29. Financial risk management

Sanoma's treasury operations are managed centrally by the Group Treasury unit. Operating as a counterparty to the Group's operational units, Group Treasury is responsible for managing external financing, liquidity and external hedging operations. Centralised treasury operations aim to ensure financing on flexible and competitive terms, optimised liquidity management, cost-efficiency and efficient management of financial risks. Sanoma is exposed to interest rate, currency, liquidity and credit risks. Its risk management aims to hedge the Group against material risks. Sanoma Board of Directors has approved the unit's guidelines in the Group Treasury Policy.

In the medium term, to ensure financial flexibility, Sanoma's goal is to regain a capital structure corresponding to an investment-grade rating. This will ensure access to low-cost funding. Financial risks can be mitigated with various financial instruments and derivatives whose use, effects and fair values are clearly verifiable.

The Group used interest rate and currency swaps to hedge against financial risks during the year.

Interest rate risks

The Group's interest rate risk is mainly related to changes in the reference rates and loan margins of floating rate loans in the Group's loan portfolio. The Group manages its exposure to interest rate risk by using a mix of fixed and floating rate loans. Interest rate derivatives are also utilised.

Loan portfolio by interest rate, EUR million	2015	2014
Floating-rate loans	**497.6**	502.4
of which converted to fixed-rate using interest rate swap	**200.0**	300.0
Fixed-rate loans	**402.0**	415.7
Total	**899.6**	918.1
Floating-rate loans including the effect of interest rate swap	**297.6**	202.4
Average duration, years	**0.9**	1.7
Average rate (excluding agency fees), %	**2.7**	3.0
Interest sensitivity, EUR million *	**2.0**	1.5

* Interest rate sensitivity is calculated by assuming a one percentage point increase in interest rates. The sensitivity represents the effect on profit before taxes. With an increase of one percentage point in the interest rate, the value of derivatives recognised in the Group's equity increases by EUR 0.8 million (2014: EUR 0.5 million).

Currency risks

The majority of the Group cash flow from operations is denominated in euros. However, the Group is exposed to transaction risk resulting from cash flows related to revenue and expenditure in different currencies. Group companies are responsible for monitoring and hedging against transaction risk related to their business operations in accordance with the Group Treasury Policy. Business operations outside the euro area (countries in which the currency is not pegged to the euro) account for about 6.8% (2014: 8.5%) of consolidated net sales and mainly consist of sales denominated in Russian roubles, Polish zlotys and Swedish kronor. The majority of the transaction risk in 2016 will be related to the acquisition of programming rights denominated in US dollars. The Group has adopted forward contracts as a means of hedging against major transaction risks. If the currencies mentioned above weakened by 10% against the euro, the change in the value of forward contracts would have a negative effect of EUR -9.8 million (2014: EUR -8.6 million) on financial expenses. If the currencies strengthened by 10% against the euro, the positive effect on financial income would be EUR 9.8 million (2014: EUR 8.6 million). Derivative instruments are used to hedge future cash flows; hence changes in their value will be offset by changes in the value of cash flows. The loan receivable from Ukrainian subsidiary to be discontinued is treated as part of the net investment and the exchange rate differences on the loan are recorded in equity.

The Group is also exposed to translation risk resulting from converting the income statement and balance sheet items of foreign subsidiaries into euros. If all reporting currencies weakened by 10% against the euro, the Group net sales would decrease by EUR 10,5 million (based on the figures of 31 December 2015) (2014: EUR -15.8 million). If all reporting currencies strengthened by 10% against the euro, the Group net sales would increase by EUR 12.9 million (2014: EUR 19.3 million). The less-developed currency markets in Russia restrict hedging opportunities. However, a significant change in exchange rates may have an effect on the value of the businesses in Russia, Poland and Sweden. The Group did not hedge against translation risk in 2015.

Derivative instruments

Nominal values of derivative instruments, EUR million	2015	2014
Interest rate swaps		
Cash flow hedges under IAS 39 hedge accounting	**100.0**	100.0
Outside hedge accounting	**100.0**	200.0
Forward currency exchange contracts		
Outside hedge accounting	**100.2**	94.6
Total	**300.2**	394.6

Nominal values of derivative instruments include gross nominal values from all active agreements. The outstanding nominal value is not necessarily a measure or indicator of market risks.

