard sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurement. The standard extends the disclosures on fair values.

Management judgement in applying the most significant accounting policies and other key sources of estimation uncertainty

Preparing the financial statements in accordance with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. During the preparation of the financial statements, such estimates were used when making calculations for impairment testing of goodwill, allocating acquisition cost of acquired businesses and determining the estimated useful lives for property, plant and equipment and intangible assets, for example. In addition, management judgement is used when determining the valuation of deferred taxes as well as defined benefit pension assets and pension obligations. Although these estimates are based on the management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

⊕ Impairment testing is discussed later in the accounting policies and notes to the financial statements. Other uncertainties related to management judgement are presented, as applicable, in the notes in question.

Consolidation principles

The consolidated financial statements are prepared by consolidating the Parent Company's and its subsidiaries' comprehensive income statements, balance sheets, cash flow statements and notes to the financial statements. Prior to consolidation, the Group companies' financial statements are adjusted, if necessary, to ensure consistency with the Group's accounting policies.

The consolidated financial statements include the Parent Company Sanoma Corporation and companies in which the Parent Company has, directly or indirectly, an interest of more than 50% of voting rights, or over which it otherwise has control. Having control means the right to determine the principles of the finance and operations of the company in order to gain benefit from the operations. Intra-group shareholdings are eliminated using the acquisition method. In cases where the Group is committed to increasing ownership in a subsidiary, the consolidation has taken the ownership into account in accordance with the obligation.

Companies acquired during the financial year are included in the consolidated financial statements from the date on which control was transferred to the Group, and divested subsidiaries are consolidated until the date on which said control ceased. Intra-group transactions, receivables and liabilities, intra-group margins and distribution of profits within the Group are eliminated in the consolidated financial statements.

Sanoma uses the acquisition method when accounting for acquisitions. The acquisitions carried out after 1 January 2004 are measured at fair value on the date of acquisition but acquisitions prior to that date have not been adjusted retrospectively. For acquisitions prior to 1 January 2010, Sanoma applies the version of IFRS 3 standard effective as at the acquisition date.

On the date of acquisition, the cost is allocated to the assets and liabilities of the acquired business by recognising them at their fair value. In business combinations achieved in stages, the interest in the acquired company that was held by the acquirer before the control was acquired shall be measured at fair value at the date of acquiring control. This value has an impact on calculating the goodwill from this acquisition and it is presented as a loss or gain in the income statement.

The consideration transferred and the identifiable assets and the liabilities assumed in the business combination are measured at fair value on the date of acquisition. The acquisition-related costs are expensed excluding the costs to issue debt or equity securities. The potential contingent purchase price is the consideration paid to the seller after the original consolidation of the acquired business or the share of paid consideration that the previous owners return to the buyers. Whether any consideration shall be paid or returned is usually dependent on the performance of the acquired business after the acquisition. The contingent consideration shall be classified as a liability or as equity. The contingent consideration classified as a liability is measured at fair value on the acquisition date and subsequently on each balance sheet date. Changes in the fair value are presented in income statement.

Associated companies are entities in which the Group has significant influence. Significant influence is assumed to exist when the Group holds over 20% of the voting rights or when the Group has otherwise obtained significant influence but not control over the entity. Associated companies are accounted for using the equity method. The Group's share of the associated companies' result is disclosed separately after operating profit. The carrying amount of associated companies includes the goodwill originating from those acquisitions. If Sanoma's share of the losses from an associated company exceeds the carrying value of the investment, the investment in associated company will be recognised at zero value on the balance sheet. Losses exceeding the carrying amount of investments will not be consolidated unless the Group has been committed to fulfil the obligations of the associated company.

Joint ventures controlled jointly based on a contractual agreement by the Group and one or several other owners are accounted for using the line-by-line proportionate consolidation method. It means that a share based on Sanoma's ownership of the assets and liabilities, income and expenses in the jointly controlled entity will be consolidated to corresponding items of Sanoma's consolidated financial statements.

Profit or loss for the period attributable to equity holders of the Parent Company and to the holders of non-controlling interests is presented in the income statement. The statement of comprehensive income shows the total comprehensive income attributable to the equity holders of the Parent Company and to the holders of non-controlling interests. The amount of equity attributable to equity holders of the Parent Company and to holders of non-controlling interests is presented as a separate item on the balance sheet within equity.

Foreign currency items

Items of each Group company are recognised using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that company (the functional currency). The consolidated financial statements are presented in euros, which is the Parent Company's functional and presentation currency.

