



ANNUAL REPORT 1998



The Rautakirja Group is a Finnish trade and service company with an increasing interest in international operations. The basis for all the group's operations lies in the consumer's needs. The Rautakirja Group specializes in the key areas below:

- wholesale and retail trade in newspapers and magazines, and
- specialized retail trade based on a firm foundation of:
 - nationwide coverage
 - chain operations
 - centralized chain management
 - strong market position

Annual Report 1998

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1998 IN BRIEF

- At the beginning of the year Suomalainen Kirjakauppa Oy took over the six Academic Bookstore outlets purchased in October 1997.
- In April, Rautakirja Oyj sold the entire share capital of TukkuTiimi Oy and the Swedish TukkuTiimi AB, owners of the Tiimari chains in Finland and Sweden respectively, to the company's executive management and to capital funds administered by CapMan Capital Management Oy. The selling price was FIM 260 million.
- With effect from May 1, 1998 Hannu Syrjänen was appointed President and CEO of Rautakirja Oyj, on the retirement of Raimo Hertto on 30.4.1998.
- On May 15th, 1998 WSOY, Sanoma Osakeyhtiö, Helsinki Media and Devarda, a holding company owning the two last-mentioned companies, announced their intention of fusing operations to form Sanoma-WSOY Oyj. The merger is scheduled to come into effect from May 1, 1999. At the time of this announcement the merging companies owned between them some 55% of Rautakirja. Hence Rautakirja will become a subsidiary of the new company. Rautakirja Oyj will thereafter continue its operations as an independent listed company on the Helsinki Stock Exchange.
- Construction work got under way on Finnkino's multiscreen cinema complexes in Helsinki, Tampere, and Pori.

	1998	1997	Change, %
Group total sales, FIM million	5,793.8	5,645.1	2.6
Net sales, FIM million	3,422.9	3,407.7	0.4
Profit before extraordinary items, FIM million	204.0	220.9	-7.6
Profit before taxes, FIM million	394.0	213.1	84.9
Earnings per share, FIM	21.98	24.23	-9.3
Return on capital invested, %	17.5	20.3	
Gearing, %	-44.2	-22.3	
Personnel, average	4,970	5,038	-1.3
Gross investments, FIM million	188.0	138.6	35.6

Financial reports in 1999

In addition to this annual report for 1998, Rautakirja will publish two interim reports on operations for the year from January to April and January to August respectively. The first, covering 1-4/1999, will be issued on 9.6.1999, and the second, covering 1-8/1999, on 13.10.1999.

REPORT BY THE CHIEF EXECUTIVE OFFICER



*President and CEO
Hannu Syrjänen*

"In the near future, just as today, our commercial operations can be expected to depend to a large degree on customer-driven chain concepts, with their success fuelled by the fact that the chains represent some of the strongest product names in their respective sectors."

Rautakirja emerged from a year of changes in extremely good shape.

Following the decision in April to sell off the entire share capital of TukkuTiimi Oy and its Swedish subsidiary TukkuTiimi AB, the owners of the Tiimari chain in Finland and Sweden respectively, it was immediately apparent that the Group's operating result on the year would fall somewhat. On the other hand, the profits accrued on the sale also ensured that the Group's profit before taxes in 1998 almost doubled from the previous year's record level.

The TukkuTiimi sale further strengthened the Group's already sound financial position, which will enable considerable investments in basic commercial operations. The Rautakirja Group's moves into international operations will also require financial commitments. New ground is being broken for commercial operations, particularly in the leisure-time sector. In my view, the free time at our disposal looks set to increase still further, and this will bring with it increased consumer spending on leisure activities.

Another very significant development taking place during 1998 was the announcement by Rautakirja Oyj's two largest shareholders of their intention to merge from May 1999. The changes taking place in the structure of the ownership of the company are expected to have a positive impact on Group operations, on the one hand through synergy benefits to be anticipated, and on the other through improved conditions for risk management.

Rautakirja's basic strategy is to serve as a trade and service company concentrating on wholesale and retail trade in newspapers and magazines and on chain-operated specialized retail trade. The major strengths underlying our retail outlets are their nationwide coverage, chain operations, centralized chain management, and a strong market position in their respective sectors.

The Rautakirja Group is today a fully streamlined profit-oriented concern. Profitability and an attractive return for our shareholders are thus very much to the fore in our target-setting. The realization of our profit targets in the longer term will naturally require growth, and the securing of this growth goes hand in hand with our aims on sustaining continued positive profit performance.

Given the Group's already strong market position in the country, the achievement of growth in Finland is both

expensive and difficult. In the near future, we shall be turning our attention increasingly towards international markets. A good platform for this is already in place, for example through our expanded commercial operations in the Baltic Countries. We currently see the entire Baltic Sea basin as our potential market-area.

The retail trade is in a constant state of flux. In the short term, purchasing power looks set to grow. The number of retail outlets has declined sharply over the past several years, and this trend will continue. The trade is becoming more centralized, both in terms of location and as a consequence of increasing store size. Customer loyalty systems and consumer points-schemes are clearly here to stay. As the current consumer goods trade becomes increasingly centred on peripheral "ring-road" sites, store closures in the traditional urban centres are giving rise to service vacuums. The development of the R-Kiosk concept to fill these gaps and win over new consumers will provide our operations with new challenges in the months and years ahead.

Major legislative changes on the horizon that will bring us new opportunities include the further liberalization of shop opening hours, the possible freeing of alcohol sales (currently available only through Alko off-licences), and the spread into the general retail sector of non-prescription drugs and medicines that are at present only sold through pharmacies.

The enormous potential offered by online electronic trading is being exploited on a large scale within the Group in the first instance by Suomalainen Kirjakauppa, who will open a full-service web bookstore in the fall of 1999. In addition to our cornerstone operations in the R-Kiosks, Lehtipiste newspaper and magazine sales, and Suomalainen Kirjakauppa's bookstore operations, we shall in the next few years be making vigorous advances into leisure-time commercial operations. Finnkinno, now concentrating its attention on movie theatre operations, is in the process of building multiscreen cinema and leisure complexes in Helsinki (opened in February 1999), Tampere, and Pori. Decisions in principle have already been taken for similar projects in Turku and in the Latvian capital, Riga.

Alongside movie theatre operations, the Group will be investing in the immediate future in commercial activities

based around sports and entertainment. A step in this direction was taken in March 1999, when the Rautakirja Group acquired a 21.1% share in Jokerit HC Oyj, which has now become a Rautakirja affiliate. This dynamic and professionally managed company, with interests in both ice hockey and soccer, links the group to a rapidly expanding new area of operations.

It is also our intention to develop further the Group's café and restaurant operations by expanding the chains and investigating the potential for new concepts to be introduced into Finland and the surrounding markets.

In the near future, just as today, our commercial operations can be expected to depend to a large degree on customer-driven chain concepts, with their success fuelled by the fact that the chains represent some of the strongest product names in their respective sectors.

Maintaining the principle of addressing the consumer's needs requires of us constant vigilance and the ability to develop and change. Consumers' changing service requirements must be recognized and met. We are developing the Group's personnel and organization in a more open, innovative direction, allowing the company to respond more rapidly and sensitively to changes in the market. On the basis of in-house morale and atmosphere studies carried out amongst the staff, we are continuing to improve staff working conditions and training. From the beginning of 1998, the profit-sharing schemes in operation within the Group were expanded to embrace all permanent staff working in Finland. No service company that bases its operations on customer satisfaction can hope to flourish without an excellent staff. The thanks for the good year that is outlined in this report are to be directed to our customers, but no less to the entire skilled team of Rautakirja Group employees – to the people who made the result possible.

Hannu Syrjänen
President and CEO

REPORTS FROM PROFIT CENTRES

R-KIOSKS



The R-Kiosks form Finland's leading nationwide, centrally-administered kiosk chain. The chain comprises a total of 730 kiosks in Finland, and at year's end 481 of these were owned and operated by Rautakirja and 249 were in the hands of franchise-holders. The aggregate number of R-Kiosks fell by six on the year.