Fair values of derivative instruments, EUR million	2015	2014
Interest rate swaps (incl. accrued interests)		
Cash flow hedges under IAS 39 hedge accounting	**-0.7**	-0.5
Outside hedge accounting	**-0.9**	-1.1
Forward currency exchange contracts		
Outside hedge accounting	**8.0**	7.3
Total	**6.4**	5.7

Based on the interest level on the balance sheet date, cash flows related to the cash flow hedge are not expected to have a significant effect on the results for 2016–2019.

Liquidity risks

Liquidity risk relates to servicing debt, financing investments and retaining adequate working capital. Sanoma aims to minimise its liquidity risk by ensuring sufficient revenue financing, maintaining adequate committed credit limits, using several financing institutions and forms of financing, and spreading loan repayment programmes over a number of calendar years. The Group's undrawn committed credit limits must be sufficient to cover its estimated funding requirements, loan repayments and issued commercial paper commitments. Liquidity risk is monitored daily, based on a two-week forecast, and longer-term based on calendar year. In addition, the Sanoma Group Treasury Policy sets minimum requirements for cash reserves.

The Group's financing programmes in 2015, EUR million	Amount of limits	Unused credit lines
Bilateral committed facilities	844.0	725.4
Commercial paper programmes	1 100.0	747.6
Bond	400.0	
Current account limits	51.0	35.0

Out of EUR 844.0 million of committed facilities, EUR 87.0 million will mature in 2016, EUR 644.5 million in 2017, EUR 49.5 million in 2018, EUR 12.0 million in 2019 and EUR 51.0 million in 2020. The Group's financing agreements include customary covenants related to factors such as the position of creditors, key financial indicators and the use of pledges and mortgages. In 2015, the Group fulfilled the requirements of all covenants.

Financial liabilities, EUR million	2015				2014			
	Carrying amount	Cash-flow *	Undrawn from limits	Total	Carrying amount	Cash-flow *	Undrawn from limits	Total
Loans from financial institutions	134.6	138.3	725.4	863.7	201.2	204.3	712.5	916.8
Bond	399.6	440.0		440.0	399.3	460.0		460.0
Commercial paper programmes	352.4	354.0		354.0	290.3	291.5		291.5
Finance lease liabilities	1.1	1.1		1.1	12.8	12.8		12.8
Other interest-bearing liabilities	11.9	11.9		11.9	14.5	14.7		14.7
Trade payables and other liabilities **	249.2	249.2		249.2	243.7	243.7		243.7
Derivatives	1.6	1.9		1.9	1.6	1.7		1.7
Total	**1 150.4**	**1 196.4**	**725.4**	**1 921.8**	1 163.4	1 228.7	712.5	1 941.2

* The estimate of the interest liability is based on the interest level at the balance sheet date.
** Trade payables and other liabilities do not include accrued expenses and advances received.

Maturity of financial liabilities 2015, EUR million	2016	2017	2018	2019	2020	2021–	Total
Loans from financial institutions	28.9	33.1	12.6	12.5	51.2		138.3
Bond	20.0	420.0					440.0
Commercial paper programmes	354.0						354.0
Finance lease liabilities	0.1	0.1	0.1	0.1	0.1	0.6	1.1
Other interest-bearing liabilities	11.8	0.1					11.9
Trade payables and other liabilities *	200.1	30.0	12.9	2.3	1.2	2.8	249.2
Derivatives	1.1	0.8					1.9
Total	**616.0**	**484.1**	**25.6**	**14.9**	**52.5**	**3.4**	**1 196.4**

* Trade payables and other liabilities do not include accrued expenses and advances received.

Maturity of financial liabilities 2014, EUR million	2015	2016	2017	2018	2019	2020–	Total
Loans from financial institutions	125.4	3.1	75.8				204.3
Bond	20.0	20.0	420.0				460.0
Commercial paper programmes	291.5						291.5
Finance lease liabilities	1.2	1.2	1.2	1.2	1.2	6.8	12.8
Other interest-bearing liabilities	13.5	1.2					14.7
Trade payables and other liabilities *	209.2	18.5	8.8	1.9	1.2	4.1	243.7
Derivatives	1.0	0.5	0.2				1.7
Total	**661.8**	**44.5**	**506.0**	**3.1**	**2.4**	**10.9**	**1 228.7**

* Trade payables and other liabilities do not include accrued expenses and advances received.

Credit risks

Sanoma's credit risks are related to its business operations. Sanoma Group's diversified operations significantly mitigate credit risk concentration, and no individual customer or group of customers is material to the Group. The Group's operational units are responsible for managing credit risks related to their businesses.

