STOCKMANN

ANNUAL REPORT 1998

Annual Report for the 137th year of operations

Contents

Cover: The main campaign run by Stockmann's department stores in Finland in the autumn 1998 was "Finland Is Pop". Shown in the picture is the Helsinki Department Store sporting attractive campaign flags.

* The words Stockmann or company refer to the parent company STOCKMANN plc together with all those companies in which the parent company has a direct or indirect holding of more than 50%.

Stockmann in Brief

Stockmann is a Finnish listed company which was established in 1862 and is engaged in the retail trade. It now has nearly 13,000 shareholders. Customer satisfaction is the central objective of Stockmann's trading in all its areas of business. Stockmann's five commercial units are the Department Store Division, which includes the Academic Bookstore, the Automotive Sales Division, Hobby Hall, which is specialized in mail order sales, Sesto, which operates in the supermarket trade, and Seppälä, a chain of clothes stores. Stockmann operates in Finland, Russia and Estonia.

Stockmann's core values

Profit orientation

We are in business to make money; all our operations should support this goal. Healthy earnings mean a good return for investors and latitude of movement and risk-taking ability for the company. For good people who are committed to our common goals, it means a highly respected job and an opportunity for self-development.

Customer orientation

We earn money only by offering benefits which the customer perceives as real and better than those of our competitors. The sum total of these benefits is high customer satisfaction and loyalty. Competitive pricing, reliable quality and good customer service are vital elements in achieving these goals.

Efficiency

By performing better than our competitors, we boost sales, secure high cost-effectiveness and use capital efficiently.

Commitment

In all our activities, success calls for an understanding of the importance of Stockmann's company-wide success factors and the role of our own unit in achieving them as well as a commitment to the goals we all share together.

Respect for our people

We respect and value people's capacity for commitment, taking calculated risks and producing results. We reward success.

Stockmann in 1998

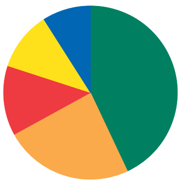
Key figures

		1994	1995	1996	1997	**1998**
Sales	FIM million	5 486.1	6 249.1	7 420.2	8 289.4	**8 689.3**
Net turnover	FIM million	4 556.6	5 213.8	6 164.5	6 900.0	**7 233.2**
Staff costs	FIM million	643.3	747.7	833.6	877.3	**958.6**
Staff costs/net turnover	%	14.1	14.3	13.5	12.7	**13.3**
Operational result [1]	FIM million	246.9	280.3	315.9	415.2	**364.0**
Investments	FIM million	132.9	273.7	333.2	315.2	**509.9**
Investments/net turnover	%	2.9	5.2	5.4	4.6	**7.0**
Total assets	FIM million	2 899.7	3 176.2	3 645.9	3 889.5	**4 470.9**
Capital and reserves	FIM million	288.3	288.3	288.6	288.9	**513.8**
Market capitalization Dec. 31	FIM million	3 390.3	3 446.2	4 009.6	5 035.5	**5 767.7**
Dividend paid	FIM million	86.5	100.9	108.2	130.0	**256.9***
Dividend per share [2]	FIM	1.85	2.16	2.32	2.78	**5.00***
Earnings per share [2]	FIM	3.89	4.31	4.67	6.37	**5.32****
Equity ratio	%	60.4	58.1	54.0	55.6	**65.1**
Return on investment	%	12.7	13.2	13.3	15.6	**12.3**
Return on equity	%	10.7	11.2	11.4	14.4	**11.1**

[1] Profit before extraordinary items
[2] Adjusted for share issues
* Board proposal to the AGM
** The dilution effect of options has been taken into account

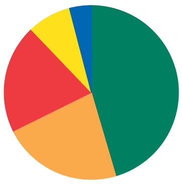
Distribution of sales and commercial profit

Sales by commercial unit



- 43% Department Store Division
- 24% Automotive Sales Division
- 14% Hobby Hall
- 11% Sesto
- 8% Seppälä

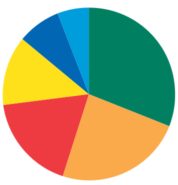
Distribution of commercial profit*



- 45% Department Store Division
- 22% Seppälä
- 20% Hobby Hall
- 8% Automotive Sales Division
- 4% Sesto

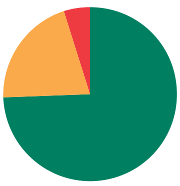
* operating profit

Sales by sector



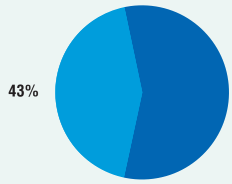
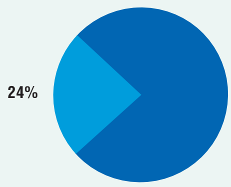
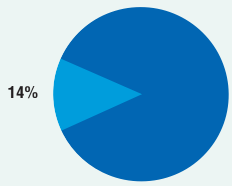
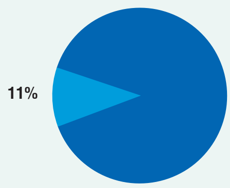
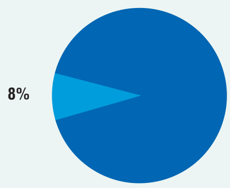
- 31% Fashion
- 24% Motor vehicles
- 18% Food
- 13% Home
- 8% Leisure
- 6% Books, publications, stationery

Sources of income



- 74% Commercial units
- 21% Real estate
- 5% Net financial profit

Introduction of the Commercial Units

Units and their management	Offerings	Locations	Share of Stockmann's sales in 1998
DEPARTMENT STORE DIVISION **Hannu Penttilä**	Offers customers a knowledgeable shopping environment and good service in a congenial atmosphere. The key to Stockmann's success is a unique and broad assortment of good products at competitive prices.	5 department stores and Academic Bookstores in Finland A department store in Tallinn, Estonia A department store in Moscow, 3 other stores in Moscow and 2 in St Petersburg	FIM 3 766.3 million 
AUTOMOTIVE SALES DIVISION **Aarno Pohtola**	Offers high quality products, a very wide range of makes and models, competitive prices thanks to large volumes and good and reliable customer service.	10 outlets in the Greater Helsinki area: Ford, Volkswagen, Audi, Mitsubishi and Skoda cars plus a wide selection of used cars 2 outlets in Turku: Ford, Mitsubishi and Skoda dealerships	FIM 2 054.0 million 
HOBBY HALL **Veikko Syvänen**	Hobby Hall's catalogue offers a fast and convenient way to buy quality products at affordable prices. Its offerings consist primarily of household and leisure articles.	Finland's largest mail-order company 3 stores in the Greater Helsinki area Estonia's largest mail-order company A store in Tallinn	FIM 1 189.1 million 
SESTO **Lasse Lehtinen**	Sestos are service-minded, high-quality and moderate-price supermarkets that offer product selections which are by far the best in their size class. The Sesto Etujätti markets are modern hypermarkets whose competitiveness is based on large product assortments, delicious speciality counters, shopping convenience and overall thrift.	13 supermarkets in the Greater Helsinki area 5 Etujätti hypermarkets in Vantaa, Espoo, Turku (2) and Tampere	FIM 934.6 million 
SEPPÄLÄ **Lars Eklundh**	Offers customers international fashion at a reasonable price. Centralized, chain-store operations guarantee very affordable prices and reliable quality.	112 clothes stores in 81 localities in Finland A store in Tallinn	FIM 735.6 million 

Important events in 1998

January
On January 10, the Automotive Sales Division opened a new Mitsubishi and Skoda dealership in Helsinki's Herttoniemi district.

March
The one hundredth Seppälä store was opened on March 12 in the Columbus shopping centre in Helsinki's Vuosaari district.

April
The company's business name OY Stockmann AB was changed to STOCKMANN Oyj Abp and in English, STOCKMANN plc. On April 21, the Annual General Meeting approved changing the legal form of the company to that of a public limited company. Concurrently, the Annual General Meeting approved a set of amendments to the Articles of Association, including revisions pursuant to the recent amendments to the Companies Act. The new Articles of Association also include a provision to convert the company's Series A share into a Series B share upon the demand of a shareholder.

Stockmann pioneers Finland's first share option programme targeted at Loyal Customers
The Annual General Meeting approved Stockmann's option programme that is targeted at Loyal Customers. The programme, the first of its kind in Finland, was carried out in May 1998. Because the bonus benefit would not be realizable at the present share price level, the Board of Directors decided on February 23, 1999, to propose to the Annual General Meeting that Loyal Customers be offered a new and better share option alternative.

According to the proposal, options will now be offered free of charge to Loyal Customers whose registered purchases together with purchases made with other parallel cards that are charged to the same account during 1997 and 1998 were at least FIM 10 000 in aggregate amount. The smallest option entitles its holders to subscribe 10 Series B shares during the subscription period either in May of 2001 or 2002. For each full one thousand markkaa by which the purchases exceed FIM 10 000, an additional option will be given which entitles its holder to subscribe one Series B share. The Board of Directors will propose that the subscription price of the shares to be subscribed on the basis of options be the average weighted price during the stock exchange trading days from March 22, 1999, to April 9, 1999, less the per-share dividend distributed after April 1, 1999. The detailed terms and conditions of the options are set forth in the Board of Directors' proposal to the Annual General Meeting.

May
The par value of the company's shares was halved from FIM 20 to FIM 10 on May 12. Concurrently, a bonus issue was also carried out, in which shareholders received for two Series A shares with a par value of FIM 10 or, correspondingly, for two Series B shares, one new share of the same series free of charge.

The extension works on the Stockmann department store in Tampere got started on May 28. The new 3rd floor and a total of about 2 500 square metres of additional retail space went into use in March 1999.

June
The building of Hobby Hall's new logistics centre in the Viinikkala district of Vantaa got started on June 2. The logistics centre with its new picking and packing systems will become operational in the late summer 1999. The total cost estimate for the project is about FIM 100 million.

In Stockmann's rights issue from May 14 to June 12, 99.8 per cent of the shares offered were subscribed, or 7 329 147 Series B shares. For four Series A or B shares with a par value of FIM 10 prior to the bonus issue, shareholders were entitled to subscribe one new Series B share with a par value of FIM 10 at a price of FIM 75 per share.