Within the Rautakirja kiosk trade, 1998 was a year of vigorous development in several different areas, and this manifested itself in growth in both net sales and trading profit. Nearly 50 R-Kiosks were altered in line with the new outlet concept to become "kiosk stores" or convenience store outlets. Both the mean size of purchases and the aggregate throughput of customers developed in these new outlets at a clearly faster rate than in other kiosks in the chain. Customer numbers in the R-Kiosk chain as whole were up by more than 2%, and mean purchases by more than 4%. In the revamped premises foodstuffs sales and sales of medium-strength beer moved ahead favourably. There were also encouraging signs in sales of seasonal items.

The lamentable summer weather during 1998 meant that sales of ice-cream and soft drinks did not meet the

targets set. On the other hand, the extensions of store opening hours on Sundays during the summer and over the Christmas season did not have any significant adverse effect on kiosk sales.

In R-Kiosk marketing, the traditional press and television advertising campaigns were complemented with a heightened presence for the R-Kiosks at large mass events, mainly those geared to young people and women. Adjustments in targeted advertising procedures also produced the desired results as these sections of the population were shown to use the kiosks more often. In a national study, the R-Kiosks scored the second-highest consumer approval rating of all Finnish retail chains.

Considerable energy and investment again went into kiosk cash register systems and background systems. By the end of 1998, electronic cash registers had been installed in all the Rautakirja-owned kiosks, and during the course of the year now under way the franchise-holder kiosks will be joined up to the common cash register system. The systems developments provide the opportunity to make faster and more accurate use of sales information in chain management. At the same time it has also been possible to develop cooperation with suppliers in the managing of particular product-groups. This collaboration shows itself in the R-Kiosks in the form of an increasingly attractive and clear store image, something that is not lost on consumers.

The measures taken towards the end of the year to merge the sales organizations of Rautakirja kiosks and franchise-holder kiosks have strengthened and clarified chain administration operations. The move will also henceforth make it markedly easier to satisfy the promises made to consumers equally throughout the chain.

Once again, staff training programmes were given a high profile. Training associated with the spread of the cash register systems was the most important single area. In the year now in progress systems training will be directed to R-Kiosk managers and their in-store staff. In addition, service training for the entire staff will be introduced, and will also include the discussion and development of environmental issues.

Net sales for R-Kiosks, which include only the retailer's commission component of commission sales, totalled FIM 1,676.0 million, an increase of 6.4% from 1997. Trading profit stood at FIM 75.8 million, up by 9.5%.

R-Kiosk investments totalled FIM 61.8 million. This marked a growth on 1997 figures of 21.4%. Investments were weighted towards bringing outlets into line with the new kiosk concept, and also towards systems upgrades and installations.

The Kiosk Division in Finland employed an average of 2,500 persons in 1998, 25 fewer than in the previous year. From the beginning of 1997 the profit-centre has been



headed by Senior Vice President Erkki Järvinen.

In the current year, the efforts to develop kiosks and their information systems will go ahead unabated. The R-Kiosk chain's excellent nationwide coverage will make it possible to introduce new product-groups and services to the R-Kiosk concept, and will allow for the kiosks to take on an additional role as a pick-up point for mail order or other deliveries.

LEHTI-MAJA EESTI AS

Lehti-Maja Eesti AS is engaged in kiosk trade and wholesale sales of newspapers and magazines in Estonia. At the end of 1998 there were 106 R-Kiosks in operation in the country, as against 108 outlets in 1997.

The year under review marked the harnessing of a strikingly expanded R-Kiosk chain following a ten-fold increase in the number of outlets during 1997. Traditionally kiosks in Estonia have held a strong position in sales of reading matter, but during 1998 the product assortments were expanded wherever space allowed, particularly in the areas of sweets, drinks, and ice-creams.

The first consumer approval study was also carried out in Estonia, according to which the R-Kiosks are the country's leading kiosk chain, both in terms of service and the diversity of their product range. The chain's first television advertising campaign in the country was launched to capitalize on this positive image of the R-Kiosks.

Staff training at the kiosk and chain management levels was one of the major focal points of the year's operations. At the same time, cooperation with the Finnish chain management organization was tightened up, with a view to supporting and developing Estonian operations.

Aggregate turnover in 1998 reached FIM 66.4 million, and net sales for the year totalled FIM 41.5 million (EEK 109.2 million), showing a growth of 88.9% from the previous year. The company posted a trading loss of FIM 5.4 million. This compares with a loss of FIM 2.6 million in 1997. Investments stood at FIM 1.4 million, as against FIM 7.9 million in the previous year.

Lehti-Maja Eesti AS employed an average of 333 persons, an increase of 132 on the year, and the company was headed by CEO Kalvar Kase.

In its plans for the current financial year, Lehti-Maja Eesti AS will be seeking to strengthen further its market position, to adjust operations to take better account of regional variations in consumption, to develop the basic kiosk image across the chain, to build more walk-in kiosks along the lines of newer Finnish outlets, and to improve profitability.

PRESS DISTRIBUTION DIVISION – LEHTIPISTE



Rautakirja's Lehtipiste operations are centred on wholesale sales of Finnish and foreign newspapers and magazines. The profit-centre provides a nationwide distribution system for newsstand copies of magazines and newspapers, delivering roughly 1,500 different titles to a network of some 8,400 outlets across the country.

In 1998 the value of Finnish newsstand sales at cover prices grew by some 5.3%. If motor vehicle sales are omitted from the aggregate national retail sales figures, the growth recorded in the newspaper and magazine trade was slightly above that of the retail sector as a whole.

Sales of newspapers totalled FIM 590.4 million, up by 3.2% on 1997. Sales volume also grew, by 1.8%, to reach 99.9 million copies. The growth that was recorded was attributable almost completely to increased sales of the two main rival evening newspapers. In the course of the year Lehtipiste made some significant adjustments to its evening newspaper delivery schedules in response to alterations at printing works and changes in shop opening hours.

Magazine sales moved ahead by considerably more than was the case with newspapers, recording growth of 7.3% to reach FIM 652.0 million. Overall sales volume was also buoyant, totalling 34.2 million copies, a rise of 9.2% on the previous period. The greatest forward movement in sales



Newsstand sales of newspapers and magazines, 1998

	Mill. copies	Sales volume		Sales at consumer prices	
		Change, %	FIM million	Change, %	FIM million
Finnish newspapers	99.2	1.9	582.4	3.3	
Foreign newspapers	0.7	-4.4	8.1	-4.2	
Newspapers, total	99.9	1.8	590.4	3.2	
Finnish magazines	30.9	9.5	550.9	6.6	
Foreign magazines	3.4	6.6	101.1	11.4	
Magazines, total	34.2	9.2	652.0	7.3	
Total	134.2	3.6	1,242.4	5.3	

Newsstand sales of newspapers and magazines by outlet, 1998

(At consumer prices)	Outlets	Total FIM million	Change, %	Share of all outlets, %
R-Kiosks	730	263.4	4.6	21.2
Automarkets	105	128.9	11.2	10.4
Department stores	109	93.9	4.4	7.6
Supermarkets, large	368	173.9	5.9	14.0
Supermarkets, small	391	89.9	3.8	7.2
Self-service stores, large	898	134.5	4.7	10.8
Self-service stores, small	1,250	91.5	0.6	7.4
Small stores	169	6.6	-2.1	0.5
Kiosks and canteens	1,421	87.8	-0.4	7.1
Bookstores and stationers	144	23.4	2.2	1.9
Cafés and restaurants	786	23.7	12.4	1.9
Petrol stations, service stations	1,195	86.8	8.7	7.0
Hotels, motels and inns	214	6.6	3.1	0.5
Speciality stores	601	29.8	18.9	2.4
Seasonal outlets	23	1.8	-3.0	0.1
Total	8,404	1,242.4	5.3	100.0

was recorded in computer/Internet periodicals and in youth- and music-oriented magazines.

Sales of foreign newspapers fell by 4.2% at cover prices to FIM 8.1 million, while the volume of sales was also down by 4.4% to 0.7 million copies. Sales of foreign magazines moved ahead confidently, however. The most encouraging figures were to be seen among music- and

entertainment-related magazines. Aggregate sales of foreign magazines and periodicals grew by 11.4% to FIM 101.1 million at cover prices, with sales volume gaining 6.6% to reach 3.4 million copies.

Newsstand sales grew most strongly in large-scale current consumer goods outlets such as large supermarkets and hypermarkets. The structural changes taking place in the service station/filling station sector and investments in convenience store outlets at petrol stations also spurred above-average sales of Lehtipiste products.