Foreign currency transactions of the Group entities are translated to the functional currency at the exchange rate quoted on the transaction date. The monetary assets and liabilities denominated in foreign currencies on the balance sheet are translated into the functional currency at the exchange rate prevailing on the balance sheet date.

The gains and losses resulting from the foreign currency transactions and translating the monetary items are recognised in income statement. The exchange rate gains and losses are reported in financial income and expenses.

The income and expense items in the income statement and in the statement of comprehensive income of the non-euro Group entities (subsidiaries, associated companies and joint ventures) are translated into euro using the average exchange rates quoted for the financial period and balance sheets using the exchange rate quoted on the balance sheet date. The profit for the period being translated into euro by different currency rates in the comprehensive income statement and balance sheet results in a translation difference in equity. The change in translation difference is recognised in other comprehensive income.

Exchange rate differences resulting from the translation of foreign subsidiaries' and associated companies' balance sheets are recognised under shareholders' equity. When a foreign entity is disposed of, in whole or in part, cumulative translation differences are recognised in the income statement as part of the gain or loss on disposal.

Translation differences recorded before 1 January 2004 are included in retained earnings, as permitted by IFRS 1.

As of 1 January 2004, the goodwill and fair value adjustments arising on an acquisition are presented as assets and liabilities of the acquired entity and are translated into euro using the exchange rate prevailing on the balance sheet date. Goodwill and fair value adjustments related to acquisitions prior to 1 January 2004 are accounted for in euro.

During the reporting year or preceding financial year, the Group did not have subsidiaries in hyperinflationary countries.

Government grants

Grants from the government or other similar public entities that become receivable as compensation for expenses already incurred are recognised in the income statement on the period on which the company complies with the attached conditions. These government grants are reported in other operating income in income statement. Government grants related to the purchase of property, plant and equipment or intangible assets are recognised as a reduction of the asset's book value and credited to the income statement over the asset's useful life.

Non-current assets held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amount is recovered principally through a sale rather than through continuing use and a sale is considered highly probable. Such assets are stated at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are no longer depreciated.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The result for the period of discontinued operations is presented as a separate item in the consolidated income statement.

Goodwill and other intangible assets

Acquired subsidiaries are consolidated using the acquisition method, whereby the cost is allocated to the acquired assets and liabilities assumed at their fair value on the date of acquisition. Goodwill represents the excess of the cost over the fair value of the acquired company's net assets. Goodwill reflects e.g. expected future synergies resulting from acquisitions.

Goodwill is not amortised but it is tested for impairment annually at the minimum.

The identifiable intangible assets are recognised separately from goodwill if the assets fulfil the related recognition – i.e. they are identifiable, or based on contractual or other legal rights – and if their fair value can be reliably measured. Intangible assets are initially measured at cost and amortised over their expected useful lives. Intangible assets for which the expected useful lives cannot be determined are not amortised but they are subject to an annual impairment testing. In Sanoma, expected useful lives can principally be determined for intangible rights. The useful life cannot be determined for some publishing rights. With regard to the acquisition of new assets, the Group assesses the expected useful life of the intangible right, for example, in light of historical data and market position, and determines the useful life on the basis of the best knowledge available on the assessment date.

The Group recognises the cost of broadcasting rights to TV programmes under intangible assets and their cost is amortised based on broadcasting runs. The prepublication costs of learning materials and solutions are recognised in intangible assets and amortised over the useful lives.

The known or estimated amortisation periods for intangible assets with finite useful lives are:

- Immaterial rights 2–40 years
- Other intangible assets 3–20 years

Amortisation is calculated using the straight-line method. Recognising amortisation is discontinued when an intangible asset is classified as held for sale.

⊕ Goodwill and other intangible assets are described in more detail in Note 15.

Impairment testing

The carrying amounts of assets are reviewed whenever there is any indication of impairment. Those cash-generating units* (CGUs) for which goodwill has been allocated are tested for impairment at least once a year. The goodwill of associated companies is included in the cost of the associated company. Intangible assets with indefinite useful lives, are also tested at least annually.

The test assesses the asset's recoverable amount, which is the higher of either the asset's fair value less cost to sell or value in use based on future cash flows. In Sanoma, impairment tests are principally carried out on a cash flow basis by determining the present value of estimated future cash flows of each CGU. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is recorded in the income statement. Primarily, the impairment loss is deducted from the goodwill of the cash-generating unit and after that it is deducted from other assets of the cash-generating unit. The useful life of the asset is re-estimated when an impairment loss is recognised.