September
A 2 500 square metre commercial facility was built adjoining the Sesto Etujätti hypermarket in the Friisilä district of Espoo, and Hobby Hall and Seppälä stores were opened in the new facility on September 17.

October
The Tapiola Stockmann was opened on October 6 following a store extension and modernization. The department store's retail space grew by about 3 900 square metres, in addition to which the number of parking spaces more than doubled. The extension to the Tapiola department store was Stockmann's largest capital expenditure in the 1990s and the total costs of the project were about FIM 130 million.

On October 22, Stockmann announced it was establishing a book club exclusively for Loyal Customers. The objective is to offer yet another new Loyal Customer benefit and to develop further Stockmann's Loyal Customer programme. The new book club is run by Academic Bookstore in conjunction with the publisher WSOY. The club started up in the spring 1999.

November
Leonia Bank and Stockmann signed an agreement on November 18 concerning the offering of a combination card to their joint customers. The combination card is both a Leonia debit card and a Stockmann Loyal Customer Card with or without a credit limit. At the same time, Stockmann is offering its Loyal Customers the possibility to use the Leonia debit card incorporated in the combination card to make cash withdrawals at the cash registers of the department stores and other Stockmann business units. The new combination card was introduced in February 1999.

On November 18, Stockmann came second in the Star Company competition organized by the daily financial newspaper Taloussanomat. More than 2 000 Taloussanomat readers who judged all the Finnish listed companies they knew participated in the corporate image survey that was conducted by Corporate Image, a consultancy. As expected, Nokia was chosen as Finland's Star Company.

The fifth Sesto Etujätti hypermarket was completed in Turku's Kupittaa district on November 25. A Seppälä store was also opened in the same building.

A full-scale Stockmann department store was opened in a new business centre at Moscow's Smolenskaya Square on November 26. The opening of the department store meant a significant improvement in the company's competitive position in the Moscow market. Stockmann Smolenskaya has about 5 000 square metres of retail space on three floors. Stockmann's share of the costs of the department store, which occupies rental premises, was about FIM 60 million.

December
A new fashion store with about 1 200 square metres of retail space was opened in Nevsky Prospect in St Petersburg on December 15. Stockmann previously had a food store in St Petersburg.

Information for shareholders

Annual General Meeting

The 1999 Annual General Meeting of the shareholders of STOCKMANN plc will be held on Tuesday, April 13, at 4.00 p.m. in the Concert Hall of Finlandia Hall at the address Karamzininkatu 4, Helsinki.
Registrations for the meeting must be received no later than on April 9, 1999, at 4.00 p.m., telephone +358-9-121 3133, +358-9-121 3588, +358-9-121 3327 or +358 -9-121 3802.
Those shareholders are entitled to participate in the Annual General Meeting, who have been entered, no later than on April 8, 1999, as shareholders in the Shareholder Register kept by Finnish Central Securities Depository Ltd.
Also a shareholder whose shares have not been transferred to the book-entry system has the right to participate in the Annual General Meeting if that shareholder has been registered in the company's Share Register before September 28, 1994. In this case the shareholder must present, at the Annual General Meeting, his share(s) or other documentation indicating that title to the shares has not been transferred to the book-entry system.

Payment of dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 3.00 per share be paid for the 1998 financial year. The dividend decided by the Annual General Meeting will be paid to a shareholder who on the record date for dividend payment confirmed by the Board, April 16, 1999, has been entered in the Shareholder Register kept by Finnish Central Securities Depository Ltd. The Board proposes to the Annual General Meeting that the dividend be paid on April 23, 1999, upon termination of the record period.
The Board of Directors proposes to the Annual General Meeting the payment of a supplementary "millennium" dividend. According to the proposal, a supplementary dividend of FIM 2.00 per share is to be paid on November 15, 1999. The record date for the dividend payment is November 8, 1999.

Changes in name and address

We kindly request shareholders to report changes of address to the bank or to Finnish Central Securities Depository Ltd in accordance with the place where the shareholder's book-entry account is kept.

Financial information on Stockmann

Stockmann will publish the following financial reports in 1999:

January-March Interim Report	May 11, 1999
January-June Interim Report	August 11, 1999
January-September Interim Report	November 10, 1999

In addition to these reports, we will release, during the third week of the following month, a monthly report on the sales of the units.

All of Stockmann's stock exchange bulletins will be available on the Internet on their date of publication.
Address: http://www.stockmann.fi

Reports and bulletins can be ordered from: STOCKMANN, Corporate Communications, P.O.Box 220, FIN-00101 Helsinki, Finland, telephone +358-9-121 3089, fax +358-9-121 3153, e-mail info@stockmann.fi. Financial reports and bulletins are published in Finnish, Swedish and English.

The following banks and brokerage houses have reported that they carry out, as part of their investment activities, analyses of the operations of STOCKMANN plc.
Stockmann is not responsible for the evaluations that are presented in the analyses.

ABN Amro Hoare Govett Securities
AG Private Bankers
Alfred Berg (UK)
Aros Securities
Barclays de Zoete Wedd
Carnegie
Cheuvreux de Virieu
Conventum
Enskilda Securities
Evli Securities
Handelsbanken Markets
HSBC Securities
Impivaara Securities
Kleinwort Benson Securities
Leonia Bank
Mandatum
Merita Securities
Opstock Securities
SBC Warburg
Williams de Broë

My warm thanks to our shareholders, customers and partners in cooperation for the confidence they have shown in us and to our Stockmann staff for the good job they have done during the year.

Stockmann's strong growth continues

Stockmann's sustained period of strong growth tapered off last year to the general level of the retail trade, but in the current year it will resume its strong trend.

Our sales grew by 5 per cent, or FIM 400 million, to FIM 8.7 billion, and this time we did not equal our achievement of the five past years: sales figures that reach a new billions digit year after year.

This year our objective is nevertheless to generate sales well in excess of nine billion Finnish markkaa and to come in close to ten billion. Two-thirds of our growth target is based on our expanded operations.

Our profit before extraordinary items, FIM 364 million, was the second best result in Stockmann's history. It fell FIM 51 million short of the previous year's record result. The reasons for this are discussed in the Board Report on Operations and in the reviews of the commercial units.

My own view is that although the result we achieved can be considered moderately good given the conditions that prevailed last year, the earnings trend was nevertheless a disappointment when judged against our targets. In our domestic operations, we did manage to estimate fairly accurately the lost sales revenues, one-off costs and increased depreciation that would be caused by our exceptionally strong outlays and efforts to achieve growth. On the other hand, the effects of the economic crisis that broke out in Russia in August and the postponement of the opening of our department store in Moscow were a great deal more burdensome than we were able to forecast, and they pushed the result of our operations in Russia into the red.

From the throes of recession to sustained growth

I will soon have been in Stockmann's employ for 30 years. Those years span two recessions and booms: both the company's crisis times and restructuring during the recession of the 1970s, the growth spurred by the "consumption spree" of the 1980s as well as the downswing during my tenure as managing director and the period of recovery from it. In my greeting published in our personnel magazine in November, I thanked our Stockmann people for their good performance during the past ten years I have been managing director. I believe it is fitting to repeat those words for our shareholders too:

"At first we were pulled, along with many others, into the swirling vortex of recession – not as deep down as many other companies that were unprepared for the downswing, yet we too dove into the depths. (Our result in 1990 was FIM 70 million, or only half of the earnings we posted in 1988.) The crucial factor nevertheless was that we succeeded faster than others in 'getting our nose above water.' Some never managed to do this.

"Then began Stockmann's long and steady rise: a substantial improvement in both sales and earnings year after year.

It has been an uplifting experience to steward this development.

"In our customers' eyes, each of our units is today the best in its own field. We know that we would not have achieved a position like this had we not had the daring to come up with better business ideas than our competitors in order to respond to customers' needs better than others do. But ideas by themselves are of course not enough. It has taken commitment and long-term work to carry out and further develop our business ideas.

"Our reward for doing this is that we have gained customers' trust. This is a good foundation to build on in coming years as well.

"Perhaps the most important lesson from the past, often difficult, years is nevertheless that we must never allow the situation to get out of hand to the extent that we lose our competitive edge: if business is slow, it's slow, no matter how much we slash costs.

"Recognition of the fact that the best companies keep trading and can fare well even in difficult conditions is perhaps of particular importance now, when dark clouds are gathering over national economies in different parts of the world."

We are banking on improving the competitive position of all our units

Last year, too, Stockmann strengthened the competitive position of its units by pushing ahead with the capital expenditure programme that is defined within the company's growth and development strategy. Last year the value of Stockmann's capital expenditures was higher than ever before, totalling about FIM 510 million.

The outlays and development efforts of the different units are described in the Board Report on Operations and in greater detail in the reviews of the units. I nevertheless wish to make special mention of the enlargement of the Tapiola department store, which was completed in the autumn. This is Stockmann's largest construction project since the building of the Argos Corner annex to the Helsinki department store in 1989. The renewed department store has proved to be a commercial success and it has also been important in making the famous Tapiola district of Espoo a more pleasant and attractive place.

Our operations in Russia in turn rose to a completely new level when we were finally able, after many difficulties, to open our department store at Moscow's Smolenskaya Square towards the end of November. This department store, which is Stockmann's newest, has started up satisfactorily in spite of the economic turmoil in Russia.

To support the company's growth strategy, in the spring Stockmann carried out a rights issue which brought the company about FIM 550 million of new risk capital. I thank all those who subscribed shares in the offering. I give my assurance that we will do our best to see to it that the investment yields a good return.

New options for Loyal Customers

Last spring Stockmann's Annual General Meeting resolved to grant active Loyal Customers the right to subscribe the company's Series B shares at a price that would be determined according to the stock exchange price immediately preceding the Annual General Meeting in the spring 1998 (FIM 149, or 25.06 euros).

The purpose was – apart from obtaining risk capital in this way – to build a stronger bond between Loyal Customers and the company and to offer them a significant benefit, which nevertheless could not be realized at the present share price level. In order to carry out the original intention, the Board of Directors has decided to propose to the Annual General Meeting in the spring that our Loyal Customers be offered a new and better share option as an alternative to the previous share option.

The proposal concerning the matter is presented in the Board Report on Operations. I am certain that both shareholders and our Loyal Customers will feel that the proposal is generous.

The word "generous" in my opinion also well describes the Board of Directors' dividend proposal.