One of the greatest changes facing Lehtipiste during the year was the gradual launching of new automated depot technology and operating procedures. The changes will bring increased distribution efficiency, reduced costs, improved quality of service, and will at the same time greatly increase the flexibility of dispatching operations.

With a view to developing in-store sales, a real-time display unit monitoring

system was introduced, and a start was made on a system for store visits by field staff in the respective store chains. A new and expanded catalogue was released, with the aim of increasing shopkeepers' and consumers' awareness of the potential benefits of newsstand sales, and also to show the diverse range of titles on offer.

One of the basic elements of Lehtipiste's operating model is that it takes care of the collection of all unsold copies of newspapers and magazines from points of sale for pulping and recycling.

Lehtipiste's net sales totalled FIM 805.1 million, up by 4.0% on 1997, and the unit recorded a trading profit of FIM 49.4 million, some 2.6% more than in the previous period. Investments were primarily directed to machinery and equipment for the renovated dispatching depot, and totalled FIM 9.0 million.

The Press Distribution Division employed an average of 209 persons (1997: 206) during the year, and the profit-centre was headed by Senior Vice President Markus Miittinen.

The outlook for newsstand sales in the current year is once again positive, both through the work carried out to develop in-store displays and as a result of improved productivity following the Division's investments in depot technology. At the same time, it is not thought that the increase in electronic media and publishing will greatly affect the position held by papers and magazines.



SUOMALAINEN KIRJAKAUPPA OY



Suomalainen Kirjakauppa is Finland's largest nationwide bookstore chain. The unit's aim is to be a speciality bookstore chain combining a wide assortment and a high degree of professional skill. At year's end the chain comprised a total of 59 stores. In the early months of the year, the Rautakirja subsidiary's activities centred on taking nine new bookstores into the chain by training staff and attuning data systems and shop liveries.

While provisional figures would indicate that Finnish retail sales of general fiction and non-fiction books remained at the level of the previous year, Suomalainen Kirjakauppa increased its sales at a level clearly above that of the branch in general. Successful schools and clearance sales campaigns further fuelled sales. Finnish authors led the way in the field of fiction sales, with familiar names such as Arto Paasilinna, Kalle Päätalo, and Laila Hietamies occupying the top positions.

The chain's sales of foreign books benefited from the acquisition of six Academic Bookstore outlets from the beginning of the year. Successes were also recorded in the fast-developing CD-ROM market, and newspaper and magazine subscription sales held up well. Sales of stationery and office supplies were in line with the development in the branch as a whole, but fell short of the targets set.

The year saw considerable energy and time spent in the extensive implementation of the systems investments made during recent years. Databases allowed for stores to provide improved levels of service to customers throughout the chain. The ordering system for annual newspaper and magazine subscriptions was also revamped, and the new system came on stream in the first months of the current year.

It was another energetic year on the staff training and chain management front. The main areas of emphasis in staff training were on sales and service training and line management skills.

The company recorded aggregate net sales (including retail and direct sales) of FIM 568.7 million, a growth of 12.8% from the figure for 1997. Suomalainen Kirjakauppa posted a trading profit of FIM 23.9 million, down by 3.1% on the previous year's performance. Gross investments of FIM 36.2 million were directed mainly towards acquisitions of commercial operations and store refurbishing and data system purchases.

Suomalainen Kirjakauppa employed an average of 660 persons during the financial year, an increase of 117 on the previous year. The unit was headed by Raimo Kurri as CEO.

Following the end of the 1998 financial year, Suomalainen Kirjakauppa acquired the commercial operations of Pohjalainen Kirjakauppa in Oulu. The purchase meant that the Suomalainen Kirjakauppa chain gained a new outlet from the beginning of April 1999.

In the course of the year now in progress Suomalainen Kirjakauppa will continue with wide-ranging implementation of recent data system upgrades and with staff training to ensure their smooth operation. The year will also see the opening in the fall of a full-service online bookstore operating on the World Wide Web.

FINNKINO OY



FINN
KINO

In accordance with the new operating strategy drafted in 1996, Finnkino again concentrated its attentions on movie theatre operations in the year under review. The handing-over of the bulk of the company's former film distribution activities had already been completed by the beginning of 1998. Finnkino is nevertheless still involved to a limited extent in film distribution. This aspect of the company's operations is geared primarily towards domestic Finnish releases and the import of art-house movies to complement the standard repertoire in its own cinemas. In addition to its cinema operations, Finnkino imports films for video sales and rentals.

At the end of 1998 Finnkino operated 23 cinemas in 9 cities. The number of movie theatres declined by three over the year (all in Helsinki), and this represented a reduction of



five in the number of screens in the Greater Helsinki area. Alongside its operations in the domestic market, Finnkino has a Latvian subsidiary Baltic Cinema SIA, which owns two cinemas in Riga. Baltic Cinema also engages in film distribution operations within its own market area. Finnkino further sees to the subtitling of foreign films for screening in Finland, through its subsidiary Interprint Oy.

Aggregate cinema attendances in Finland increased in 1998 by some 7.3% to roughly 6.3 million, with aggregate ticket sales of approximately FIM 240 million recorded. The greatest advances in sales and attendances alike were achieved in small cities and rural communities. In the capital Helsinki, the only relatively slight increase recorded was largely attributable to the decline in numbers of cinemas.

As in many other countries, the cinema market in Finland during 1998 was dominated by one blockbuster movie – Titanic – which amassed an audience of nearly 1,100,000 Finns. The next four films in the Top 5 followed at a respectful distance and were the Finnish release Kuningasjätkä (275,822), Armageddon (256,563), As Good As It Gets (206,007), and Saving Private Ryan (202,331). Titanic also reigned supreme over the video market, with sales of around 250,000. The previous record dated from 1995, when The Lion King achieved sales of 203,000 cassettes. Titanic helped to boost the video sales and rental markets into a sharp increase in volume.

Over the year Finnkino invested heavily in large development projects. The work to open a number of multi-screen cinema complexes around the country took concrete form in February 1999 when a new 14-screen theatre and entertainment centre was opened at Helsinki's Tennis Palace. A similar 10-screen complex opened in Tampere in April,

and a further 5-screen cinema will open for moviegoers in Pori at the end of the current year. The Bristol Cinema in downtown Helsinki was given a complete facelift to bring it into line with state-of-the-art audiovisual and comfort requirements.

A new centralised ticketing system (Kinolippu) came into service in the summer. A single nationwide number (0600 007 007) now allows moviegoers to book tickets to all Finnkino cinemas across Finland. Ticket sales directly to companies were also targeted as the stock of cinemas improved.

The operations of Baltic Cinema SIA in Latvia developed favourably and audience figures passed the 500,000 mark. Baltic Cinema's market share of Latvian cinema operations (which are centred largely on the capital Riga) approached 50%.

The activities of the subtitling subsidiary Interprint Oy benefited from the general positive trend in the cinema sector. The company's operations were modernised and production capacity was increased by a partial transfer from conventional subtitling to more environment-friendly laser technology.

Throughout the entire Finnkino Group staff training was once again directed mainly to familiarising personnel with chain operations and to improving service levels.

Finnkino's net sales in 1998 totalled FIM 243.9 million, showing growth on the previous year of 7.9%. Trading profit was FIM 8.2 million, up by 16% on 1997. The company's gross investments of FIM 33.8 million were composed mainly of design and construction costs arising out of the new multiscreen cinemas and of system acquisitions for the new national ticketing service.

Finnkino employed an average of 397 persons over the year (1997: 431), with the great majority of these working in the chain of cinemas. The company is headed by CEO Timo Mänty.

Finnkino is confident that the positive development in cinema operations will continue into the new year, helped by the renewal taking place in the movie-theatre stock and by the strong revival recently observed in domestic film production. Early figures indicate that many of the best-selling films of 1999 will be Finnish in origin.

EUROSTRADA OY

Euro  *Strada*



*E*uroStrada Oy's operations are divided among two specific sectors: EuroStrada service areas and Pizza Hut restaurants.

EuroStrada's chain of highway service areas comprises



eight café, restaurant and filling station facilities located on busy road sections, and the Esso Mellunkylä filling station in an eastern suburb of Helsinki.