If the recoverable amount of an intangible asset has changed due to a change in the key expectations, previously recognised impairment losses are reversed. However, impairment losses are not reversed beyond the amount the asset had before recognising impairment losses. Impairment losses recognised for goodwill are not reversed under any circumstances.

⊕ Impairment testing is described in more detail in Note 15.

* A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets.

Property, plant and equipment

Property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any impairment losses. The cost includes any costs directly attributable to acquiring the item of property, plant and equipment. Any subsequent costs are included in the carrying value of the item of property, plant or equipment only if it is probable that it will generate future benefits for the Group and that the cost of the asset can be measured reliably. Lease premises' renovation expenses are treated as other tangible assets in the consolidated balance sheet. Ordinary repairs and maintenance costs are expensed as incurred.

The depreciation periods of PPE are based on the estimated useful lives and are:

- Buildings and structures 10–50 years
- Machinery and equipment 2–20 years
- Other tangible assets 3–10 years

Depreciation is calculated using the straight-line method. Land areas are not depreciated. Recognising depreciation is discontinued when the property, plant and equipment is classified as held for sale.

The residual value and the useful life of an asset are reviewed at least at the end of each financial year and if necessary, they are adjusted to reflect the changes in expectations of financial benefits.

Gains and losses from disposing or selling items of PPE are recognised in the income statement and they are reported in other operating income or expenses.

Investment property

A property is classified as investment property if the Group mainly holds the property to earn rental yields or for capital appreciation. Investment property is initially measured at cost and presented as a separate item on the balance sheet. Investment properties include buildings, land and investments in shares of property and housing companies not in Sanoma's own use. Based on their nature, such shareholdings are divided into land or buildings.

The fair value of investment properties is presented in the notes to the consolidated financial statements. Fair values are determined by using the yield value method or on the basis of similar property deals carried out in the market, and they correspond to the properties' market value. The risk of the yield value method takes into account, among others, the term of the lease period, other conditions of the lease, the location of the premises and the nature of re-rentability as well as the development of environment and area planning. The fair values of investment property are not principally based on the valuations of external certified real estate agents but, when necessary, the views of real estate agents are used to support the Group's own judgement. Investment in shares consists of a number of small properties whose fair value the Group determines internally using the yield value method.

Other investments in property and housing companies

Investments in property and housing companies that are, for the most part, held by Sanoma for its own use, are classified as land or buildings, depending on which has more relevance. Properties are measured at cost. Major mutual property companies are consolidated using the proportionate consolidation method.

Leases

Leases of property, plant and equipment where the Group is the lessee and substantially has all the rewards and risks of ownership are classified as finance leases and recognised as assets and liabilities for the lease term. Such an asset is recorded at the commencement of the lease term based on the estimated present value of the underlying minimum lease payments or, if lower, the fair value of the leased asset. The asset is depreciated during the lease term or, if shorter, during its useful life. Lease payments are apportioned between the interest expenses and the repayment of financial lease liabilities. Finance lease liabilities are included in financial debts.

The Group has no leases classified as finance leases in which a Group company is a lessor.

A lease is accounted for as an operating lease if the risks and rewards incidental to ownership remain with the lessor.

Expenses under operating leases are charged to other operating expenses using the straight-line method during the lease period and the total future minimum lease payments are presented as off-balance sheet liabilities in the notes to the financial statements.

Inventories

Inventories are stated at the lower of cost and net realisable value, using the average cost method. The cost of finished goods and work in progress includes the purchase price, direct production wages, other direct production costs and fixed production overheads to their substantial extent. Net realisable value is the estimated selling price, received as part of the normal course of business, less estimated costs necessary to complete the product and make the sale.

Financial assets

Sanoma Group holds financial assets at fair value through profit or loss, loans and other receivables and available-for-sale financial assets. The classification of a financial asset is based on the initial purpose for acquiring the financial instrument on the date of the initial recognition. Transaction costs are included in the initial carrying value of the financial assets if the item is not classified as a financial asset at fair value through profit or loss. Derecognition of financial assets takes place when Sanoma has lost the contractual right to the cash flows from the asset or it has transferred the essential risks and benefits to third parties.