Outlook for the future

Our development focus on the corporate image, enlargements of the department stores, new stores, our hundreds of thousands of good Loyal Customers as well as our staff's know-how, commitment and will to win have borne fruit during the recent favourable business cycle. They will be more important than ever when economic growth slows down and competition becomes tougher.

I conclude my review by reaffirming yet again that this year too, we shall generate reasonably good earnings.

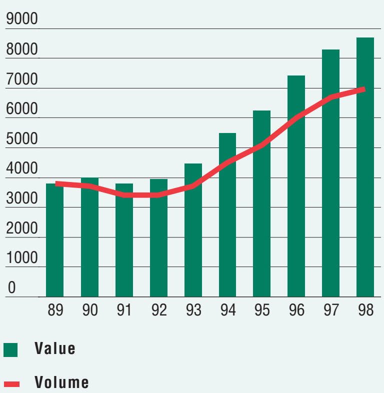
Helsinki, February 12, 1999

Ari Heiniö
Managing Director

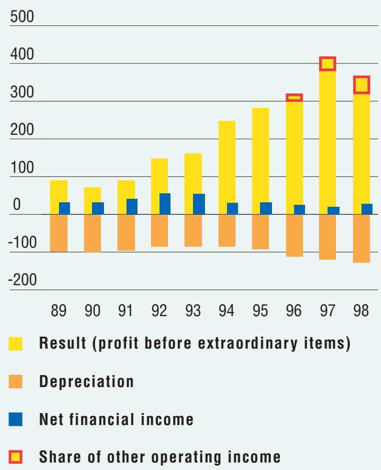
Trend in the value of Stockmann's sales 1997/1998	Change %
Stockmann, total	4.8
Departement Store Division in Finland	5.2
Automotive Sales Division	12.6
Hobby Hall	11.0
Sesto	1.1
Seppälä	3.0

Trend in the value of retail sales in Finland 1997/1998	Change %
Retail sales net of trade in motor vehicles	6.0
Department stores	6.9
Motor vehicles, repairs and maintenance as well as retail fuel sales	15.4
Household appliances, furnishings	8.2
Supermarket	5.2
Textile and garment	5.4

Sales 1989-1998, FIM million



Operational result 1989-1998, FIM million



Board of Directors

The members of Stockmann's Board of Directors and the personnel representatives on the Board. Standing, from the left: Christoffer Taxell, Kurt Stenvall, Pirkko Laisi, Henry Wiklund, Tuija Wänttinen and Kari Niemistö. Seated, from the left: Ari Heiniö, Lasse Koivu and Erkki Etola.

Chairman
Lasse Koivu (55), B.Sc.(Econ.), managing director, Föreningen Konstsamfundet. Member of the Board since 1991, due to resign in the spring 2000.

Vice Chairman
Erkki Etola (54), M.Sc.(Eng.), managing director, Oy Etola Ab. Member of the Board since 1981, due to resign in the spring 1999.

Ari Heiniö (53), varatuomari*, managing director, STOCKMANN Oyj Abp. Member of the Board since 1989, due to resign in the spring 2001.

Kari Niemistö (36), M.Sc. (Econ.), managing director, Selective Investor Oy Ab. Member of the Board since 1998, due to resign in the spring 2001.

Kurt Stenvall (66), varatuomari*. Member of the Board since 1988, due to resign in the spring 2000.

Christoffer Taxell (51), ministeri*, president & CEO, Partek Group. Member of the Board since 1985, due to resign in the spring 2000.

Henry Wiklund (50), kamarineuvos*, managing director, Svenska litteratursällskapet i Finland rf. Member of the Board since 1993, due to resign in the spring 1999.

Personnel representatives on the Board, April 1, 1998 - March 31, 1999.

Pirkko Laisi (56), chief shop steward, administration. Personnel representative on the Board, elected by the Corporate Board.

Tuija Wänttinen (34), M.Sc.(Econ.), section manager, Helsinki department store. Personnel representative on the Board, elected by Stockmann's senior salaried employees.

* a Finnish title

Corporate management and auditors

The members of Stockmann's Management Committee and the commercial unit management. Standing, from the left: Henri Bucht, Lars Eklundh, Veikko Syvänen and Lasse Lehtinen. Seated, from the left: Stig-Erik Bergström, Ari Heiniö, Hannu Penttilä and Aarno Pohtola.

Management Committee

Ari Heiniö (53), varatuomari*, managing director.

Stig-Erik Bergström (58), D.Sc.(Econ.), deputy managing director with responsibility for finance, treasury, information systems and real estate.

Hannu Penttilä (45), varatuomari*, deputy managing director with responsibility for the Department Store Division.

Aarno Pohtola (42), LL.M., director, Automotive Sales Division.

The commercial unit management includes the above mentioned members of the Management Committee plus

Henri Bucht (47), M.Sc.(Econ.), director, Helsinki department store, responsible for the department stores in Finland and the Academic Bookstore.

Lars Eklundh (44), B.Sc.(Econ.), managing director, Seppälä.

Lasse Lehtinen (40), M.Sc.(Econ.), director, Sesto.

Veikko Syvänen (52), business college graduate, managing director, Hobby Hall.

Auditors

Eric Haglund (64), B.Sc.(Econ.), Authorized Public Accountant. Stockmann's deputy auditor since 1971 and regular auditor since 1977.

Krister Hamberg (55), B.Sc.(Econ.), Authorized Public Accountant. Stockmann's deputy auditor since 1988 and regular auditor since 1995.

Deputy auditor
KPMG Wideri Oy Ab

* a Finnish title


1


2


3


4

Department Store Division goes for growth

Stockmann's department stores and the Academic Bookstores in the centre of Helsinki and in the Itäkeskus Shopping Centre in eastern Helsinki as well as in Tapiola, Tampere and Turku offer customers a knowledgeable shopping environment and good service in a congenial atmosphere. The key to Stockmann's success is a unique and broad assortment of good products at competitive prices. The International Operations include department stores in Tallinn and Moscow as well as three speciality stores in Moscow and two in St Petersburg.

DEPARTMENT STORE DIVISION		1998	1997	1996
Sales	FIM mill.	**3 766.3**	3 668.9	3 363.5
Proportion of Group Sales	%	**43.3**	44.3	45.3
Operating profit	FIM mill.	**139.3**	194.4	134.1
Return on investment	%	**17.3**	24.2	17.7
Investments	FIM mill.	**153.4**	68.1	85.5
Staff, December 31		**5 432**	4 931	4 596

The Department Store Division's sales inclusive of VAT grew by 2.7 per cent and were FIM 3 766.3 million. Turnover was FIM 3 173.8 million, up 3.1 per cent on the previous year. Sales registered in the department stores in Finland and in the Academic Bookstores grew by FIM 164.8 million, or 5.2 per cent. As a consequence of the economic crisis in Russia, International Operations reported a decrease in sales of FIM 67.4 million, or 13.7 per cent.

All the department stores in Finland increased their sales. The construction works necessitated by the enlargement of the Tapiola department store hampered operations badly during the year. The interior works for the project reached completion and the department store, which was expanded by about 3 900 square metres, was opened on October 6. Thanks to the very good sales trend following the opening, the Tapiola department store's full-year sales rose to a level corresponding to the growth in department store sales in Finland as a whole.

The fall in sales by International Operations was due to

1. One of the biggest department store investments in the company's history, the large-scale and demanding enlargement of the Tapiola department store, was seen to completion on October 6, 1998. The project had a total price tag of about FIM 130 million. The enlargement increased the joint retail space of the department store and the Academic Bookstore in Tapiola to 11 250 square metres.

2. Now all the fashion departments are located on the second floor of the Tapiola department store.

3. The completely renewed Tapiola Delicatessen department now offers a larger product assortment and has considerably more floor space.

4. The parking level that was located below the first floor of the Tapiola department store was converted for use as a sales area. The new store floor comprising about 900 square metres of retail space houses the radio and TV, music and sport departments.

the economic crisis that broke out in Russia in mid-August and to the serious weakening in disposable income as a result of the rouble's collapse. The Smolenskaya department store that was opened in Moscow at the end of November nearly three months behind schedule as well as the fashion store that was opened along Nevsky Prospect in St Petersburg in mid-December had only a short time to offset the sales figures, which were battered by the economic crisis. In accordance with advance plans, the Moscow Danilov store was closed in October after the department store project was completed.

Sales in Estonia continued to grow despite the country's own economic difficulties and the repercussions of the Russian crisis. Sales growth nevertheless came to a halt during the latter part of the year.

Owing to the heavy investment programme and the start-up costs which it brought, and in the context of Russia's economic turmoil, the Department Store Division's operating profit weakened from the previous year's record level.

Within International Operations, it was significant that a number of Western companies withdrew from Russia during the last part of the year. In this situation, Stockmann's outlays on growth will give it the opportunity to boost market share even in an economically uncertain environment.

Domestic sales grow despite construction works

The department stores in Finland and the Academic Bookstores had sales inclusive of VAT of FIM 3 340.0 million. Sales exceeded the previous year's figure by 5.2 per cent and were in line with the target set. Sales by the concessions in the department stores amounted to FIM 228.5 million, an increase of 13 per cent on the previous year.

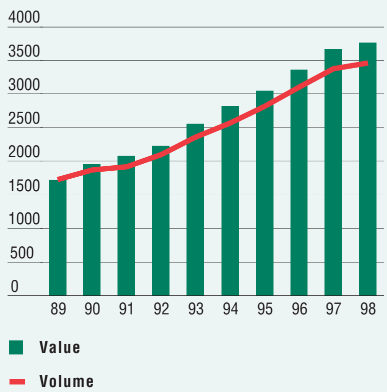
The sales trend was particularly strong for the following merchandise sectors: household goods (+12 per cent), consumer electronics (+10 per cent), women's wear (+10 per cent), cosmetics (+8 per cent), men's wear (+8 per cent), leisure and hobbies (+7 per cent), sports (+7 per cent) and footwear (+7 per cent).

Although the sales trend was on target, operating profit before depreciation fell short of the previous year's excellent result. This was due primarily to the extensive store enlargements which hampered sales activities during the year, particularly in the Tapiola department store and to some extent in the Tampere department store.