While consumption of gasoline and diesel fuel fell across the whole country in 1998 by a little more than 1%, fuel sales through EuroStrada service areas declined by slightly more than the general trend. The decline can be attributed both to the general fall-off in motor vehicle fuels and to the effects of the extremely fierce price competition that surfaced in built-up areas during the year. Customer throughput at service areas increased by around 9%, and this growth was more than reflected in beverage and food sales, which were up by almost 25%. Net sales by the highway service areas reached FIM 161.5 million, posting growth on the year of 16.1%. A part of this growth can be attributed to the addition to the chain in December 1997 of a new outlet in Pälkäne.

Within the Pizza Hut restaurant chain the year was one of expansion of chain operations. A total of seven new units were opened during the year, and five more were refurbished. At the end of 1998 there were a total of 18 restaurants in the chain. The powerful growth observed in the number of fast-food outlets in Finland, coupled with the considerable development costs involved in building up the Pizza Hut chain, led to reduced profitability over the year. Pizza Hut net sales were up by 24.7% to reach FIM 53.0 million.

In both EuroStrada units, 1998 was another year of systematic staff training programmes to familiarise personnel with chain operations and to improve service levels.

EuroStrada Oy posted net sales in 1998 of FIM 214.5 million, showing healthy growth of 18.1%. Trading profit was down, however, and stood at FIM 2.9 million as against FIM 4.0 million in 1997. Investments were directed mainly towards expansion of the Pizza Hut chain and renovation of existing restaurants, and totalled FIM 17.2 million. This was down substantially from the 1997 figures of FIM 29.6 million.

EuroStrada employed an average of 604 persons during the year, 129 more than in the previous period. The company was headed by CEO Seppo Soini.

In the new financial year now under way, EuroStrada will be seeking to achieve growth both on highways and in the cities. Steps will be taken to secure the profitability of Pizza Hut operations and to expand the chain by a few new outlets over the next twelve months. EuroStrada will also be continuing the basic work involved in launching the Kentucky Fried Chicken restaurant chain in Finland. Currently the company is looking for premises to house the first such outlet in the Helsinki downtown area.

REAL ESTATE

During 1998 the Finnish real estate market developed positively from the more divided mood of 1997. In the largest cities the demand for office and commercial space

has already expanded outwards to include previously-shunned peripheral areas of the city centres. The year witnessed an actual shortage of the best sites in downtown areas, and rental prices for these premises continued to rise.

The Real Estate Unit's operations are divided between profit-centre operations and Rautakirja Group corporate service unit activities. Profit-centre operations are carried on both within the parent company and in the subsidiary P.M. Drockila Oy. In practice, the activities revolve around rentals of space owned by Rautakirja and P.M. Drockila Oy and sales of office and commercial space owned by the Rautakirja Group and surplus to requirements.

The most significant such sales in 1998 centred on a former office block in Kuopio and Malmintori Tavaratalo Oy in the Helsinki suburb of Malmi.

In the corporate service sector of its operations, the Real Estate Unit supports the commercial activities of Rautakirja Group units through holdings in real estate and shares, and also participates in the acquisition of premises for the Group's various retail chains.

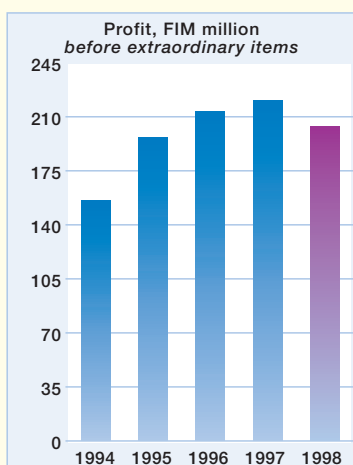
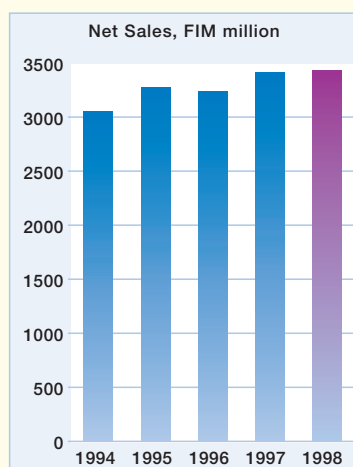
Gross investments for 1998 totalled FIM 19.7 million, of which the lion's share (FIM 17.0 million) went to commercial properties designated for use by the Group's retail chains. Construction work on the extensive cinema and concert centre being built jointly by Finnkino and the City of Pori was started in Pori at the end of the year.

Of the total figure of around FIM 675 million in real estate assets held by the Rautakirja Group, some 60% were in use by the Group at the end of the year.

During 1998 the Real Estate Unit employed an average of eight persons. The corresponding figure in 1997 was seven. The unit is led by the P.M. Drockila CEO Jouko Mustonen.



REPORT ON OPERATIONS, 1.1.–31.12.1998



Business environment

According to the latest analysis carried out by the Federation of Finnish Commerce and Trade, 1998 was the fifth successive year of growth for the wholesale and retail trade in the wake of the deep recession which struck the Finnish economy at the beginning of the decade. At the beginning of the year trade was relatively sluggish, but growth picked up from March onwards, only to slow markedly in the final quarter.

In Rautakirja's own particular areas of interest the important Christmas season went well, but did not produce quite the same positive surprises that have become familiar in the last two or three years.

The general development in the retail and wholesale branch was further marked by considerable monthly fluctuations and by differences between the various trade sectors.

According to studies by the Federation of Finnish Commerce and Trade, the value of retail sales increased during 1998 by as much as 6.8%. If rapidly expanding motor vehicle sales are excluded from the total, the growth figure falls to some 4.9%. Within the current consumer goods trade, the growth of around 4.0% was relatively stable throughout the year.

Statistics compiled by the Federation of Finnish Publishers indicate that aggregate book sales grew by some 5.3%. Retail sales through bookstores declined by 0.9%, while direct sales (for example to schools) and book

club operations increased their market shares.

Change in group structure

At the beginning of 1998, Suomalainen Kirjakauppa Oy took over six Academic Bookstore outlets purchased from Oy Stockmann Ab in October 1997. The Suomalainen Kirjakauppa chain of stores was also extended by the acquisition during the summer of three bookstores formerly belonging to Kemin Kirjakauppa Oy.

In an agreement signed in April, Rautakirja sold the entire share capital of Tukkuutiimi Oy and the Swedish Tukkuutiimi AB, owners of the Tiimari chains in Finland and Sweden respectively, to the company's executive management and to capital funds administered by CapMan Capital Management Oy. The selling price was FIM 260 million.

Turnover and net sales

Total Group sales, including commission sales but before the addition of indirect taxes, rose by 2.6% from the 1997 level to stand at FIM 5,794 million. Group net sales (which includes commission sales – lottery tickets, pools betting coupons, and bus tickets – only in respect of the commission paid) stood at FIM 3,422.9 million, up only marginally from the 1997 total. The figures for 1998 in both cases include Tukkuutiimi net sales in respect of the period when the company was still a part of the Rautakirja Group (in other words nearly four months) to a total of FIM 70.3 million, whereas

Turnover and net sales by trading sector (FIM million)

	1998	1997	Change, %
Kiosk Division	1,717.5	1,597.4	7.5
Press Distribution Division	805.1	774.4	4.0
Bookstore Division	568.7	504.0	12.8
Movie Theatre Division	243.9	226.0	7.9
Café and Restaurant Division	214.5	181.6	18.1
Other Operations	70.3	310.0	-77.3
Internal Sales	-197.1	-185.7	6.1
Total Group net sales	3,422.9	3,407.7	0.4
Commission sales	2,370.8	2,237.4	6.0
Group sales less tax	5,793.8	5,645.1	2.6

Trading profit by trading sector (FIM million)

	1998	1997	Change, %
Kiosk Division	70.4	66.6	5.7
Press Distribution Division	49.4	48.2	2.6
Bookstore Division	23.9	24.7	-3.1
Movie Theatre Division	8.2	7.1	16.0
Café and Restaurant Division	2.9	4.0	-26.9
Other Operations	1.5	37.2	-95.9
Real Estate	26.4	23.4	13.0
Group Total	182.8	211.0	-13.4

Tukkutiimi net sales for the full fiscal year 1997 had been FIM 310.0 million. In the tables below and on the following page, Tukkutiimi figures for 1997 and 1998 have been listed under "Other Operations". At the same time as the departure of Tukkutiimi had a reducing effect on net sales, it should be noted that the six Academic Bookstores added to the Suomalainen Kirjakauppa chain from January 1998 contributed additional sales of FIM 57.6 million. After such adjustments have been made to take account of these changes in group structure, net sales for 1998 showed growth on the year of 5.8%.