Financial assets acquired for trading purposes are classified as *financial assets at fair value through profit or loss* in Sanoma. Financial assets held for trading are acquired primarily to gain from short-term fluctuations in market prices. Derivatives that do not fulfil the conditions for hedge accounting are accounted for as held for trading purposes. Derivative instruments are initially recognised at fair value on the date when the Group becomes a party to the contractual provision of the derivative, and subsequently measured at fair value on each balance sheet date. Both the unrealised and realised gains and losses arising from changes in fair value are recognised in the income statement on the period the changes arise.

Loans and other receivables are assets with a fixed or defined series of payments. These assets are unlisted and not held for trading. These assets are measured at amortised cost and they are presented as current or non-current financial assets. Trade receivables are carried at the expected realisable value. An impairment on trade receivables is recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Available-for-sale financial assets are non-derivative assets that are either determined to be available-for-sale or for which other classification is not applicable. These assets are included in non-current assets unless the Group's intention is to hold the investment for less than 12 months from the balance sheet date. All non-current investments held by the Group are classified as available-for-sale and mainly consist of a number of assets not related to business operations. Sanoma's available-for-sale financial assets do not contain publicly traded investments, and the fair value of these investments cannot be reliably measured. These assets are thus carried at cost. Investments do not have any material effect on the consolidated balance sheet.

Cash and cash equivalents

Cash and cash equivalents include bank accounts and short-term deposits with a maturity of less than three months. Bank overdrafts are shown under current financial liabilities on the balance sheet.

Financial liabilities

Sanoma's financial liabilities are classified either as Financial liabilities at amortised cost or as Financial liabilities at fair value through profit or loss. Financial liabilities are classified as short-term liabilities unless the Group has an unconditional right to postpone settling of the liability at least with 12 months from the end of the reporting period. The financial liability or a part of it can be derecognised only when the liability has ceased to exist, meaning that the obligations identified by the agreement have been fulfilled, abolished or expired.

The financial debt of Sanoma Group is classified as *financial liabilities at amortised cost*. They are initially recognised at fair value including the transaction costs that are directly attributable to the acquisition of the financial liability. Subsequently, these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss include derivatives that do not comply with the conditions for hedge accounting. Both the unrealised and realised gains and losses arising from the changes in fair values of the derivatives are recognised in the income statement on the period the changes arise.

Hybrid bond

A hybrid bond is a bond that is subordinated to the company's other debt instruments but senior to other equity instruments. The interest on a hybrid loan is paid if the Group will pay a dividend. If a dividend is not paid, the Group decides separately on whether to pay the interest. Unpaid interest accumulates. Hybrid loan holders have no control over the Group and no right to vote at shareholders' meetings.

Derivatives and hedge accounting

Sanoma may use derivative instruments, such as forward currency exchange contracts and interest rate swaps, in order to hedge against fluctuations in exchange rates and interest rates. The Group applies hedge accounting to the major part of the interest rate swaps and they have been accounted for as cash flow hedges. The Group also has interest rate swaps for which hedge accounting is not applied. The

Group uses forward currency exchange contracts which are not hedge-accounted.

The Group documents and assesses the effectiveness of the hedging at the commencement of the hedge and on every reporting date, by controlling the ability of the hedging instrument to offset the cash flows of the hedged item. Derivatives are initially recognised at fair value on the date of entering to a hedging agreement and they are subsequently measured at their fair value on each balance sheet date.

When the hedging instrument meets the criteria, the effective portion of the changes in fair value of the instrument is recognised in other comprehensive income and is presented in the hedging reserve. The cumulative changes in the fair value of derivatives are transferred to financial items in the income statement, when the hedge item impacts profit or loss. Derivative contracts are shown in other current receivables and liabilities on the balance sheet.

⊕ The risk management principles of financial risks are presented in more detailed in Note 29.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are divided into three levels in the fair value hierarchy. In level 1, fair values are based on quoted prices in active markets. In level 2, fair values are based on valuation models for which all inputs are observable, either directly or indirectly. For assets and liabilities in level 3, the fair values are based on input data that is not based on observable market data.

Income taxes

The income tax charge presented in the income statement is based on taxable profit for the financial period, adjustments for taxes from previous periods and changes in deferred taxes. Taxable profit for the period is based on the tax rate and legislation effective in each country. Income taxes related to transactions impacting the profit or loss for the period are recognised in the income statement. Tax related to transactions or other items recognised in other comprehensive income or directly in equity, are recognised accordingly in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are recorded principally on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using tax rates effective on the balance sheet date. Changes in the applicable tax rate are recorded as changes in deferred tax in the income statement. Deferred tax assets are recognised to the extent that it appears probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

No deferred tax liability on undistributed retained earnings of subsidiaries has been recognised in that respect, as such distribution is not probable within the foreseeable future. The most significant temporary differences relate to depreciation differences, defined benefit pension plans, subsidiaries' tax losses carried forward and the fair value measurement of assets acquired in business combinations.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of this obligation can be made.

