



# Financial Statement 2019







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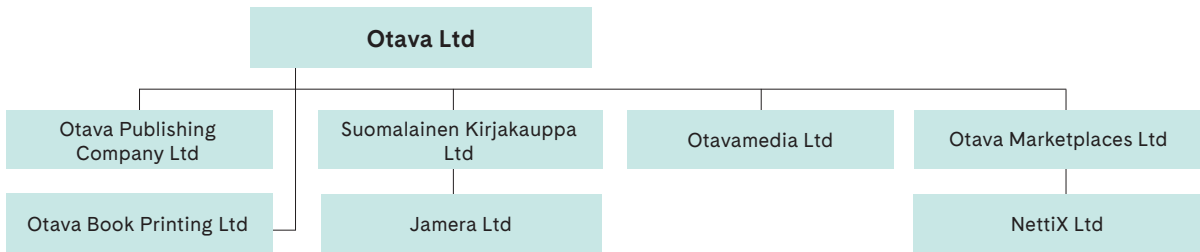
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# Group structure and business areas



## Otava is the largest company in its main lines of business in Finland

**THE GROUP'S** business areas are: book publishing (Books), the book retail trade (Trade), magazine publishing (Media) and marketplaces (Otava Marketplaces). Our story began in 1890 with the establishment of Otava Publishing Company, which started printing books in 1908 and publishing magazines in 1916 (Suomen Kuvalehti).

Otava was involved in establishing Otavamedia Oy (1934, previously Yhtyneet Kuvalehdet Oy) and the Great Finnish Book Club (1969). The Group grew its digital business with the acquisition of NettiX Ltd in 2006 and Ampparit Ltd in 2012. In 2011, Otava Ltd acquired the entire share capital of Suomalainen Kirjakauppa Ltd.

Otava Ltd is the Group's parent company. The Group is a stable and independent privately owned media company.

**BOOKS.** Otava Publishing Company is the main company in the Books business area. This company's line of business encompasses Finnish-language fiction and non-fiction, the provision of learning services, and the publication of learning materials.

The following companies also belong to this business area: Like Publishing Ltd (since its merger at the beginning of 2006), Moreeni (since 2014), F-Kustannus (since 2015), Nemo (since 2016), and Finn Lectura (since 2018). The publishing businesses of Satukustannus and Karisto were also merged into the business area in 2019 and the beginning of February 2020, respectively. The Otava Group is the largest book publisher in Finland.

Otava Book Printing Ltd is a diverse and modern printer and bookbinder that produces books for many Finnish and foreign publishers. The company's production facilities are located in Keuruu.

**TRADE.** Suomalainen Kirjakauppa Ltd engages in the retail sale of books. The company has 66 bookstores and a sales network that covers the whole of Finland. In 2018, Otava acquired the entire share capital of Jamera Ltd, a company that specialises in the sale of second-hand learning materials. Suomalainen Kirjakauppa is the largest company in the market and also sells books online at suomalaisen.com. The Great

Finnish Book Club has been part of the Trade business area since the beginning of 2019.

**MEDIA.** Otavamedia Ltd publishes general-interest and customer magazines. Otavamedia is the largest company in its line of business in Finland. The acquisition of the entire share capital of MCI Press Ltd and Alma 360 Ltd in 2015 expanded Otava's Customer Communications business. The Customer Communications Unit currently operates as part of Otavamedia under the name Otavamedia OMA.

**OTAVA MARKETPLACES.** Otava Marketplaces consists of Otava Markkinapaikat Ltd (the parent company of this business area) and NettiX Ltd. Ampparit Ltd and SL-Mediat Ltd have been merged into NettiX. The latter publishes professional media and was acquired in 2018. NettiX's numerous websites act as digital marketplaces. The most well-known are nettiauto.com, nettivene.com and nettivuokraus.com. NettiX runs the ampparit.com news website and sells media tracking services.