Net sales by the Kiosk Division in Finland grew by 6.4% to reach FIM 1,676.0. The vigorous development of the R-Kiosk concept and improvements to the layout and look of outlets, coupled with a broadening of the product assortment, combined to produce a positive result on the year.

At year's end there were 730 R-Kiosks in service, with 481 of these owned and operated by Rautakirja and the remaining 249 being in the hands of franchise-holders.

In Estonia the year was marked by the harnessing of a strikingly expanded R-Kiosk chain. The number of outlets increased ten-fold during 1997, and in the course of 1998 it remained more or less at the same level, with 106 R-Kiosks in operation in the country at the end of the year. Alongside the traditionally strong sales of print media, kiosks expanded their assortments with sweets, drinks, and ice-cream sales to the extent permitted by the space available. The net sales of Estonian R-Kiosks rose to FIM 41.5 million (EEK 109.2 million), practically doubling

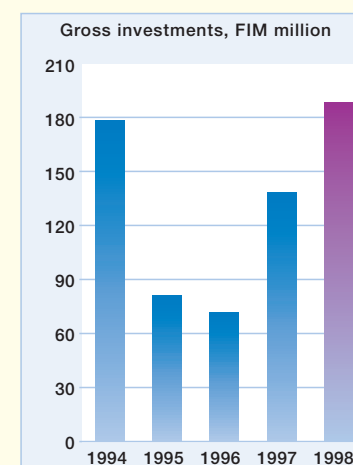
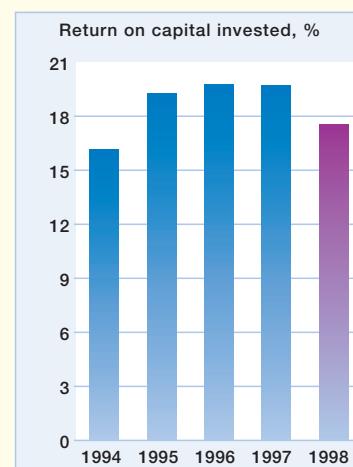
from the 1997 figures.

The Press Distribution Division (responsible for Lehtipiste wholesale newspaper and magazine sales) posted net sales of FIM 805.1 million, up by 4.0% on 1997. Aggregate sales of newsstand copies at consumer prices reached FIM 1,242.4 million, an increase of 5.3%. Sales volume was up by 3.6%, to 134.2 million copies.

The year also witnessed the gradual transition to new depot technology and operating procedures, and collaboration was strengthened with retail chains. These operational changes ensured improved availability of papers at the point of sale and also resulted in more attractive and effective displays in retail outlets.

Net sales by Suomalainen Kirjakauppa grew by 12.8% to FIM 568.7 million. The robust growth was attributable both to the addition of new outlets and the sound development of chain operations. If adjustments are made to bring the figures into line with the number of bookstores operating in 1997, the growth stood at some 4%. At the end of 1998 Suomalainen Kirjakauppa had 59 outlets, as against a total of 50 in December 1997.

In accordance with its new operating strategy, Finnkino continued to concentrate its attentions on cinema operations in the year under review. The entire cinema branch, both actual cinema operations and the video market, was dominated during 1998 by one film, Titanic. The presence of this blockbuster movie and the revival noted in domestic film production meant that the sector as a whole took off, enjoying substantial growth. Finnkino's year was marked to a large extent by the design and construction of a



Gross investments by trading sector (FIM million)

	1998	1997
Kiosk Division	63.1	58.8
Press Distribution Division	9.0	5.9
Bookstore Division	36.2	9.6
Movie Theatre Division	33.8	11.2
Café and Restaurant Division	17.2	29.6
Other Operations	0.9	3.9
Real Estate	19.7	15.4
Administrative Services	8.1	4.3
Group Total	188.0	138.6

Average personnel numbers by trading sector

	1998	1997
Kiosk Division	2,833	2,726
Press Distribution Division	209	206
Bookstore Division	660	543
Movie Theatre Division	397	431
Café and Restaurant Division	604	475
Other Operations	187	576
Real Estate	8	7
Administrative Services	72	74
Group Total	4,970	5,038

number of large multiscreen cinema complexes. Three such complexes will open to the public during 1999. Net sales by Finnkinno and its subsidiaries were up by 7.9% to reach FIM 243.9 million. At year's end, Finnkinno operated 23 cinemas with a total of 68 screens.

EuroStrada Oy's operations are divided between two specific sectors: EuroStrada service areas and Pizza Hut restaurants. The highway service areas concentrated on taking maximum advantage from chain operations and the year witnessed increased efforts to improve customer service. Within the Pizza Hut chain, 1998 was a year of considerable growth, with several new outlets being opened. EuroStrada posted net sales of FIM 214.5 million, up by 18.1% on the previous year.

Financial performance

Group trading profit for the financial year was FIM 182.8 million, as compared with the 1997 figure of FIM 211.0 million. The decline in trading profit was attributable above all to the sale during the year of Tukkuutiimi operations. If the influence of this is eliminated from the respective results, trading profit on other operations improved by slightly less than 6%.

The solid development in Kiosk Trade sales was reflected in positive performance trends. This was true in the case of domestic operations in particular, where the trading profit figure was up by some 9.5% on the previous year. Estonian operations, however, traded at a loss in 1998, and the loss grew from that recorded in 1997. In order to improve the result in this sector, close attention will be paid during 1999 to the raising of sales volume and improving margins on sales. At the same time, individual outlets operating at a loss will be wound up.

The result posted by the Press Distribution Division grew more or less in step with the increase reported in net sales. Suomalainen Kirjakauppa's result on the year showed a slight dip on 1997 figures owing to the goodwill depreciation carried out on the new

commercial operations acquired at the beginning of the year. At the same time, EuroStrada recorded lower profits, as the Pizza Hut result on operations did not match up to the targets set. The steady supply of films attractive to the public, particularly in the first half of the year, encouraged Finnkinno to produce its second successive year of improved profits.

In the course of 1998 scheduled depreciation times were reduced, above all in the case of furniture and fittings in retail outlets. The effect of the changes implemented when compared with the previous year was to reduce trading profit by FIM 5.7 million.

The positive cashflow arising out of the sale of Tukkuutiimi further strengthened the Group's already sound financial position. Interest income increased from the 1997 figure of FIM 15.5 million to FIM 23.3 million, while interest expenditure fell from FIM 5.7 to FIM 2.0 million, producing a substantial increase in the net surplus of financial items to FIM 21.2 million (1997: FIM 9.9 million). In relative terms the yield on funds in hand improved in spite of lowered interest rates.

The Group result before taxes and extraordinary items stood at FIM 204.0 million, down by 7.6% from the previous year. The profit of FIM 190 million accrued on the sale of Tukkuutiimi has been entered under "Extraordinary income". The profit for 1998 before taxes thus reached FIM 394.0 million, showing growth of 85% on the 1997 figure.

Earnings per share were FIM 21.98, as against FIM 24.23 at the end of 1997. Equally, return on capital employed fell somewhat to 17.5% from 20.3% in the previous year. Equity/share improved from FIM 156.92 to FIM 187.59.

Investments

Aggregate group investments were FIM 188 million, increasing by nearly FIM 50 million from 1997. The most significant investments were in the acquisition of new Suomalainen Kirjakauppa outlets, and investments in Finnkinno

cinema complexes, particularly the 14-screen "Tennis Palace" centre in Helsinki. Within the Group's various trading units there was also considerable investment in sales-related data systems. Outlet refurbishing investments were concentrated mainly on the R-Kiosks and Pizza Hut restaurants. The Press Distribution Division's renovated newspaper despatching depot came on stream by the end of the year. Total costs were close to FIM 10 million.

Financing

The Group's financial position is extremely strong. Interest-bearing liabilities were reduced by FIM 44.6 million to stand at FIM 37.5 million at year's end. Group liquid funds at the end of the period totalled FIM 574.9 million. Gearing ratio was negative at -44.2%, where it had been -22.3% in 1997.

Shareholders

On March 23, 1998 the Pohjola Insurance Group announced that its holding in Rautakirja had fallen below 10%. The reduction in ownership stems from the fact that Ilmarinen Pension Insurance is no longer regarded as a part of the Pohjola Group following Ilmarinen's conversion to a mutual insurance company.