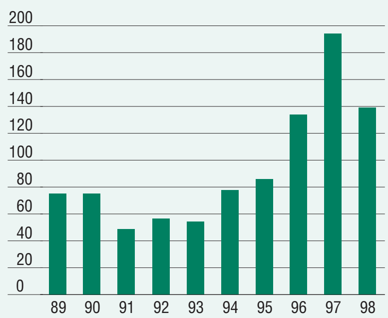
The merging of the organizations of the Academic Bookstore and the Department Store Division at the beginning of 1998 went as planned both in terms of the development of commercial activities and the achievement of cost savings.

One of the largest department store investments in the company's history, the extensive and demanding enlargement

Development of the Department Store Division's sales 1989-1998, FIM million



Development of the Department Store Division's operating profit 1989-1998, FIM million



Department Store Division

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BAKITO®

BAKITO®

BAKITO®

1. On November 26, 1998, Stockmann opened its first full-scale department store in Moscow. Located on the basement floor of the department store is a Delicatessen. The fashion department is on the street level and on the second floor there are household areas, young people's clothing and footwear. The store has a total of more than 5 000 square metres of retail space.

2. The Moscow department store has an excellent business location in the centre of Moscow at the end of the Arbat pedestrian precinct, along Garden Ring Road, in the Smolensky Passage business centre.

3. Moscow's Deputy Lord Mayor, Vladimir Malyshkov (second from the left), who opened the Smolenskaya department store is shown touring the store together with Jukka Hienonen (left), director of International Operations, Deputy Managing Director Hannu Penttilä and Managing Director Ari Heiniö.

4. The Moscow department store is staffed by 380 Stockmann professionals.

of the Tapiola department store, was seen to completion in October. The investment had a total price tag of about FIM 130 million and it increased the joint retail sales area of the department store and the Academic Bookstore in Tapiola to 11 250 square metres. The amount of parking spaces more than doubled and the Sampokuja walkway that spans Merituulentie, Tapiola's main traffic artery, was made into a pleasant part of Tapiola's revamped commercial centre. Although the construction works were a great burden on the department store's sales and earnings trend during the year, the strong sales growth following the opening has proved that the investment decision was correct.

The new layout of floor space in the Helsinki department store mainly affected women's and men's fashion as well as home furnishings. Towards the end of the year a Stockmann Deli – an idea that originated in Tapiola – was opened in Helsinki. The Deli offers salads and snacks that can be enjoyed in the shop or taken away. The concept will be implemented at all the department stores during the current year. Works aiming to make more extensive use of the 7th floor for retail sales were started during the year. The new areas will be completed during the spring 1999.

The enlargement of the Tampere department store by adding an additional floor proceeded according to plans and it was completed in March 1999. The enlargement meant an increase of 2 500 square metres in the Tampere department store's retail space. Together with the Academic Bookstore, it now totals 10 400 square metres. During the year a licence procedure and planning work on expanding the Delicatessen Department of the department store also got under way. The expansion is scheduled for completion in the autumn 2000.

At the Turku department store, a licence procedure and design work on adding an additional floor to the department store were started in the latter part of the year. The project will include an extension to the Delicatessen Department. The target for completion is the autumn 2000.

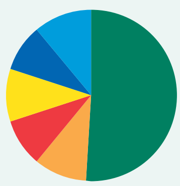
It was decided to firm up decades of cooperation with Marks & Spencer of Great Britain through an agreement on opening of the first Marks & Spencer store that will operate outside the department stores. The new unit is located opposite the department store in the heart of Helsinki. On the basis of the experiences obtained from the store, which was opened at the end of March 1999, a decision will be taken later on regarding the opening of similar stores nearby all the department stores in Finland.

The cash register systems and terminals were upgraded at the department stores in Tapiola and Itäkeskus in cooperation with ICL Edacom. At the end of the year, an upgrade of the cash registers was started in Helsinki. The change

Sales 1998 by unit

	Sales, FIM million
Helsinki	1 926.1
Tapiola	375.0
Itäkeskus	335.6
Tampere	357.8
Turku	345.4
International Operations	426.3

Percentual distribution of sales 1998 by unit



51% Helsinki
10% Tapiola
9% Itäkeskus
10% Tampere
9% Turku
11% International Operations

Department Store Division

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will be carried out at the department stores in Turku and Tampere during the first half of 1999.

Following the signing of a preliminary agreement by Scandic Hotels Oy – which was in charge of the customer restaurants in the department stores in Finland – to transfer its entire restaurant operations to Royal Rest Oy, negotiations were started with the aim of ensuring continuing cooperation in this area.

Academic Bookstore reports buoyant growth in book sales

For Academic Bookstore, 1998 was the first full year of operations as part of the Department Store Division's organization.

On a same store basis, the growth in book sales was 7.0 per cent, which exceeds the general trend in the field. Turnover growth was even larger, because the value added tax on books declined from twelve to eight per cent at the beginning of the year. With the exception of computers, store sales in other merchandise categories also showed positive development.

Sales to institutional customers were at the previous year's level. Agreement-based Internet service for institutional customers started up in March 1998. At the turn of the year about five hundred customers were already using the service.

Preparations for introducing an Internet "bookstore" targeted at consumers moved ahead and operations got started in the spring 1999.

Stockmann's Loyal Customer pro-

AKATEEMINEN KIRJAKAUPPA
AKADEMISKA BOKHANDELN

1. The Book and Rose day was celebrated at all the Academic Bookstores on April 23.

2. At the Academic Bookstore's meeting place, author Jörn Donner and Thomas Rönström, Managing Director of the Association of Swedish Book Merchants, spoke out against the fixed pricing of books.

3. Academic Bookstore has an order service for institutional customers on the Internet. Customers can make their selections from a product register containing 450 000 book titles and 25 000 magazine titles, tracking the progress of their order in real time.

4. Speaker of Parliament Riitta Uosukainen made an appearance at the meeting place in the Tapiola Academic Bookstore and spoke on the subject of Love for One's Native Land, which is one of the themes of the new book entitled Suomalaisia vaikuttajanaisia (Influential Finnish Women).

gramme gained a new dimension when a decision was taken to introduce a book club solely for Loyal Customers in close cooperation with the publisher WSOY.

Enlargement works aiming at placing in commercial use the space underneath the street level at the Academic Bookstore in the centre of Helsinki progressed according to plans. The space will be completed in August 1999.

Economic crisis causes sales drop in Russia

Sales inclusive of VAT by International Operations were FIM 426.3 million. Sales in Russia amounted to FIM 218.1 million, or 26.2 per cent less than a year earlier. Total sales of the Tallinn department store and the Seppälä store were FIM 208.2 million, an increase of 5.1 per cent.

In the first months of the year, International Operations reported comparatively stable growth in sales and earnings. At the beginning of the year, the units in Russia went over to using the rouble in pricing and, beginning in the late spring, also as the basis of determining salaries and wages of the local personnel. In a few weeks, the economic crisis that began in mid-August slashed the external value of the rouble by nearly 70 per cent, causing sales during the important autumn season to plunge to nearly half of the forecast figure.

Since the rouble remained shaky, at the end of September Stockmann went back to the dollar as the unit used in its pricing. At the same time, a cost-cutting programme was launched. As part of the programme, a substantial part of the rents on our commercial premises was revised to lower levels. The Smolenskaya department store in Moscow, a project that has been in preparation for a long time, reached completion and the department store was opened on November 26, nearly three months behind the original schedule. The department store has more than 5 000 square metres of retail space on three floors. In St Petersburg, a new 1 200 square metre fashion store was opened along Nevsky Prospect in St Petersburg in mid-December. The sales of these new units did not yet have time to bring a significant increase in the total sales figures for 1998.

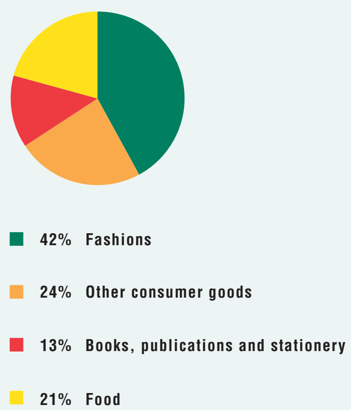
As a consequence of the drop in sales due to the Russian crisis as well as the costs of opening the Moscow department store and the fashion store in St Petersburg, the operating result before depreciation of International Operations weakened markedly and was in the red. Earnings in Russia were also burdened by the depreciation of the rouble as well as a write-down on stocks in view of the continuing difficult market situation during the current year.

In Estonia, the uncertainty surrounding the banks and financial sector as well as the indirect effects of the Russian situation were reflected in a cautious attitude to business dealings. The good sales growth in the first part of the year came

Sales 1998 of the department stores in Finland by merchandise sector

	% of total sales	change 97-98, %
Fashions (incl. cosmetics and footwear)	42.1	6.0
Other consumer goods	23.6	8.4
Books, publications and stationery	13.4	4.0
Food	20.8	2.5
Department stores in Finland, total	100.0	5.2

Percentual distribution of sales 1998 by merchandise sector



Department Store Division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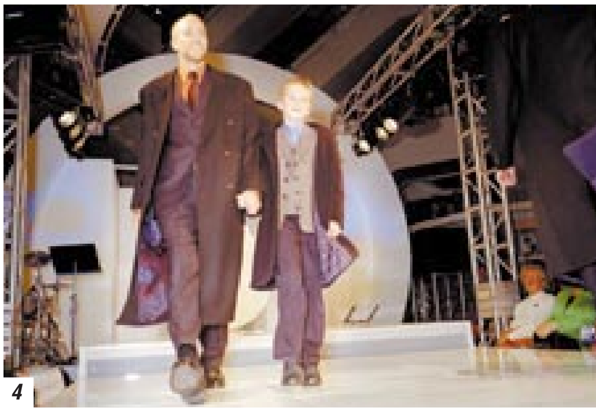
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to a standstill in the autumn months. The competitive situation in the retail trade got much tighter during the year. Several new store enlargements and new shopping centres that were opened during the autumn meant that disposable income was spent in several different places. The lack of confidence in the Estonian crown meant higher costs of hedging the exchange rate. Although this exerted a drag on the profitability of business operations, the operational result in Estonia was at the good level of the previous year.

During the last part of the year, a decision was taken to launch a project to enlarge the Tallinn department store by adding three additional floors and also to build a parking building adjoining the department store. As plans now stand, the enlargement will be placed in commercial use in the spring 2000. It will more than double the department store's retail space. The Seppälä store in Tallinn was made a part of Seppälä's own organization at the beginning of 1999.