The carrying amounts of trade receivables and other receivables best indicate the amount that will be collected. The aging of trade receivables is presented in the following table.

The aging of trade receivables, EUR million	2015			2014		
	Gross	Impairment	Net	Gross	Impairment	Net
Not due	142.4	-3.2	139.2	137.7		137.7
Past due 1–30 days	16.2	-0.5	15.7	18.5	0.0	18.5
Past due 31–120 days	5.4	-0.9	4.5	12.0	-0.3	11.7
Past due 121–360 days	10.0	-2.1	7.9	8.5	-1.8	6.7
Past due more than 1 year	5.9	-4.4	1.5	5.8	-5.3	0.6
Total	**179.9**	**-11.0**	**168.9**	182.6	-7.4	175.2

The Group's Treasury Policy specifies that financing transactions are carried out with counterparties of good credit standing, and divided between a sufficient number of counterparties in order to protect financial assets. The Group has spread its credit risks efficiently by dealing with several financing institutions.

Trade receivables and other receivables are presented in Notes 18 and 20.

Capital risk management

The Group's goal is to regain a capital structure corresponding to an investment-grade credit rating. The Group targets an equity ratio between 35% and 45%, net debt/EBITDA ratio below 3.5 and gearing under 100%.

When calculating the net debt/EBITDA ratio, the following adjustments are made to the reported EBITDA: non-recurring items are removed, the effects of acquisitions are added and the effects of divestments are deducted, and the effects of the investments in programming and prepublication rights are deducted for the reporting period.

To strengthen its capital structure, the Group issued a hybrid bond of EUR 100 million in December 2013. The hybrid bond is subordinated to the Group's other debt obligations, but has priority over other equity items. The coupon rate of the bond is 7.25%, and it has no maturity. The interest from the hybrid bond must be paid to the investors if the Group pays dividends. If dividends are not paid, the Group will make a separate decision regarding interest payment on the hybrid bond. Unpaid interest is accrued. The Group may exercise an early redemption option three years after the date of issue. The holders of the hybrid bond do not have the right to exercise control or to vote at Annual General Meetings.

In 2015, the Group's equity ratio was 39.5% (2014: 42.2%), net debt/EBITDA ratio was 5.1 (2014: 4.8) and gearing 77.8% (2014: 66.7%).

Net debt, EUR million	2015	2014
Interest-bearing liability	**899.6**	918.1
Cash and cash equivalents	**98.5**	116.3
Total	**801.2**	801.8

The Sanoma Group does not have an official credit rating.

Fair value hierarchy of financial liabilities and financial assets

Fair value hierarchy of financial assets and financial liabilities EUR million, 2015	Carrying amount		Fair value			
	Note		Level 1	Level 2	Level 3	Total
Financial assets						
Forward currency exchange contracts						
Outside hedge accounting	20	8.0	8.0			8.0
Non-current trade receivables	18	0.9			0.9	0.9
Financial liabilities						
Interest rate swaps						
Cash flow hedges under IAS 39 hedge accounting	26	0.7		0.7		0.7
Outside hedge accounting	26	0.9		0.9		0.9
Loans from financial institutions	25	134.6			134.6	134.6
Bonds	25	399.6	409.9			409.9
Other liabilities	25	13.0			13.0	13.0

Fair value hierarchy of financial assets and financial liabilities EUR million, 2014	Carrying amount		Fair value			
	Note		Level 1	Level 2	Level 3	Total
Financial assets						
Forward currency exchange contracts						
Outside hedge accounting	20	7.3	7.3			7.3
Financial liabilities						
Interest rate swaps						
Cash flow hedges under IAS 39 hedge accounting	26	0.5		0.5		0.5
Outside hedge accounting	26	1.1		1.1		1.1
Loans from financial institutions	25	201.2			201.2	201.2
Bonds	25	399.3	411.6			411.6
Other liabilities	25	27.3			27.3	27.3

- Level 1: fair values are based on quoted prices in active markets.
- Level 2: fair values are based on valuation models for which all inputs are observable, either directly or indirectly.
- Level 3: fair values are based on input data that is not based on observable market data.

During the financial period and the comparable year, no transfers were made between the fair value hierarchy levels 1, 2 and 3.

Available netting agreements and derivative instruments

Sanoma has entered into netting agreements with all of its derivative instrument counterparties. Including netting agreements, financial receivables from banks amount to EUR 6.4 million (2014: EUR 5.7 million).