On May 15th, 1998 WSOY, Sanoma Osakeyhtiö, Helsinki Media and Devarda, a holding company owning the two last-mentioned companies, announced their intention of fusing operations to form Sanoma-WSOY Oyj. The merger is scheduled to come into effect from May 1, 1999. The governing bodies of the companies concerned have ratified the merger plan, and approval for the fusion has been granted by the relevant Finnish registering authorities. At the end of 1998, WSOY owned 31.33% of voting rights in Rautakirja, and Sanoma Osakeyhtiö a further 23.42%, such that the new company formed by the merger will own some 55% of Rautakirja. Hence Rautakirja will become a subsidiary of the new company. Rautakirja Oyj will thereafter continue its operations as an independent listed company on the Helsinki Stock Exchange.

Proposal for the distribution of dividends

The Supervisory Board of Rautakirja Oyj has resolved to recommend to the Annual General Meeting of April 21, 1999 that a dividend be issued for 1998 of FIM 15.50/ share on Series A and Series B shares. The proposal by the Supervisory Board specifies that a dividend of FIM 12.00/share be paid on the basis of the operating result, and a further dividend of FIM 3.50/share on the profits accruing from the sale of TukkuTiimi. In the previous year, the dividend paid was FIM 12.50/share. The Supervisory Board further proposes that the record date for the dividend payment shall be April 26, 1999, and that the dividend payment date shall be May 3, 1999.

Personnel and organization

With effect from May 1, 1998 Hannu Syrjänen was appointed President and CEO of Rautakirja Oyj, on the retirement of Raimo Hertto on 30.4.1998. Hannu Syrjänen joined the Rautakirja Group in 1989 and was formerly Executive Vice President and Director of the Special Trade Division.

In addition, Suomalainen Kirjakauppa CEO Raimo Kurri and Finnkino CEO Timo Mänty were appointed to the Rautakirja Executive Board with effect from May 1, 1998

The average number of persons employed during the year declined by 68 from 1997, to 4,970 persons. The reduction was due in great measure to the sale of TukkuTiimi, which employed a total of 550 persons.

Within the Group, incentive profit-sharing schemes were applied with a view to rewarding performances by individuals and small groups in excess of the annual targets set. The entire permanent staff now comes within the sphere of these schemes. Such payments totalled FIM 14.4 million in 1998, and were at roughly the level of the previous year.

Rautakirja and 2000

Steps have been taken from 1997 onwards to bring Rautakirja into shape for the new millennium. By the end of

1998 the most important commercial and financial applications had been readied for Y2K. In the course of 1999 system testing and start-up will be continued as planned.

The Rautakirja Group transferred its data operations to an NT-based work station environment in the course of 1998. At the same time, the local area network, office software, and mail server systems have all been renewed and upgraded. This will also guarantee a smooth changeover in 2000 within the work station environment. The investments required for this totalled nearly FIM 10 million.

Preparation for Y2K has involved considerable system modifications and a great deal of work. The costs of system upgrading measures – paid to outside suppliers – simply for the task of ensuring a smooth transition from December 31, 1999 onwards are approximately FIM 4 million. In addition, the renewal of several software applications has been timed in such a way that new versions with full Y2K compatibility can be operational already in 1998-99.

At the present time, Rautakirja is not aware of any cooperative partners having a critical bearing on the company's operations that will represent a material "Y2K risk" to Rautakirja's commercial well-being. Nevertheless the readiness of partners to face the challenges of 2000 will continue to be checked in the course of the year now under way.

The Euro

Rautakirja will be introducing the Euro as the company's reporting and book-keeping currency from 1.1.2002. Rautakirja operates in the retail sector, and the greater part of the company's commercial operations will be denominated in Finnish marks (FIM) until the end of fiscal year 2001.

The introduction of the Euro will involve substantial additional costs in pricing, in training programmes, and in the renewal of data systems between 1999 and 2001. Applying the published cost-projections issued by the Federation of Finnish Commerce and Trade,

it is estimated that the costs incurred by Rautakirja in the currency change-over will be in the order of FIM 15 million.

Outlook for 1999

The prospects for 1999 continue to look promising. Finnish consumers' confidence in their own financial fortunes and their favourable development has remained firm. Purchasing power is estimated as growing over the year in progress by rather more than 3%, and the growth projections for private consumption have varied between 4 and 5%.

During 1999 Finland's economic growth will rest in great measure on the strength of domestic demand. One worrying aspect is the apparent weakening of growth forecasts by industry, particularly in the short term. If this trend gathers momentum, it may produce rapid and material changes in the climate of consumer confidence.

Traditionally the commercial activities of the Rautakirja Group are not overly sensitive to upswings or downturns on the economic front, and tend to respond to such changes more slowly and more moderately than many other sectors.

The forecast figure for Group net sales in 1999 is around FIM 3,500 million, representing an increase of somewhat more than 3% from the 1998 total. The operating result is estimated as maintaining the good level reached in the previous year. According to current plans, aggregate Group investments will be around FIM 170 million, not including any possible acquisitions.

INCOME STATEMENT

Group income statement, 1.1.-31.12.1998
(FIM|EUR million)

	1998		1997	
	FIM	EUR	FIM	EUR
Net sales	3,422.9	575.7	3,407.7	573.1
Other income from operations	64.8	10.9	56.7	9.5
Material and services	2,390.7	402.1	2,340.3	393.6
Personnel costs	507.2	85.3	508.3	85.5
Depreciation and undervaluation	86.0	14.5	72.1	12.1
Other operating expenditure	321.0	54.0	332.6	55.9
Trading profit	182.8	30.7	211.0	35.5
Financial items (net)	21.2	3.6	9.9	1.7
Profit before extraordinary items	204.0	34.3	220.9	37.2
Extraordinary income/expenditure	190.0	32.0	-7.7	-1.3
Profit before taxes	394.0	66.3	213.1	35.8
Taxes	-110.8	-18.6	-61.3	-10.3
Profit for the period	283.2	47.6	151.9	25.6

BALANCE SHEET

Group balance sheet at 31.12.1998 (FIM/EUR million)

	1998		1997	
	FIM	EUR	FIM	EUR
ASSETS				
Fixed assets and other long-term expenditure				
Intangible assets	134.8	22.7	99.6	16.8
Goodwill	29.4	4.9	41.2	6.9
Fixed assets	325.3	54.7	342.0	57.5
Shares & holdings & other long-term expenditure	451.1	75.9	430.6	72.4
Total fixed assets	940.5	158.2	913.4	153.6
Current assets				
Inventories	197.3	33.2	298.5	50.2
Receivables	175.3	29.5	198.5	33.4
Bonds & securities and other short-term deposits	495.4	83.3	242.0	40.7
Cash and bank	79.5	13.4	66.9	11.2
Total current assets	947.6	159.4	805.8	135.5
	1,888.1	317.6	1,719.2	289.1
SHAREHOLDERS' EQUITY & LIABILITIES				
Shareholders' equity				
Share capital	129.6	21.8	129.6	21.8
Other funds	44.9	7.5	47.4	7.9
Retained earnings	757.9	127.5	688.0	115.7
Profit for the period	283.2	47.6	151.9	25.6
Total equity	1,215.6	204.4	1,016.9	171.0
Minority interest	1.6	0.3	1.5	0.3
Obligatory reserves	11.8	2.0	–	–
Liabilities				
Calculated tax liability	51.2	8.6	65.5	11.0
Long-term liabilities	28.6	4.8	34.2	5.8
Current liabilities	579.3	97.4	601.1	101.1
Total liabilities	659.0	110.8	700.8	117.9
	1,888.1	317.6	1,719.2	289.1