Thanks to the successful start-up of department store operations in Estonia, the company has taken a strategic decision to expand operations to Riga, Latvia's capital city. The timetable and details of the project are still open.

New dimensions in Loyal Customer marketing

Competition for loyal customers hotted up a good deal. Stockmann's policy, in which the customer finds out the size of the realized benefit right at the moment

__1.__ On hand at the opening of the Finland Is Pop campaign in the Helsinki department store were 3 500 Loyal Customers. A large Hackman-littala and Nokia sales exhibition was opened in the Argos Hall in connection with the campaign theme.

__2.__ Fashion designer Ritva Falla showing products she has designed. Ms Falla won the Golden Hanger award in 1999.

__3. and 4.__ All the products featured in the Finland Is Pop campaign bore witness to the innovative prowess of Finnish companies and most of them were completely manufactured in Finland. The women in the picture are wearing Avenue fashions, and the men sport Turo Tailor suits and Casanova jackets. Other well-known Finnish fashion brands include Luhta, Marimekko, Marja Kurki, Master-Coat, Pola and Ril's.

of purchase, registered steady gains in popularity. The number of Loyal Customers at the close of the year was 583 000, of whom 33 000 were in Estonia. Purchaser loyalty also remained high and it was rewarded. More than a hundred thousand Loyal Customers received Stockmann share options based on the amount of their purchases during the previous year. In cooperation with Merita Bank, a combination Stockmann Loyal Customer card and bank debit card was launched. The card offers a facility for making cash withdrawals from the cash registers at Stockmann's various units. Card cooperation on a similar basis started up with Leonia Bank in February 1999.

The main campaign carried out at the department stores in Finland during the autumn was "Finland is Pop". Apart from high quality Finnish branded goods, the campaign featured delicious Finnish foods.

The Crazy Days that were organized in the spring and autumn maintained their tradition of setting sales records in both Finland and Estonia. The four-day sales figures racked up during the autumn campaign were about FIM 128 million.

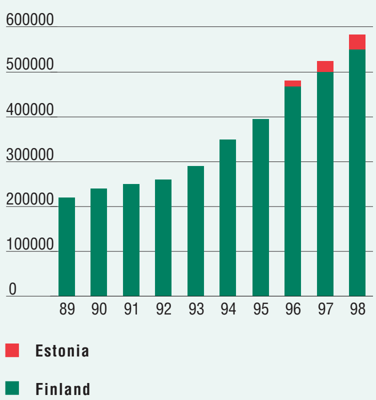
Outlook for 1999

The outlays and efforts that have gone into developing department store operations in Finland, and those which are still pending, will mean a clear improvement in Stockmann's operational position during 1999.

The economic environment in Russia will remain unstable and its effects will show up to some extent in Estonia, too. Compared with competitors, Stockmann has modern and competitive department stores in Moscow and Tallinn. The first half of 1999 will be very difficult time in Russia, and this will most likely lead to a large cutback in capacity within the retail trade. We believe that this will improve Stockmann's possibilities to achieve success even in unstable conditions. In spite of this, operations in Russia will remain loss-making.

The Department Store Division's outlook for 1999 is moderately good. Despite the factors of uncertainty relating to operations in Russia, operating profit is expected to improve on the previous year.

Number of Loyal Customers 1989-1998



Automotive Sales Division

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The market position holds strong

Stockmann's Automotive Sales Division serves its customers at nine full-service sales outlets in the Greater Helsinki area and at two outlets in the Turku economic area. The division's success is based on high quality products, a very wide range of makes and models, competitive prices thanks to large volumes and good and reliable customer service. The vehicles sold are Ford, Volkswagen, Audi, Mitsubishi and Skoda cars and an extensive selection of trade-in vehicles. Reliable quality and customer service are also important advantages within servicing, repair and spare parts for customers' vehicles.

AUTOMOTIVE SALES DIVISION		1998	1997	1996
Sales	FIM mill.	**2 054.0**	1 824.8	1 429.6
Proportion of Group sales	%	**23.6**	22.0	19.3
Operating profit	FIM mill.	**25.9**	27.9	18.5
Return on investment	%	**10.1**	10.3	7.8
Investments	FIM mill.	**15.0**	11.1	17.8
Staff Dec. 31		**662**	564	493

In 1998 the pace of growth in Finland's motor trade picked up compared with 1997. New car sales totalled 125 751 vehicles, an increase of 20.3 per cent on the previous year. The rate of growth in the market of the Greater Helsinki area was somewhat higher than this. Growth in the Turku economic area was below the country's average. The total volume of the motor trade was nevertheless still at a fairly low level and only matched sales in 1982.

Sales of vans grew by nearly a fifth compared with the previous year. The number of new vans registered during the year was 14 021.

European car makes held on to their strong share of the total market. A number of new models appeared in the family car category during the year. The battle for market share raged on and translated into weaker profitability figures. Financing growth will be a tough challenge for many players in the market.

The global competition facing international car-makers is leading to ever larger post-merger entities. Examples in

1. *The very wide range of makes and models offered by Stockmann's Automotive Sales Division provides a vehicle for every life situation.*

2. *The repair shops observe a programme of personal maintenance advisory service enabling them to work efficiently and systematically so that jobs are completed on schedule.*

3. *Maintenance advisers give the customer personal counselling and go over the details of the maintenance requirement together with the customer. For example, if during regular maintenance some other repair need is noted, the customer receives a cost estimate for approval.*

4. *Versatile space vans have grown in popularity in recent years.*

point are the merger of Mercedes and Chrysler as well as the sale of Volvo's car business to Ford. This quest for cost-effectiveness and strengthening competitiveness throughout the entire distribution chain is bound to mean further structural changes in the retail trade as well.

On May 1, 1998, Stockmann gave up its Seat dealership because the company did not consider it possible to build a separate Seat sales network – in line with the principal's expectations – in the Greater Helsinki area.

Sales growth tapers off

The Automotive Sales Division's sales inclusive of VAT grew by FIM 229.2 million to FIM 2 054.0 million and topped the two billion markka level for the first time. The division's turnover was FIM 1 691 million, an increase of FIM 191 million, or 13 per cent, on 1997. The growth in sales by the Automotive Sales Division fell markedly short of the market average. Competitiveness was weakened by the fact that the product range temporarily lacked certain models and, in addition, many models had too long delivery times.

Operating profit was FIM 25.9 million, down 2.0 million on the previous year. The weakened result was due in part to higher depreciation on the large-scale investments that were made. The upgrading of the information systems, which was carried out in May 1998, by itself caused a couple of million markkaa of extra costs that cut into earnings for the financial year. Expenses were also increased by the recruiting of new employees with the aim of creating a sound foundation for future growth.

The stock turn rate for trade-in vehicles weakened towards the end of the year, but nevertheless remained at a satisfactory level.

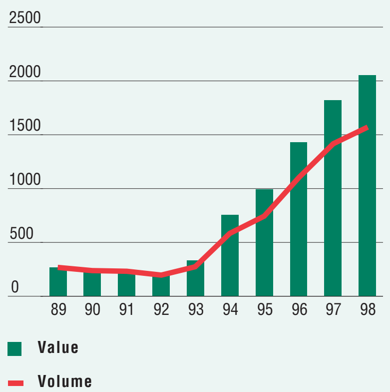
Market leader in the Greater Helsinki area

The Automotive Sales Division lost a few percentage points of market share in the Greater Helsinki area but remained the clear market leader, with a share of more than 20 per cent.

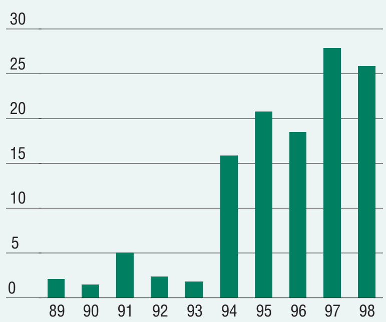
The Automotive Sales Division is organized into three product lines according to its principles. Within Stockmann's car sales, Volkswagen lost market share due to a "shortage of goods". Volkswagen was nevertheless Finland's third highest selling make, with a 9.6 per cent market share. Ford increased its nationwide sales by 8.8 per cent and moved into fourth place with a 9.2 per cent market share. Audi's nationwide sales were up 47.6 per cent, Mitsubishi's, 7.8 per cent and Skoda's 44.9 per cent.

Stockmann sold a total of 18 187 vehicles, of which 10 165 were new vehicles. The VW-Audi line sold 4 330 vehi-

Development of the Automotive Sales Division's sales 1989-1998, FIM million



Development of the Automotive Sales Division's operating profit 1989-1998, FIM million



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cles (up 6.9%) and the Ford line 4 785 vehicles (up 12.0%). The first full year of sales by the Mitsubishi-Skoda line resulted in sales of 1 050 vehicles.

Sales of trade-in vehicles remained at the previous year's level and amounted to 8 022 vehicles (down 0.5%).

In the Turku economic area, Stockmann's Automotive Sales Division had a market share of 12.6 per cent.

Increased servicing capacity

Servicing and repair capacity was in full use at all the outlets. Repair shop operations expanded during the year. The Automotive Sales Division hired nearly 30 new servicing personnel.

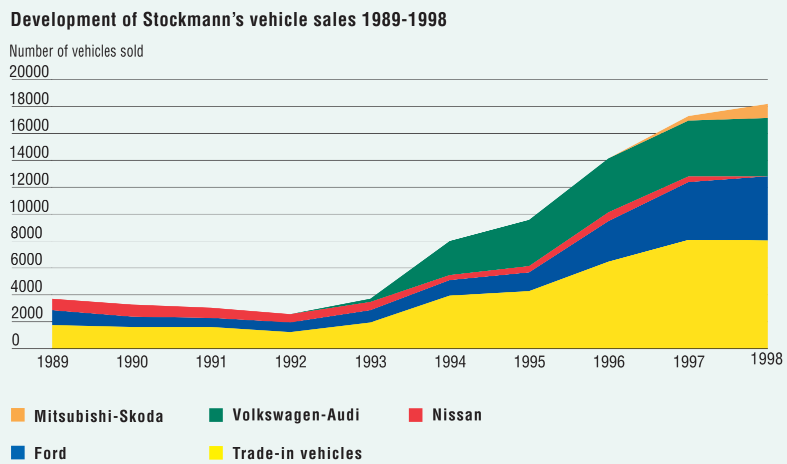
Towards the end of the year, servicing queues were shortened to about a week. In the body shop, queues are still too long. Further increases will be made in servicing and repair shop capacity.