A restructuring provision is recognised when the Group has prepared a detailed restructuring plan and started to implement that plan or announced the matter.

A provision for return of goods sold is set up based on previous experience.

Share-based payments

Sanoma has adopted in 2013 the Performance Share Plan replacing Sanoma's option schemes, under which no new option grants will be made. Vesting is subject to meeting Group's performance targets set by the Board of Directors for annually commencing new plans. The possible reward is paid as a combination of shares and cash. The reward's cash component is dedicated to cover taxes and tax-related costs. In jurisdictions where shares cannot be granted, the possible reward is paid fully in cash.

The fair value for the equity settled portion has been determined at grant using the fair value of Sanoma share as of the grant date less the expected dividends paid before possible share delivery. The fair value for the cash settled portion is remeasured at each reporting date until the possible reward payment. The fair value of the liability will thus change in accordance with the Sanoma share price. The fair value is charged to personnel expenses until vesting.

Stock option schemes continue to run until their respective expiration dates.

Stock options have been granted to a group of Sanoma's key personnel as part of their remuneration package, in addition to cash salary and other employment benefits. The Group shall measure the fair value of the services received by reference to the fair value of the equity instruments granted.

Stock options are measured at fair value on the grant date and charged to personnel expenses over the instrument's vesting period. Sanoma uses the Black–Scholes option-pricing model to measure the fair value of stock options. The fair values are based on the estimated total number of stock options outstanding at the end of respective vesting period. The estimate is adjusted when necessary and the final number of outstanding stock options is taken into account when recording the actual expense at the end of the vesting period.

The exercise price of the new shares subscribed by the rights options is recognised in Fund for invested unrestricted equity.

⊕ A more detailed description of the share-based payments is provided in Note 23.

Revenue recognition

Revenue from the sale of goods is recognised when the risks and rewards related to ownership have been transferred to the buyer and the seller no longer has possession of, and control over, the goods. Revenue from sale of goods subject to subscription (magazines/newspapers) is recognised at the time of their delivery to customers. Rendering of services consists of advertising sales in magazines, newspapers, TV, radio and online as well as sale of online marketplaces. Rendering of services also include press distribution sales and training and language services. Service revenue is recognised once the service has been rendered. Net sales derive from sales net of discounts granted and indirect taxes. Net sales generated from commission sales include commissions. Delivery of books and papers from publishers other than Sanoma to retailers is treated as commission sales and only the commission fee is recognised in net sales.

Research and development expenditure

Research expenditure is expensed as incurred.

Development expenditure refers to costs that an entity incurs with the aim of developing new products or services for sale, or fundamentally improving the features of its existing products or services, as well as extending its business. Development expenses are mainly incurred before the entity begins to make use of the new product/service for commercial or profitable purposes. Development expenditure is either expensed as incurred or recorded as other intangible asset if it meets the recognition criteria.

Pensions

The Group's pension schemes in different countries are arranged in accordance with local requirements and legislation. Pension schemes are classified into two categories: defined contribution plans and defined benefit plans. In addition to the TyEL insurance policies (based on the Finnish Employees' Pensions Act), the Group also has pension funds in Finland responsible for the statutory pension cover for certain Group companies, as well as for supplementary pension schemes. The Group's foreign units employ both defined benefit and defined contribution schemes, and the related pension cover is managed by both pension funds and insurance companies.

Contributions under defined contribution plans are expensed as incurred, and once they are paid to insurance companies the Group has no obligation to pay further contributions. All other post-employment benefit plans are regarded as defined benefit plans.

The present value of the Sanoma Group's obligation of defined benefit plans is determined separately for each scheme using the projected unit credit method. Within the defined benefit plan, pension obligations or pension assets represent the present value of future pension payments less the fair value of the plan assets and potential past service cost. The present value of the defined benefit obligation is determined by using discount interest rates that are based on high-quality corporate bonds or government bonds. The duration of corporate or government bonds corresponds essentially the duration of the pension obligation. Pension expenses under the defined benefit plan are recognised as expenses for the remaining working lives of the employees within the plan based on the calculations of authorised actuaries.