GROUP PERFORMANCE INDICATORS

	1998	1997	1996	1995	1994
Net sales, FIM million	3,422.9	3,407.7	3,237.2	3,281.4	3,057.1
Change, %	0.4	5.3	-1.4	7.3	4.6
Trading profit, FIM million	182.8	211.0	197.6	184.9	153.1
As % of Net sales	5.3	6.2	6.1	5.6	5.0
Profit before extraordinary items, FIM million	204.0	220.9	214.8	195.3	156.0
As % of Net sales	6.0	6.5	6.6	6.0	5.1
Profit before taxes, FIM million	394.0	213.1	234.0	195.3	156.1
As % of Net sales	11.5	6.3	7.2	6.0	5.1
Balance Sheet total, FIM million	1,888.1	1,719.2	1,712.9	1,842.9	1,850.8
Fixed assets & other long-term expenditure	940.5	913.4	860.8	871.6	863.1
Inventories and financial assets					
Inventories	197.3	298.5	267.3	285.0	266.4
Receivables	175.3	198.5	216.7	261.4	274.5
Bonds and securities, cash & bank	574.9	308.8	368.1	424.9	446.8
Equity	1,215.6	1,016.9	942.8	839.8	760.3
Minority interest	1.6	1.5	1.5	1.7	1.4
Obligatory reserves	11.8	-	-	-	-
Calculated tax liability	51.2	65.5	77.1	84.9	79.7
Long-term liabilities	28.6	34.2	123.3	196.4	309.4
Current liabilities	579.3	601.1	568.1	720.2	700.0
Interest-bearing liabilities	37.5	82.1	184.5	263.6	372.8
Non interest-bearing liabilities	633.4	618.7	584.0	737.8	716.3
Return on equity, %	12.7	16.0	17.2	16.4	15.3
Return on capital employed, %	17.5	20.3	20.4	19.3	16.2
Gearing ratio, %	-44.2	-22.3	-19.4	-19.2	-9.7
Current ratio	1.6	1.3	1.5	1.3	1.4
Gross investments, FIM million	188.0	138.6	72.8	81.7	178.2
As % of Net sales	5.5	4.1	2.3	2.5	5.8
Personnel (average)	4,970	5,038	4,760	4,680	4,201
Adjusted to full-time contracts by hours worked	3,652	3,634	3,439	3,397	3,100

SHARES AND SHAREHOLDERS

Share capital

Rautakirja Oyj's share capital is FIM 129,600,000, and the nominal value of shares is FIM 20. There are a total of 5,400,000 Series A shares, and 1,080,000 Series B shares. Series A and Series B shares differ from one another in terms of the voting rights they carry – Series A shares carry 20 votes and Series B shares 1 vote at the Annual General Meeting. The two series of shares entitle the bearer to equal rights to dividends. Institutions of one kind or another owned 98.0% of the share capital at year's end, with private individuals owning 1.8%, and nominee-registered shares accounting for 0.2%.

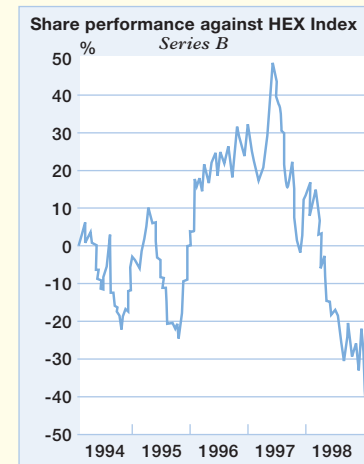
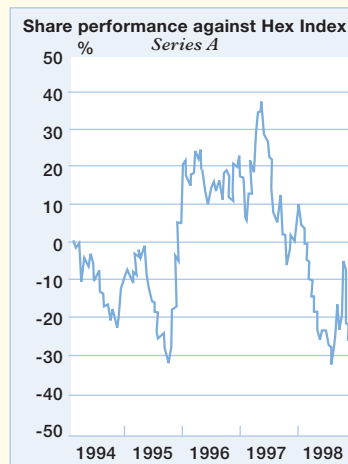
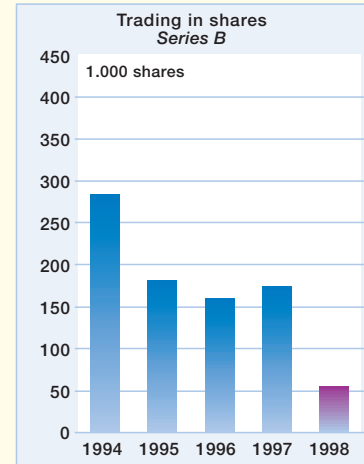
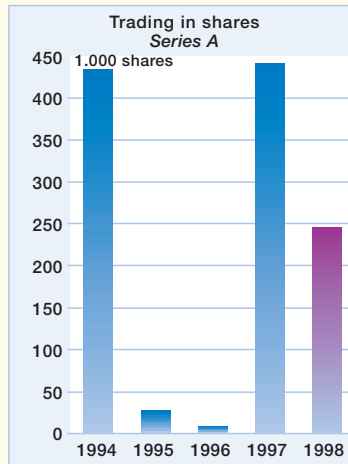
Development of share prices

The year on the Helsinki Stock Exchange was divided into two strikingly different parts. In the early months of 1998 share prices rose strongly, and towards the end of the year there was a high degree of volatility in the market. The HEX Index rose by 68.5% on the year, and the Portfolio Index by 17.1%.

Prices for Rautakirja Oyj shares were by and large stable during 1998, with some weakening towards year's end. Series A shares, which began the year at FIM 390, slipped by year's end to FIM 388, a fall of 0.5% on the period. The price for Series B shares declined from FIM 360 to FIM 290, marking a fall of 19.4%. The lowest price recorded for Series A shares was FIM 330, and the high on the year was FIM 420. Series B shares posted a low of FIM 280 and a high of FIM 420.

The market value of Rautakirja's share capital at December 31, 1998 was FIM 2,408.4 million. The corresponding figure for 1997 was FIM 2,494.8 million.

Trading in Rautakirja Series A shares during 1998 was rather less active than over the previous period. Turnover in Series A shares totalled 245,626 shares to a value of FIM 99.1



million, as against 1997 figures of 442,202 shares and FIM 184.3 million. The decline in activity was more pronounced in the case of Series B shares, with 53,878 shares changing hands to a value of FIM 21.3 million, compared with 174,558 shares and FIM 69.5 million in the previous period.

Shareholdings of Rautakirja Supervisory Board members and the President & CEO

At 31.12.1998, members of the Supervisory Board and the CEO owned a total of 510 Rautakirja shares, representing 0.0079% of shares and 0.0005% of voting rights.

INFORMATION ON SHAREHOLDERS

Largest shareholders according to the Share Register at 31.12.1998

	Series A	Series B	% holding	% voting rights
Werner Söderström Oyj – WSOY	1,690,256	365,574	31.73	31.33
Sanoma Corporation	1,266,182	220,067	22.94	23.42
Oy Karl Fazer Ab	581,171	93,856	10.42	10.74
Otava Publishing Company Ltd.	547,056	851	8.46	10.03
Pohjola Group Insurance Corporation	264,000	–	4.07	4.84
Pohjola Non-Life Insurance Company Ltd.	264,000	–	4.07	4.84
Suomi Mutual Life Insurance	150,000	–	2.31	2.75
Ilmarinen Pension Insurance	93,000	30,200	1.90	1.73
Municipalities' Pension Insurance	70,000	52,920	1.90	1.33
Nova Life Insurance	80,816	22,353	1.59	1.50
Ten largest shareholders, total	5,006,481	785,821	89.39	92.52
Nominee-registered shares	2,200	10,000	0.19	0.05
Other shareholders, total	390,992	284,041	10.41	7.42
Shares not yet transferred to book entry system	327	138	0.01	0.01
Total	5,400,000	1,080,000	100.00	100.00

Breakdown of share ownership at 31.12.1998

	SERIES A				SERIES B			
	number of shareholders	% of all shareholders	total shares held	% of all shares	number of shareholders	% of all shareholders	total shares held	% of all shares
Private companies	46	8.73	4,124,031	76.37	40	8.31	699,092	64.73
Public companies	3	0.57	16,460	0.31	1	0.21	1,872	0.17
Financial and insurance institutions	18	3.41	885,800	16.40	12	2.49	149,080	13.80
Public institutions	8	1.52	213,680	3.96	6	1.25	119,744	11.09
Non-profit making bodies	9	1.71	86,650	1.60	16	3.33	51,419	4.76
Households	442	83.87	70,841	1.31	406	84.41	48,655	4.51
Foreign shareholders	1	0.19	11	0.00	–	–	–	–
Nominee-registered			2,200	0.04			10,000	0.93