# Key figures

<b>GROUP INCOME STATEMENT</b>	<b>2019</b>		<b>2018</b>		<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>M€</b>	<b>%</b>	<b>M€</b>	<b>%</b>	<b>M€</b>	<b>%</b>	<b>M€</b>	<b>%</b>	<b>M€</b>	<b>%</b>
Net sales	286.2		299.1		292.2		292.0		292.5	
EBITA	31.4	11.0	51.3	17.2	30.7	10.5	31.6	10.8	31.1	10.6
Depreciation of goodwill and business acquisition costs	8.8	3.1	22.0	7.3	7.6	2.6	4.3	1.5	3.8	1.3
Operating profit	23.5	8.2	29.8	10.0	23.8	8.1	27.5	9.4	27.8	9.5
Profit before taxes	23.0	8.0	32.0	10.7	25.1	8.6	27.3	9.4	27.7	9.5
Profit for the financial year	17.3	6.0	20.7	6.9	18.8	6.4	21.0	7.2	20.7	7.1
Cash flow from business operations	35.5	12.4	36.8	12.3	42.8	14.7	33.5	11.5	32.8	11.2
<b>BALANCE SHEET AND PROFITABILITY</b>										
Capital expenditure	10.9		141.5		15.4		47.5		15.9	
Shareholders' equity	215.3		208.3		198.2		188.8		177.5	
Non-current liabilities	34.3		60.4		0.0		0.0		0.0	
Current liabilities	85.2		87.7		74.8		92.3		72.3	
Equity ratio %	69.0		62.5		78.9		72.5		77.6	
Return on investment (ROI) %	9.0		13.7		12.4		14.4		16.0	
Return on equity (ROE) %	8.2		10.2		9.7		11.5		12.1	
Group personnel (average)	1102		1178		1099		1103		1079	
<b>BOOKS</b>										
Net sales	70.4		71.9		67.8		61.5		54.5	
EBITA	11.8	16.7	12.2	16.9	13.0	19.1	8.0	12.9	7.2	13.2
<b>Operating volumes:</b>										
New titles published, printed	585		650		571		554		511	
New titles published, digital	914		795		508		520		212	
Books sold, million	5.6		5.3		5.2		5.0		4.6	
Books printed, million	5.7		6.4		6.6		6.8		5.9	
<b>TRADE</b>										
Net sales	120.2		120.9		108.5		105.2		107.9	
EBITA	2.8	2.3	3.7	3.1	4.2	3.9	3.2	3.1	4.5	4.1
<b>Operating volumes:</b>										
Number of customers, million	5.9		6.1		5.7		5.8		5.9	
Books sold, million	4.5		4.8		4.2		4.2		4.4	
<b>MEDIA</b>										
Net sales	90.5		105.5		117.1		127.3		130.5	
EBITA	11.0	12.1	7.5	7.1	8.1	6.9	15.2	11.9	17.2	13.2
<b>Operating volumes:</b>										
Number of magazines and periodicals*)	156		172		162		158		213	
Annual magazines sales, million*)	26		28		31		34		34	
<b>OTAVA MARKETPLACES</b>										
Net sales	23.7		22.9		18.1		16.0		14.4	
EBITA	8.6	36.3	8.6	37.4	7.1	39.3	7.4	46.0	7.6	52.9

\*) General-, customer and online magazines

# The Board of Directors



**Henrik Ehrnrooth**  
Chairman  
SINCE 1988



**Eero Broman**  
Vice Chairman  
SINCE 2007



**Heikki Lehtonen**  
SINCE 1991



**Alexander Lindholm**  
SINCE 2008



**Eva Reenpää**  
SINCE 2017

## DEPUTY MEMBERS



**Pasi Vainio**  
SINCE 2010



**Minna Castrén**  
SINCE 2011



**Timo Kopra**  
SINCE 2012



**Minna Kokka**  
SINCE 2018



**Ora Lyytikäinen**  
Secretary of Board  
SINCE 2006

# Corporate Governance

## APPLICABLE REGULATIONS

Otava Ltd is a privately owned Finnish limited liability company whose governance and decision-making complies with Finland's Limited Liability Companies Act and Otava Ltd's Articles of Association. Otava Ltd also complies with the applicable sections of the recommendations for good governance for family business issued by the Finnish Family Firms Association on 14 May 2009, and the good governance development guidelines for unlisted companies drawn up by the Central Chamber of Commerce in 2016.