Sales network upgrade on the home stretch

The renewed VW showroom at the VW-Audi product line's outlet in Herttoniemi was shown to customers in February 1998. A renovation of the VW-Audi outlet at the Merituuli shopping centre in Suomenoja, Espoo, was completed in the late summer. The outlet was given a completely new look and its repair shop capacity was increased substantially. In addition, in December a separate servicing shop with ten repair bays was opened in Suomenoja. In Vantaa, Stockmann built more than 600 square metres of new showroom space for its VW special outlet. The extension was completed in January 1999. At the same time, servicing capacity in Vantaa was doubled. At the end of the year, a reorganization at the repair shop in Herttoniemi was started, adding ten new repair bays.

Within the Ford product line, in May Stockmann purchased the premises in which the Tikkurila outlet operates. An extension and modification programme that has taken a whole year was seen to completion at the Ford outlet in Espoo in October. Completely renewed facilities were built for the vehicle sales and the repair shop was modernized. The external appearance of the building was revamped by means of resurfacing the facade, among other things. More than 500 square metres of additional retail area was built.

At the beginning of 1998 Stockmann opened a second Mitsubishi-Skoda outlet on its own premises in Helsinki. In the spring, a plot of land was purchased



alongside Ring Road III in Vantaa and on it a more than 3 000 square metre Mitsubishi-Skoda outlet will be completed in May 1999.

Spare parts sales to institutional customers moved from Vantaa to larger facilities in Malmi in March. The unit also now operates as a central warehouse for spare parts of the Automotive Sales Division. It dispatches topping up deliveries to different locations several times a day. The arrangement will improve the spare parts stock turn rate and the efficiency of capital employed.

In May 1998 a new information system incorporating both euro and Year 2000 capabilities was put into use. The investment was a must in view of the manyfold increase in volumes.

Capital expenditures totalled FIM 15.0 million, of which information systems and equipment accounted for FIM 3.6 million. FIM 46.1 million was spent on real-estate property that is used by the Automotive Sales Division.

During 1998 further outlays were made on developing quality systems. Now the entire Automotive Sales Division is covered by the ISO-9002 quality system. We are continuing to invest heavily in the continuous improvement of customer service. The lengthening of opening hours from the beginning of 1999 is an example of a service that customers appreciate. Vehicle sales personnel now serve customers daily from 8 a.m. to 7 p.m., and on Saturdays from 10 a.m. to 4 p.m.

Outlook for the future

The total market forecast for the Finnish motor trade for 1999 is 126 000 – 130 000 new cars (125 751 in 1998), which, if it holds, will mean a substantial slowdown in the market's growth trend.

In 1999 the range of models and the competitiveness of the makes of car represented by Stockmann's Automotive Sales Division will be good. The delivery situation for new cars will improve significantly compared with the previous year. This will make it possible to increase sales faster than the market average. The Automotive Sales Division's profitability will be better than it was in 1998.

1. *Customers can familiarize themselves with our range of vehicles via the Internet. This is a convenient way to request the staff to get in touch or to reserve maintenance times.*

2. *The Ford Focus was chosen Car of the Year. It represents a class of car that is of interest to both private motorists and companies.*

3. *The Volkswagen Bora is a safe family car that incorporates the latest technological know-how.*

4. *The full-blooded sportster Audi TT Coupé is styled for the next millennium.*

5. *The Mitsubishi Galant is a robust vehicle. Now the Galant comes with a GDI engine, too. Compared with engines of a comparable size, this direct injection petrol engine reduces both fuel consumption and exhaust emissions by 20 per cent, whilst boosting engine power by 10 per cent.*

6. *The new Skoda Octavia is a pleasant surprise thanks to its sleek lines, high quality equipment and outstanding driving characteristics.*

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A stronger hold on market leadership

Hobby Hall is Finland's largest mail order operator and is now the market leader in Estonia as well. Its offerings consist primarily of household and leisure articles. Hobby Hall's catalogues, which are distributed in Finland and Estonia, offer more than a million customers a fast and convenient way to buy quality products at affordable prices.

HOBBY HALL		1998	1997	1996
Sales	FIM mill.	**1 189.1**	1 071.2	954.0
Proportion of Group sales	%	**13.7**	12.9	12.9
Operating profit	FIM mill.	**62.8**	59.8	56.8
Return on investment	%	**15.3**	15.8	19.1
Investments	FIM mill.	**14.5**	13.5	3.9
Staff Dec. 31		**617**	534	469

It is estimated that mail order sales grew by 3.9 per cent in Finland in 1998, though the volume of mail order packages decreased by more than 5 per cent. The volume of Hobby Hall's dispatches increased by 4.1 per cent in Finland. Hobby Hall thus increased its market share.

Hobby Hall's sales trend remained good. Sales inclusive of VAT were up 11.0 per cent on the previous year, to FIM 1 189.1 million. Sales in Finland topped one billion markkaa and were FIM 1 022 million, an increase of 7.6 per cent on 1997. In Estonia, sales grew by a whopping 37.9 per cent and totalled FIM 167.1 million. Hobby Hall also strengthened its position as the market leader in Estonia. Turnover grew by FIM 97.2 million to FIM 979.5 million.

Operating profit rose by FIM 3.0 million to FIM 62.8 million, even though the costs of hedging the Estonian crown burdened the result by FIM 6.9 million. Earnings were nevertheless Hobby Hall's best ever.

Success factors behind catalogue sales

The success of catalogue sales is based on three factors: the mailing list – i.e. the customer base, which is the key factor – product offerings and different media alternatives. Hobby Hall's strong growth in recent years has been anchored precisely in the proper coordination of these three factors.

The customer base grew in both Finland and Estonia. At the end of 1998 there were 1 002 000 customers who re-

***1.** Hobby Hall remembered its Loyal Customers in 1998 with more than 20 catalogues or offers. Everything one could desire for a hike in the wilderness can be found in the camping and fishing catalogue.*

***2.** Finland's third Hobby Hall store was opened in Espoo's Friisilä district in mid-September. The main task of the store is to support mail order sales, but it also brings in new customers for Hobby Hall.*

***3.** Of Hobby Hall's product groups, clothing sales showed the greatest growth despite increased competition. In clothing as in other Hobby Hall's product groups, the sales emphasis is on branded goods, which guarantee product quality.*

***4.** Hobby Hall's product policy is based on a select assortment and large volumes. For example, 38 000 bicycles were sold in 1998.*

ceived the main catalogue in Finland (735 000 Loyal Customers), and in Estonia the corresponding figure was 150 000 (80 000 Loyal Customers).

The most important product group is still household textiles. Of the product groups, clothing sales nevertheless showed the biggest proportional increase despite stepped up competition and new companies – mainly from Sweden – which entered the field. Clothing sales amounted to more than FIM 150 million. Within clothing, as in Hobby Hall's other product groups, the sales emphasis was on branded goods, which guarantee product quality. Hobby Hall's product policy is based on large volumes and a select assortment.

The campaigns that registered the greatest success were the customer acquisition catalogues that were sent out to every household in January and in August and were supported by concurrent TV commercials. The value of orders grew by more than 30 per cent on the previous year. Hobby Hall remembered its loyal customers in 1998 with more than 20 catalogues or special offers – at an average interval of less than three weeks. The results of all the campaigns were positive.

More than half of the orders and queries were made by telephone. Hobby Hall serves its customers every day of the week. Regular Sunday opening hours were started in the autumn 1998. The customer can call the customer service at the price of a local call from anywhere in Finland.

Growth in Estonia continues

The strong growth of sales in Estonia continued, though it slowed down somewhat towards the end of the year. The growth in sales in the first half of the year was 47.8 per cent, as against 30.1 per cent in the second half. Processing of returns was largely moved to Tallinn, and returned products are sold at a store which adjoins the office. In 1998 the store had sales of FIM 7 million. Hobby Hall had a payroll of 43 employees in Estonia at the end of the year.

A third store opens in the Greater Helsinki area

Finland's third Hobby Hall store was opened in the Friisilä district of Espoo in mid-September. The main task of the stores is to support mail order sales, but they also bring in new customers. The store in Espoo had sales of FIM 12 million in 1998. The Helsinki store's sales were up 16.9 per cent to FIM 57.2 million. The Vantaa store had sales of FIM 96.2 million, an increase of 17.6 per cent.

A new logistics centre

Construction works on a new logistics centre were started in the Viinikkala district of Vantaa in June 1998. The logistics centre will be built in the immediate vicinity of Ring Road III in a place having excellent transport connections. The building will have 22 000 square metres of floor space. The cost estimate for the project is more than FIM 100 million.

In the long term the new logistics solutions will give Hobby Hall several competitive advantages. Delivery times will shorten and cost-effectiveness will improve. To cite an example, the dispatch capacity for products that are packaged together can be trebled from its present level. The objective is to shorten order processing times to 24 hours. The logistics centre will become operational in the late summer 1999. Information technology solutions will make it possible to launch electronic commerce. The increase in dispatch capacity in turn will enable Hobby Hall to expand its operations into a new market area. As part of the logistics solutions and with a view to providing increased information technology capacity, Hobby Hall replaced its mainframe computer with a more powerful model in the early 1999. This mainframe will ensure a trouble-free transition to the year 2000.

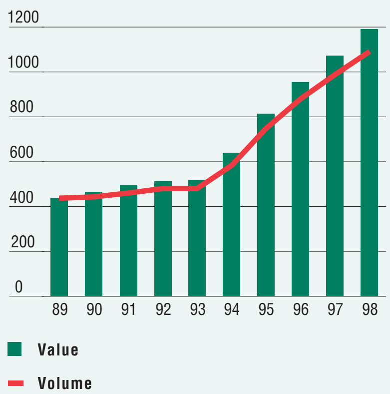
After the Viinikkala logistics centre is completed, Hobby Hall's Tammisto warehouse will concentrate on stocking and dispatching large products that are sent out separately.