Remeasurements of the net defined benefit liability are recognised immediately in other comprehensive income.

IFRS standards and amendments to be applied later

IASB and IFRIC have issued the following standards and interpretations, but they are not yet effective and the Group has not applied these requirements before the effective date.

- IFRS 10 *Consolidated Financial Statements* (Effective in the EU for annual periods beginning on or after 1 January 2014). The standard retains control as the single basis for consolidation. The standard gives additional guidance for defining the controlling party in more complex circumstances. The EU has adopted the new standard.
- IFRS 11 *Joint Arrangements* (Effective in the EU for annual periods beginning on or after 1 January 2014). According to the standard, the rights and obligations of the arrangement are more decisive in defining the accounting treatment of the arrangement than the legal format of the arrangement. IFRS 11 establishes two types of joint arrangement: joint operations and joint ventures. The standard permits only the equity method in consolidation of joint ventures, and the proportional consolidation method is not allowed any longer. Currently, Sanoma uses the proportional consolidation method according to IAS 31, in which a proportion of income statement and balance sheet are consolidated line by line to Sanoma's consolidated financial statements. Changing to IFRS 11 will reduce 2013 consolidated net sales approximately EUR 131 million and increase 2013 operating profit approximately EUR 18 million. The share in result of joint ventures will be presented as part of operating profit. The balance sheet total at 31 December 2013 will decrease some EUR 775 million and total equity will reduce approximately EUR 56 million. The EU has adopted the new standard.
- IFRS 12 *Disclosures of Interest in Other Entities* (Effective in the EU for annual periods beginning on or after 1 January 2014). The standard combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associated and structured entities and other off balance sheet entities. The revised standard will extend the notes the Group presents concerning its interests in other entities. The EU has adopted the new standard.
- IAS 27 (revised 2011) *Separate Financial Statements* (Effective in the EU for annual periods beginning on or after 1 January 2014). The revised standard contains the current guidance for separate financial statement that remained after transferring items related to control and consolidation to IFRS 10. The EU has adopted the revised standard.
- IAS 28 (revised 2011) *Investments in Associates and Joint Ventures* (Effective in the EU for annual periods beginning on or after 1 January 2014). The revised standard contains the requirements for consolidating associated companied and joint ventures using the equity method as a result of the issuance of IFRS 11. The EU has adopted the revised standard.
- Amendments to IAS 32 *Financial instruments: Presentation* (effective for periods beginning on or after 1 January 2014). These amendments clarify the requirements of the regulations governing offsetting of financial assets and liabilities. The amended standard shall be applied retrospectively. These amendments will not have any impact on the Group's financial statements. The amended standard has been adopted by the EU.
- IFRS 9 *Financial Instruments* and changes there to (effective date still open). IFRS 9 is the first phase of the project which targets to replacing IAS 39 with a new standard. IFRS 9 retains the valuation methods, but they have been simplified. The standard includes guidance on the classification and measurement of financial liabilities. The EU has not yet adopted the new standard.
- Amendments to IAS 36 *Impairment of Assets, Recoverable Amount Disclosures for Non-Financial Assets* (effective for periods beginning on or after 1 January 2014). The amendment clarifies the disclosure requirements relating to those cash-generating units, which were subject to impairment charges. The EU has adopted the amended standard.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting* (effective for periods beginning on or after 1 January 2014). The amendment concerns the conditions of hedge accounting in situations when the derivative contract is transferred to a so called central counterparty. As a consequence of the change in the standard, the hedge accounting can be applied in those situations if certain conditions are fulfilled. The amended standard has not been adopted by the EU.
- IFRIC 21 *Levies* (effective for periods beginning on or after 1 January 2014). The interpretation covers the accounting treatment of a liability arising from a public contribution. The interpretation has no effect on Sanoma's consolidated financial statements. The interpretation has not been adopted by the EU.
- Amendments to IAS 19 *Employee Benefits - Defined Benefit Plans: Employee Contributions* (effective for financial years beginning on or after 1 July 2014). The amendments clarify the accounting treatment under IAS 19 in respect of defined benefit plans that involve contributions from employees or third parties towards the cost of benefits.
- Annual Improvements to IFRSs (2011–2013 cycle and 2010–2012 cycle, December 2013) (effective for financial years beginning on or after 1 July 2014). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total four (2011–2013 cycle) and seven (2010–2012 cycle) standards.