## GROUP STRUCTURE

The Otava Group consists of Otava Ltd and its subsidiaries.

## GENERAL MEETING

Otava Ltd's highest decision-making body is the company's General Meeting of shareholders. General Meetings are divided into Annual and Extraordinary General Meetings. According to the company's Articles of Association, the Annual General Meeting must be held annually on a day specified by the Board of Directors before the end of June. An Extraordinary General Meeting will be called when required.

The Annual General Meeting handles the matters specified in Section 13 of the Articles of Association, as well as any other items proposed to the General Meeting. Among other things, the General Meeting decides on the following:

- approval of the income statement and balance sheet
- distribution of profit
- relieving the CEO and the Members of the Board of Directors from liability
- the number of members of the Board of Directors and the fees paid to them

- selection of the company's auditor and the auditor's fees
- the redemption price of shares.

Otava Ltd is owned by family Reenpää.

## ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THEIR TERM OF OFFICE

The Members of Otava Ltd's Board of Directors are elected by the Annual General Meeting. Their term of office ends at the conclusion of the next Annual General Meeting following their election. According to the company's Articles of Association, the Board of Directors must have at least four and at most eight members, plus between one and four deputy members. The Board of Directors elects a Chairman and Vice Chairman from among its members.

## THE TASKS AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors ensures the appropriate organisation of the company's business and governance. The tasks of Otava Ltd's Board of Directors are largely dictated by the Board tasks specified in the Limited Liability Companies Act and Articles of Association. Meetings of the Board of Directors cover matters such as:

- defining and approving the Group's main strategic policies
- discussing and approving the budget
- discussing and approving incentive scheme targets
- discussing and approving the Consolidated Financial Statements and Report of the Board of Directors
- deciding on strategically and financially significant investments and divestments
- deciding on contingent liabilities for financing.



### **MEETING PRACTICES AND DECISION-MAKING**

On average, the Board of Directors convenes eight times per year. There is full attendance at most Board meetings.

### **CEO**

The Board of Directors appoints the company's CEO and decides on the CEO's compensation. According to the company's Articles of Association, the CEO handles the routine management of the company in accordance with the instructions and guidelines issued by the Board of Directors.

### **GROUP'S MANAGEMENT TEAM**

The Group has four business areas: Books, Trade, Media and Otava Marketplaces. The Group's Management Team consists of the directors of the first three of the aforementioned business areas, the parent company's CEO, the Group CFO, and the M&A director. The parent company's CEO chairs the Group's Management Team. The Group's Management Team meets at least once per month.

### **AUDIT**

According to the company's Articles of Association, the company must have one auditor and one deputy auditor. The auditor must be approved by the Central Chamber of Commerce. The auditor is elected for a term of one year.

### **REPORTING**

Comprehensive groupwide financial reporting is used to monitor and forecast the attainment of Otava Ltd's financial targets. The Group's liquidity is monitored on a daily basis. Sales reports are drawn up as appropriate, daily, weekly and monthly. Reports on the consolidated income statement and balance sheet are drawn up monthly and interim accounts are prepared every four months.

### **RISK MANAGEMENT AND CONTROL**

The Board of Directors supervises and assesses the adequacy, appropriateness and effectiveness of the Group's processes for risk management, control and governance. Business operations and financial management are monitored with the aid of the aforementioned reports. Appropriate insurance has been taken out to cover risks arising from the company's business with regard to property, business interruption, data security, and liability.

### **CORPORATE SOCIAL RESPONSIBILITY**

The Otava Group puts corporate social responsibility into practice by operating in line with its values.