Outlook for 1999

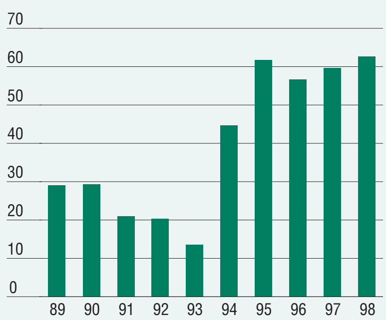
Uncertainty will hang over the mail order sales field in Finland again in the current year, and significant growth is not expected. The Estonian economy seems to be contracting, at least temporarily, and this will be reflected in retail sales.

In 1999 Hobby Hall will be building for the future. The logistics centre along with the transfers of stocks and functions will be seen to completion without jeopardizing sales. The objective is to maintain the good trend in sales and the level of earnings as well as to increase market share. The most important tool in realizing this objective is the growing trust of Hobby Hall's customers.

Development of Hobby Hall's sales 1989-1998, FIM million



Development of Hobby Hall's operating profit 1989-1998, FIM million



Sesto

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Investments aimed at developing operations

The Sestos in the Greater Helsinki area are high quality and moderate-priced supermarkets that offer superior product selections in their size class. The Sesto Etujätti markets that operate in Espoo, Vantaa, Turku and Tampere are modern hypermarkets whose competitiveness is based on large product assortments, delicious speciality counters, shopping convenience and overall thrift.

SESTO		1998	1997	1996
Sales	FIM mill.	**934.6**	924.2	929.1
Proportion of Group sales	%	**10.8**	11.1	12.5
Operating profit	FIM mill.	**13.9**	15.0	7.7
Return on investment	%	**12.9**	14.6	7.4
Investments	FIM mill.	**27.7**	4.5	13.3
Staff Dec. 31		**756**	672	668

Sesto's sales inclusive of VAT totalled FIM 934.6 million, an increase of 1.1 per cent, or somewhat less than the general trend in the supermarket trade. Sesto's turnover was FIM 791.2 million. Operating profit, FIM 13.9 million, and return on investment, 12.9 per cent, slipped somewhat from the previous year owing to the sizeable costs of establishing new retail units. Capital expenditure increased from FIM 4.5 million in the previous year to FIM 27.7 million.

Fifth Etujätti opens in Turku; a new Enterprise Resource Planning system

The Etujätti chain expanded with the opening in Turku's Kupittaa district of a fifth Etujätti hypermarket in November. Since there are now two Etujättis operating in Turku, gains in efficiency will be made in regional marketing and local procurements.

In 1998 a decision was taken to completely renew Sesto's operations control system so that it is in line with future challenges. The new system selected was SAP-R3 Retail, an

__1.__ Sesto's fresh produce gives cooks the makings for a delicious meal both on weekdays and days off. In the summer 1998, the Sestos and the Etujätti hypermarkets were also open for the first time on summer Sundays. The experiences of the trial and feedback from customers were positive.

__2.__ The Sestos in the Greater Helsinki area have been given a new look during the past year. The fruit counter at the Sesto in Reimarla draws customers with its appetizing freshness.

__3.__ The cheese counter at the new Etujätti in Turku's Kupittaa district pleases even the most demanding connoisseur.

__4.__ Sesto's Loyal Customers receive substantial benefits on certain supermarket goods that vary month by month.

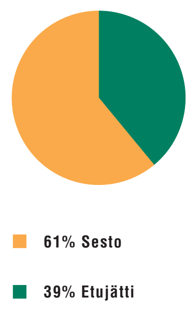
Enterprise Resource Planning system. The system will become operational in the summer 1999 and it will produce precise information to support decision-making. Thanks to its real-time capabilities and precision, it will make possible state-of-the-art operations control. The system will provide good support for Sesto's efficient chain-store operations. The Delicatessen departments in the department stores will be linked to the same system.

The future must be built

Growth of a few per cent is forecast for the supermarket goods trade. Sesto's future will be ensured through its professionally skilled staff, customer service that outdoes competitors, superior product assortments, good store locations, and an enterprise resource system that provides reliable real-time information – and it will continue to derive benefits from its cost-efficient chain operations.

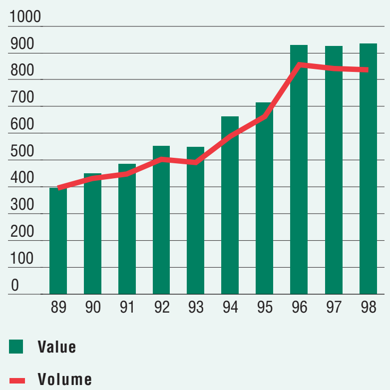
The Sestos in the Greater Helsinki area will be renewed so that their furnishings and product offerings are better attuned to the chain concept. The largest single capital expenditure in 1999 will be the Etujätti hypermarket that is to be built in Pirkkala. This will give the Tampere area, too, an efficient duo. After the Etujätti is opened in Pirkkala, there will be a total of 19 Sesto stores, six of which are Etujätti hypermarkets.

Distribution of sales 1998 by chain

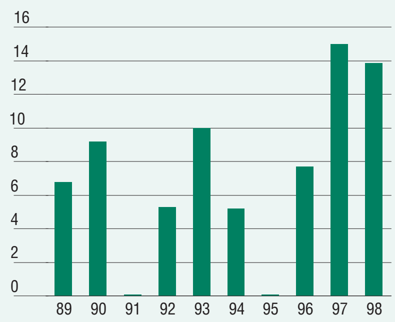


sesto

Development of Sesto's sales 1989-1998, FIM million



Development of Sesto's operating profit 1989-1998, FIM million



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Finland's largest clothing store chain

Seppälä is Finland's largest clothing store chain that offers customers international fashion at a reasonable price. Seppälä sells women's, men's and children's clothes as well as cosmetics at over a hundred stores in Finland and one store in Estonia. Centralized, chain-store operations guarantee very affordable prices and reliable quality.

SEPPÄLÄ		1998	1997	1996
Sales	FIM mill.	**735.6**	714.4	670.3
Proportion of Group sales	%	**8.5**	8.6	9.0
Operating profit	FIM mill.	**68.5**	76.8	70.6
Return on investment	%	**55.1**	62.9	60.3
Investments	FIM mill.	**18.5**	10.6	16.2
Staff Dec. 31		**745**	654	625

Seppälä's sales inclusive of VAT were FIM 735.6 million, up 3.0 per cent on the previous year. Expenses increased from FIM 157.2 million to FIM 170.1 million, which meant that operating profit was FIM 68.5 million, a decrease of FIM 8.3 million on 1997. Despite the lower operating profit, return on investment remained good.

Fourteen new stores in Finland

The growth in the garment trade in Finland was about 5 per cent. Seppälä's turnover was FIM 605.4 million, an increase of 2.9 per cent on the previous year. The competition situation in the retail trade got tougher, owing to the development inputs made by both Finnish and foreign competitors. Seppälä's sales of women's and men's fashions as well as cosmetics grew compared with the previous year, with cosmetics up by an impressive 15 per cent. A difficult stock situation and capricious weather conditions had a significant impact on earnings in the first part of the year. Earnings in the second half were nevertheless better than the July–December result in 1997.

In order to ensure growth, Seppälä continued its expansion in Finland. During 1998, 14 new stores were opened:

1. Seppälä' summer fashions for the adult taste. A photograph in the Spring Catalogue, which came out in March 1999 and was distributed widely throughout Finland.

2. Riitta Kontturi, who was chosen Store Manager of the Year, is in charge of Seppälä's new large store in Aleksanterinkatu, Helsinki's high-fashion street.

3. Seppälä's trendy clothing for young people is sold in more than 80 localities.

4. Seppälä is known for its sensible and reasonably priced children's clothing.

in Muurame, the Laune district of Lahti, the Columbus shopping centre in Helsinki, the Turku town centre, Parainen, Mäntsälä, Naantali, Kuopio, Palokka, the Kupittaa district of Turku, the Karhula district of Kotka and the Friisilä, Kivenlahti and Matinkylä districts of Espoo. Of the store openings, five came in the spring and nine in the autumn.

In December, the franchise stores in Seinäjoki and Kauhajoki were placed within the Seppälä organization. The store in Tallinn was transferred from the Department Store Division to Seppälä at the beginning of 1999.

At the end of the year there were Seppälä stores in eighty localities in Finland. The total number of stores was 111, one of which was a franchise store.

Strong market position

In order for Seppälä's success to continue in coming years, in the spring extensive work was launched to create Seppälä's strategy for the future. In the autumn the work was seen to completion, and the first results will show up in the spring 1999. The objective is to maintain Seppälä's strong position in Finland's garment trade and to expand operations in Estonia. In line with the strategy, chain-store operations will continue and be developed further, and more attention and outlays will be directed at the visual appearance of the stores.

An absolute requirement for successful chain-store operations is solid control of materials flows. In 1998 Seppälä succeeded in substantially shortening throughput times and improving the stock turn rate.

In the autumn Seppälä's credit card was discontinued and in its place Seppälä customers were offered Stockmann's Loyal Customer Card.

During 1998 several project groups were set up to develop aspects such as the training of Seppälä's personnel as well as purchasing and assortment planning.

Seppälä's managing director, Marjatta Björn, M.Sc.(Econ.), retired on July 31, 1998, and handed over her duties to Lars Eklundh, B.Sc.(Econ.).

Seppälä is carrying out preparations for the transition to the year 2000 in cooperation with Stockmann's other units.

Outlook for the future

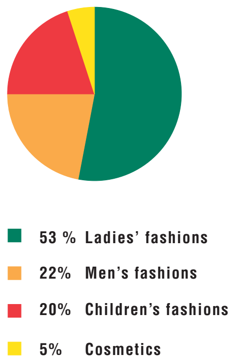
Although the growth in the garment trade in Finland and Estonia is relatively modest, Seppälä's sales are expected to grow. Several new stores will be opened in 1999, notably, in Aleksanterinkatu in the centre of Helsinki and in Sampokuja in the Tapiola district of Espoo, in the spring, as well as in the Vantaanportti shopping centre in Vantaa, in the autumn.

Most of the stores to be opened are larger than the present stores and a new type of store furnishings is used in them. The first of Seppälä's large stores opened its doors in March 1999 in Aleksanterinkatu, Helsinki.