Ownership of shares by size of holding at 31.12.1998

Number of shares	SERIES A				SERIES B			
	number of shareholders	% of all shareholders	total shares held	% of all shares	number of shareholders	% of all shareholders	total shares held	% of all shares
1 – 100	375	70.89	16,995	0.31	344	71.37	8,485	0.79
101 – 1,000	103	19.47	32,333	0.60	99	20.54	36,450	3.38
1,001 – 10,000	31	5.86	110,454	2.05	28	5.81	91,010	8.43
10,001 – 100,000	13	2.46	477,226	8.84	9	1.87	358,276	33.17
100,001 –	7	1.32	4,762,665	88.20	2	0.41	585,641	54.23

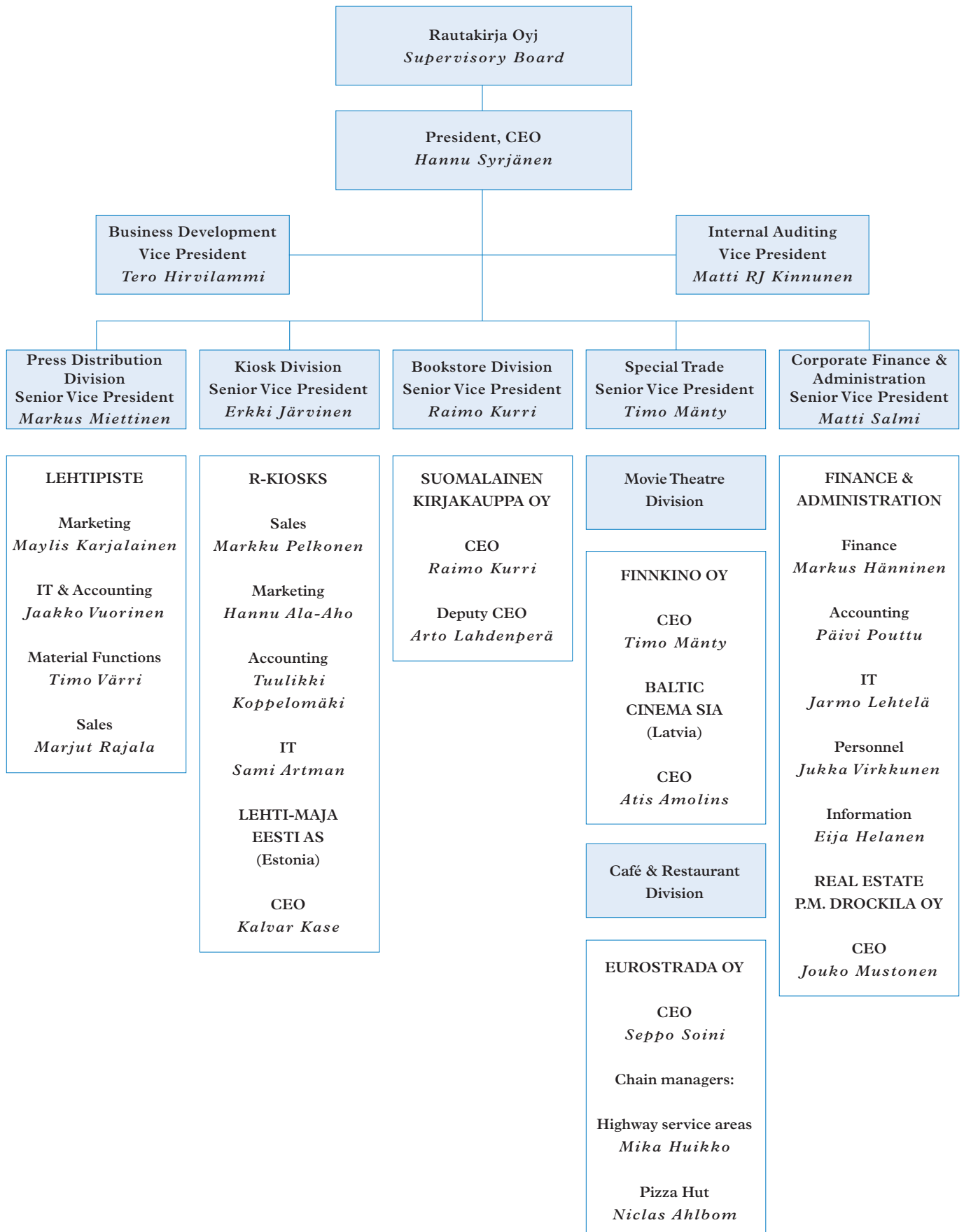
RAUTAKIRJA SHARES – STATISTICS AND INDICATORS

	1998	1997	1996	1995	1994
Earnings / share, FIM *)	21.98	24.23	23.76	20.24	17.14
Equity / share, FIM *)	187.59	156.92	145.50	129.60	117.33
Nominal dividend / share, FIM					
Series A	15.50 *)	12.50	12.00	10.00	8.00
Series B	15.50 *)	12.50	12.00	10.00	8.00
Dividend / earnings, % *)	70.5	51.6	50.5	49.4	46.7
Effective dividend yield (year-end), %					
Series A	4.0	3.2	3.9	4.3	4.3
Series B	5.3	3.5	3.9	5.1	4.6
P/E ratio					
Series A	17.6	16.1	13.1	11.4	10.8
Series B	13.2	14.9	12.8	9.7	10.2
Share performance, FIM					
Series A					
Year average	404	417	260	191	186
Low	330	310	215	166	161
High	420	457	325	230	215
Year-end price	388	390	311	230	185
Series B					
Year average	395	398	237	183	178
Low	280	315	197	160	149
High	420	440	310	210	203
Year-end price	290	360	305	196	175
Market value of shares, FIM million					
Series A	2,408	2,495	2,009	1,454	1,188
Series B	2,095	2,106	1,679	1,242	999
Series B	313	389	329	212	189
Trading in shares					
Series A	245,626	442,202	9,286	28,166	433,797
Series A, %	4.5	8.2	0.2	0.5	8.0
Series B	53,878	174,558	160,040	180,298	283,311
Series B, %	5.0	16.2	14.8	16.7	26.2
Number of shares (million) **)					
Series A (20 votes)	6.48	6.48	6.48	6.48	6.48
Series B (1 vote)	5.40	5.40	5.40	5.40	5.40
Series B (1 vote)	1.08	1.08	1.08	1.08	1.08
Number of shareholders at 31.12.					
Series A	744	741	770	845	893
Share capital (FIM million)					
Series A	129.6	129.6	129.6	129.6	129.6
Series B	108.0	108.0	108.0	108.0	108.0
Series B	21.6	21.6	21.6	21.6	21.6

*) Proposal by Supervisory Board.

***) There were no stock issues between 1994–1998.

GROUP ORGANIZATION 1.4.1999



GROUP MANAGEMENT

Rautakirja Supervisory Board



Jukka Rantala
1998-2001
*Managing Dir.,
Federation of Finnish
Insurance Companies
1995**



Antero Siljola
1997-2000
*vice-chairman
President, Werner
Söderström Oyj –
WSOY
1988**



Jaakko Rauramo
1998-2001
*chairman
Managing Dir.,
Sanoma Osakeyhtiö
1977**



Olli Reenpää
1998-2001
*Managing Dir.,
Kustannusosake-
yhtiö Otava
1980**



Felix Björklund
1996-1999
1993*

**Joined Rautakirja Supervisory Board*

The Rautakirja Group Executive Board



Timo Mänty, 39,
*Senior Vice
President,
CEO of Finnkino
1996***



Erkki Järvinen, 39,
*Senior Vice President,
Kiosk Division
1997***



Hannu Syrjänen, 47,
*President, CEO,
Rautakirja Oyj
1989***



Matti Salmi, 49,
*Senior Vice
President,
Corporate Finance
& Administration
1988***



Markus Miettinen, 50,
*Senior Vice President,
Press Distribution
Division
1974***



Raimo Kurri, 45,
*Senior Vice President,
CEO of Suomalainen
Kirjakauppa
1989***

***Joined Rautakirja Group*

Auditors

**SVH Pricewaterhouse Coopers Oy
Tauno Haataja, APA**

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Senior Vice President Matti Salmi
Corporate Finance & Administration
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(Wholesale Newspaper Trade)
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Northern Finland
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Movie Theatre Division

Finnkino Oy
CEO Timo Mänty
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Managing Director Artis Amolins
Muitas Iela 1
LV-1011 Riga, Latvia
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Managing Director Seppo Soini
EuroStrada highway service areas
Pizza Hut restaurants
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