# Review by the Board of Directors

## OPERATING ENVIRONMENT

Although Finland's GDP rose by about 1.5 per cent in 2019, the economic outlook got gloomier towards the end of the year. Growth in exports contributed to economic growth. Unemployment fell to less than 7 per cent, but then halted. Inflation and interest levels also remained low. According to preliminary data, retail sales in general rose by just over two per cent in 2019, with Christmas sales being disappointing. There was continued growth in ecommerce, which now accounts for more than 15 per cent of trade at speciality and department stores. The impact of this growth is already being seen in trade structures.

Not all areas of the communications sector benefited from the moderately good general economic situation. In the area of general-interest literature, sales of printed books fell. However, sales of audiobooks largely compensated for this. The market for learning materials and learning services contracted on the previous year, as the reform of the national curriculum has now been completed. The number of bookshops continued to fall, and their share of total sales declined at a faster rate than the market in general. The media sales market remained almost unchanged, growing by only one per cent. Media

sales of magazines continued to fall (-7%), while online advertising volumes continued to rise (+9%). The market for magazines contracted as circulation fell, and making sales to new customers continues to be difficult. The strike and disruption in postal services impacted negatively customer satisfaction among subscribers.

## DEVELOPMENTS IN THE GROUP AND PARENT COMPANY'S BUSINESS

The Otava Group's net sales fell by about 4 per cent. Comparable net sales fell by almost 6 per cent. The Otava Group's operating result for the year was good. Alma Media is treated as an associated company and its impact on the Group's earnings was EUR 0.8 million (share of earnings: EUR 9.2 million minus EUR 8.3 million in depreciation of consolidated goodwill). The parent company's result was improved by EUR 8.4 (2.4) million in dividends received from Alma Media.

## GROUP ORGANIZATION AND STRUCTURE

Although there were some changes in the structure, the Group's organization remained largely unchanged.

At the end of the year, Otava Publishing Company acquired the publishing businesses of Satukustannus Ltd and Karisto Ltd. The acquisition of

### The Group's key indicators:

Group	2019	2018	2017
Net sales, MEUR	286.2	299.1	292.2
Direct operating result, MEUR	31.4	51.3	30.7
Direct operating result as a percentage of net sales, %	11.0	17.2	10.5
Return on Investment, %	9.0	13.7	12.4
Return on Equity, %	8.2	10.2	9.7
Equity ratio, %	69.0	62.5	78.9

Karisto was completed on 1 February 2020. Like Publishing Ltd was merged into Otava Publishing Company on 31 December 2019.

Book Club activities were transferred from Media to Trade at the beginning of 2019.

Lakiperintä Ltd was merged into Otavamedia Ltd on 31 January 2019.

SL-Mediat Ltd and Ampparit Ltd were merged into NettiX Ltd on 31 December 2019.

## BOOKS

Net sales totalled EUR 70 (71.9) million, representing a fall of 2 per cent. The direct operating result was EUR 11.8 (12.2) million, or 16.7 (16.9) per cent of net sales. Although Otava Publishing Company's net sales remained unchanged, its result improved. Otava Book Printing Ltd's net sales fell and its result also weakened. Although Like Publishing Ltd managed to increase its net sales, its result remained in the red.

## TRADE

At a total of EUR 120.2 (120.9) million, no net sales growth was seen in the Trade business area. There was a significant fall in sales of textbooks. The direct operating result was less than in the previous year due to costs incurred by establishing new stores. The number of stores rose to 68 during the financial year, and the company further increased its market share. Jamera Ltd, which specialises in the sale of second-hand textbooks, achieved a good result.

## MEDIA

Net sales in the Media business area totalled EUR 90.5 (105.5) million, representing a fall of 6 per cent in comparable net sales. Although sales of magazine subscriptions and media fell, an upswing was seen in sales to new customers. The direct operating result was EUR 11.0 (7.5) million, or 12.1 (7.1) per cent of net sales. Our continued reorganisation and efficiency measures led to an improvement in our relative earnings level in spite of the fall in net sales. Although net

sales in customer communications fell due to a difficult market situation, the result remained in the black.

## OTAVA MARKETPLACES

Marketplaces continued to grow (+3%) and retained a high level of relative profitability. Significant investments were made in new services during the financial year.

## BALANCE SHEET, INVESTMENTS AND FINANCIAL POSITION

The balance sheet total remained fairly unchanged. The Group's equity ratio improved thanks to a reduction in loans, and stood at 69.0 (62.5) per cent at the end of the year.

The Group's gross investments totalled EUR 10.9 (141.5) million. Investments were made in assets, acquisitions, store refurbishments, buildings, printing machinery and equipment, and software.

The Group's financial position and liquidity remained good. At year-end, the Group's net debt totalled EUR 34.3 (49.0) million. In addition to book credit, cash and cash equivalents, the Group safeguards its liquidity with short-term revolving credit facilities. The Group's cash flow from operating activities was EUR 35.5 (36.8) million. Net financial expenses totalled EUR 1.1 (0.3) million, or 0.4 (0.1) per cent of net sales.

## RISKS

The Group holds an established position in the book and magazine markets, which do not experience any large annual fluctuations.

Annual estimates of the Group's total book sales have not significantly differed from actual sales. The company uses a time-bound, title-specific process to assess the marketability of stock. The risk of nonmarketable items in our inventory is therefore low.

The Group's magazine subscribers are long-term customers who mainly pay for their subscriptions in advance. Although much great-

er variations occur in the media sales market, media sales account for only a small proportion of total net sales compared to magazine sales.

Price trends for most of the goods and services required by the Group are highly forecastable. The company employs long-term agreements as a precaution against variations in paper prices.

In order to safeguard sales growth, the Group has also made investments in digital business relating to its core business, as there is no foreseeable change in the contracting market for printed products.

On the basis of the factors described above, the risks to the Group's business are minor. The Group's strong cash flow position and high equity ratio will safeguard the continuity of our business during market disruptions and the realisation of other risks. Risks have also been covered with property insurance and business interruption insurance.

## DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of 21 March 2019 elected the following as Members of the Board of Directors: Henrik Ehrnrooth, Eero Broman, Heikki

Lehtonen, Alexander Lindholm and Eva Reenpää. Pasi Vainio, Minna Castrén, Timo Kopra and Minna Kokka were elected as Deputy Members. Henrik Ehrnrooth was elected Chairman of the Board of Directors. Ora Lyytikäinen was Secretary to the Board. Kari Miettinen, Authorised Public Accountant, was re-elected as the company's auditor, with the firm of Authorised Public Accountants Oy Audicon Ab as deputy auditor. The Annual General Meeting decided to pay a dividend of EUR 5.30 per share, which totals EUR 10.3 million.

The Annual General Meeting decided to authorise the Board of Directors to acquire a maximum of 15 per cent of the company's treasury shares using unrestricted shareholders' equity. This authorisation will remain in force until the next Annual General Meeting.

## SHARES

The company has 1,936,085 shares. The shares have no nominal value. Each share entitles the bearer to one vote at the General Meeting. The sale of shares is governed by a redemption clause in the company's Articles of Association.

## The Board of Directors' proposal to the Annual General Meeting

The parent company's distributable funds total EUR 188.718 thousand, of which EUR 30.757 thousand is profit for the financial year. The Board of Directors proposes to the Annual General Meeting that the company's distributable funds should be used in the following manner:

To be paid as a dividend of EUR 5.70 per share	EUR 11.036 thousand
To remain in shareholders' equity	EUR 177.682 thousand
	<b>EUR 188.718 thousand</b>

No material changes have occurred in the company's financial position after the close of the financial year. The company's liquidity remains good and the Board of Directors is of the opinion that the proposed distribution of funds will not endanger the company's liquidity.



## Personnel

The number of Group personnel and the salaries and fees paid are as follows:

Group	2019	2018	2017
Average number of personnel	1.102	1.178	1.099
Salaries and fees (EUR 1.000)	54.918	57.318	52.703

Since 2002, the Group has run an incentive scheme covering all personnel. A total of EUR 1.8 million in incentives (including social contributions) will be paid to personnel for exceeding business area-specific targets in 2019.

## OUTLOOK FOR THE CURRENT YEAR

Economic growth in Finland will dwindle during 2020, and this will impact the Otava Group's business. It is assumed that restructuring in the Group's fields of business will continue. The market for printed books will continue to contract, although sales of audiobooks and e-books will increase. The number of bookstores will decrease. Magazine subscriptions, which account

for a significant proportion of the Group's net sales and result, will continue to fall. It will be difficult to boost net sales in the print publishing sector. Demand for digital marketplaces and their related services will continue to rise. It will be essential to develop new businesses. With the aid of continued efficiency measures and new working methods, we will be able to keep the Group's result at its current good level.



# Consolidated Income Statement

## (Finnish Accounting Standards)

1 January–31 December, EUR million	GROUP 2019	GROUP 2018
<b>NET SALES</b>	<b>286.2</b>	<b>299.1</b>
Change in inventories of finished goods and work in progress	-1.0	-0.2
Production for own use	1.0	1.1
Other operating income	2.4	25.2
Materials and services	-111.3	-120.5
Personnel expenses	-65.7	-69.5
Depreciation and impairment	-16.9	-30.0
Other operating expenses	-72.1	-75.9
Share of results of associated companies	<b>0.9</b>	<b>0.5</b>
	-265.0	-295.3
<b>OPERATING PROFIT</b>	<b>23.5</b>	<b>29.8</b>
Financial income and expenses	-0.6	2.1
<b>PROFIT BEFORE TAXES</b>	<b>23.0</b>	<b>32.0</b>
Income taxes	-5.7	-11.3
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>17.3</b>	<b>20.7</b>

# Consolidated Balance Sheet

31 December, EUR million	GROUP 2019	GROUP 2018
<b>ASSETS</b>		
NON-CURRENT ASSETS		
Intangible assets	66.2	75.2
Tangible assets	38.4	36.4
Long-term financial assets	167.7	174.9
<b>Total non-current assets</b>	<b>272.3</b>	<b>286.6</b>
CURRENT ASSETS		
Inventories	28.1	30.5
Long-term receivables	0.7	0.7
Short-term receivables	18.4	22.7
Cash and bank balances	15.3	16.5
<b>Total current assets</b>	<b>62.4</b>	<b>70.4</b>
TOTAL ASSETS	334.8	356.9
<b>EQUITY AND LIABILITIES</b>		
SHAREHOLDERS' EQUITY		
Share capital	8.9	8.9
Share premium fund	25.0	25.0
Reserve for invested non-restricted equity	3.6	3.6
Retained earnings	160.6	150.2
Profit for the financial year	17.3	20.7
<b>Total equity</b>	<b>215.3</b>	<b>208.3</b>
LIABILITIES		
Long-term liabilities	34.3	60.9
Short-term liabilities	85.2	87.7
<b>Total liabilities</b>	<b>119.5</b>	<b>148.7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>334.8</b>	<b>356.9</b>

# Consolidated Cash Flow Statement

EUR million	GROUP 2019	GROUP 2018
<b>CASH FLOW</b>		
<b>Cash flow from business operations</b>	<b>35.5</b>	<b>36.8</b>
Investments	-10.8	-105.7
<b>Cash flow before financing</b>	<b>24.7</b>	<b>-69.0</b>
Financing	-25.9	55.0
<b>CHANGE IN LIQUID ASSETS</b>	<b>-1.2</b>	<b>-14.0</b>
Liquid assets at 1 January	16.5	30.5
<b>Liquid assets at 31 December</b>	<b>15.3</b>	<b>16.5</b>





# Group organization



\* Member of the Group's management team



We broaden  
horizons

**Otava Ltd**

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