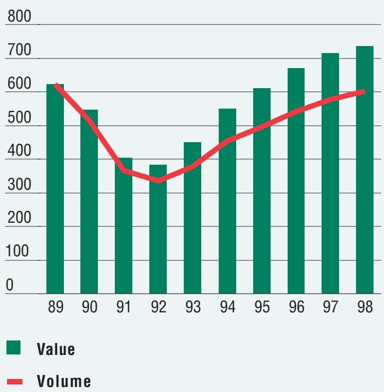
Seppälä will expand in Estonia if sufficiently good business locations can be found.

During 1999 Stockmann's Loyal Customer card will also be actively marketed in the Seppälä stores. Seppälä will continue to invest heavily in marketing.

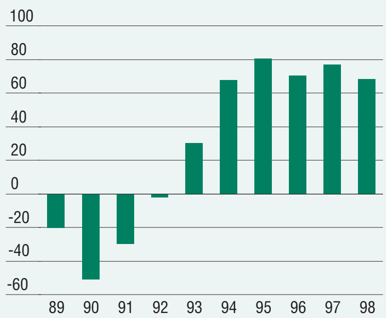
Distribution of sales 1998 by merchandise sector



Development of Seppälä's sales 1989-1998, FIM million



Development of Seppälä's operating profit 1989-1998, FIM million



Stockmann's sales grew by 4.8 per cent, or FIM 400 million, to FIM 8 689 million. Turnover also grew by 4.8 per cent, or FIM 333 million, to FIM 7 233 million. Operating profit decreased by 14.4 per cent, or FIM 57 million, to FIM 338 million. Profit before extraordinary items was FIM 364 million, a decrease of FIM 51 million on the previous year. Return on investment declined to 12.3 per cent.

Retail sales in Finland

The volume of retail sales in Finland net of the motor trade grew by about 5 per cent and by some 6 per cent in value. Department store sales grew by about 7 per cent in value and sales of supermarket goods by about 5 per cent. The value of vehicle sales was up about 15 per cent.

Stockmann's sales up 4.8 per cent

Stockmann's sales grew by 4.8 per cent, or FIM 400 million, and were FIM 8 689 million. Turnover also grew by 4.8 per cent, or FIM 333 million, to FIM 7 233 million. The growth in sales was reduced, among other things, by the divestment, at the end of 1997, of the Academic Bookstores in locations where Stockmann does not have a department store.

Of Stockmann's units, the biggest sales gain during 1998 was reported by the Automotive Sales Division, an increase of 13 per cent on the previous year, with sales rising to FIM 2 054 million. Importers' delivery capabilities improved towards the end of the year for those of Stockmann's makes which began to have long delivery times.

Hobby Hall's sales showed further strong growth both in Finland and Estonia. Sales amounted to FIM 1 189 million, an increase of 11 per cent on the previous year.

Sales by the Department Store Division grew by 3 per cent to FIM 3 766 million. Sales in Finland were up 5 per cent, whereas the International Operations units reported a decrease of 14 per cent. Sales by the department store that was opened in Moscow in November started up satisfactorily, given the prevailing conditions in Russia. The share of the International Operations units within the Department Store Division's sales declined from the previous year's 16 per cent to 11 per cent.

Seppälä and Sesto also reported sales gains. Seppälä's sales increased by 3 per cent to FIM 736 million and Sesto's sales were up one per cent to FIM 935 million.

Other operating income increased from FIM 31.5 million to FIM 41.4 million. Other operating income includes a capital gain of FIM 21.2 million on the sale of Kesko Corporation shares. In the first part of the year Stockmann sold two-thirds of its interest in Kesko for FIM 37.1 million. In addition, other operating income includes a FIM 20.0 million goodwill premium for the divested Academic Bookstores in locations where Stockmann does not have a department store. The bookstores were transferred to Suomalainen Kirjakauppa Oy as from January 1, 1998.

A lower operational result

Of Stockmann's sales growth of FIM 400 million, or 4.8 per cent, FIM 230 million came from the Automotive Sales Division, whose relative gross margin is low. In addition, the gross margin in Russia, in Finnish markka terms, declined considerably. Stockmann's gross margin on ordinary operations thus grew by only FIM 73.5 million, or 3.5 per cent, and increased to FIM 2 157.5 million. Operating expenses nevertheless grew by FIM 140.4 million, or 8.2 per cent, and were FIM 1 861.2 million, including depreciation.

Within operating expenses, salaries and staff costs increased by a total of FIM 81 million, marketing costs by FIM 16 million, depreciation by FIM 6 million and other operating expenses by FIM 37 million. Part of the increase in expenses came from factors connected with the extension to the Tapiola department store, the costs of opening the Moscow department store and extended opening hours.

Turnover, FIM million	**1998**	1997	change %	change FIM million
Department stores in Finland	**2 812.7**	2 661.4	6	151
International operations	**361.1**	417.9	-14	-57
Department Store Division*	**3 173.8**	3 079.4	3	94
Automotive Sales Division	**1 691.0**	1 500.8	13	190
Hobby Hall	**979.5**	882.3	11	97
Sesto	**791.2**	782.3	1	9
Seppälä	**605.4**	588.2	3	17
Real Estate + others**	**118.4**	176.0	-33	-58
Eliminations	**-126.1**	-109.1	16	-17
Total	**7 233.2**	6 900.0	5	333

* Included retroactively in the data for 1997 are the figures for the Academic Bookstores, which were integrated into the Department Store Division.
** Included retroactively in the data for 1997 are the figures for the Academic Bookstores, which were divested on January 1, 1998.

Since other operating income increased by FIM 9.9 million, operating profit decreased by FIM 56.9 million on the previous year and was FIM 337.7 million.

Net income from financial operations increased by FIM 5.9 million and was FIM 26.4 million. The figure includes FIM 8.1 million of net losses on foreign exchange, of which FIM 5.6 million is attributable to operations in Russia.

The operational result, or profit before extraordinary items, was FIM 364.0 million, down 51.1 million on the previous year.

Extraordinary expenses includes a write-down on Stockmann-owned shares in Polar Corporation from FIM 22.3 million to FIM 7.8 million, or a total of FIM 14.5 million. Profit before income taxes diminished by FIM 65.6 million and was FIM 349.5 million.

Direct income taxes declined by FIM 39.6 million to FIM 77.4 million. Net profit for the financial year decreased by FIM 26.1 million from the previous year's figure and was FIM 272.1 million.

As a consequence of the increase in shareholders' equity and the smaller net profit, return on investment weakened from 15.6 per cent to 12.3 per cent.

Return on equity also fell from 14.4 per cent to 11.1 per cent.

The market capitalization of the company's shares grew by FIM 732 million and stood at FIM 5 768 million at the end of the year.

The dividend payout grows and doubles in 1999

Dividends paid for the 1997 financial year increased by FIM 21.8 million on the previous year, to FIM 130.0 million following the resolution of the Annual General Meeting to raise the dividend per share by FIM 1.50 to FIM 9.00. Since the number of shares more than trebled as a consequence of halving the par value of the shares, carrying out a bonus issue and a rights issue as well as the share subscriptions made with the warrants attached to the 1994 bond issue, this corresponds to a dividend of FIM 2.78 per share, calculated on the present number of shares. The Board of Directors will propose to the Annual General Meeting that a dividend of FIM 3.00 per share be paid for the 1998 financial year, which means a per-share dividend increase of FIM 0.22 on the share issue-adjusted dividend for the previous year. The dividend to be paid would thus increase by FIM 24.1 million to FIM 154.1 million.

As Stockmann's first "full century in business" draws to a close, the Board of Directors wishes to extend its warm thanks to all the company's shareholders and has decided to commemorate the start of the new millennium for Stockmann by proposing to the Annual General Meeting, in honour of the event, the payment of a supplementary "millennium" dividend. According to the proposal, a supplementary dividend of FIM 2.00 per share will be paid, which means the payment of a total supplementary dividend of FIM 102.8 million. The total amount of the share issue-adjusted dividend per share will thus increase by FIM 2.22 to FIM 5.00 and the aggregate dividend to be paid would double, rising by FIM 126.9 million to FIM 256.9 million. This means a dividend payout equivalent to nearly the entire net profit for the financial year. It is proposed that the dividends be paid as follows: FIM 3.00 per share on April 23, 1999, and FIM 2.00 per share on November 15, 1999.

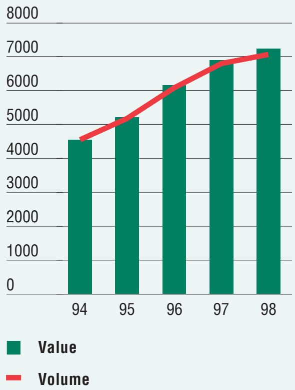
Earnings trend of the units

Operating profit of the Department Store Division decreased by FIM 55.1 million to about FIM 139.3 million. The drop was primarily attributable to the costs of establishing new retail units in Finland and Russia as well as to the repercussions of Russia's economic crisis.

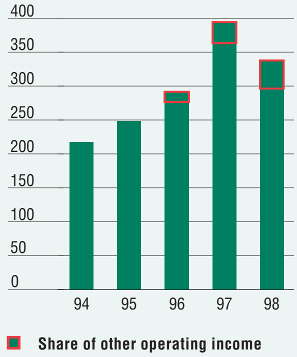
Operating profit of the department stores in Finland diminished by FIM 16.2 million compared with the previous year. This was mainly due to the weakening in the operating profit of the Tapiola department store during the first three quarters because of a temporary contraction in retail space and sales as a result of the extension work. With the completion of the extension in the first part of October, the department store's sales have grown better than expected.

Operating profit of the International Operations units was down FIM 38.9 million. Operating profit in Estonia was at the level of 1997. The result of operations in Russia weakened substantially and was in the red. The weakened result was due to several factors. Sales in Russia weakened in response to a contraction in disposable income as a consequence of the economic crisis that began in mid-

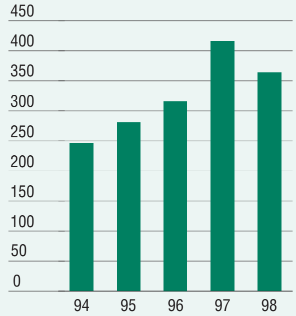
Turnover 1994-1998, FIM million



Operating profit 1994-1998, FIM million



Operational result* 1994-1998, FIM million



* profit before extraordinary items

August and sent the rouble plummeting. The opening of the new department store in Moscow in November caused major start-up costs, but the store did not yet generate income in 1998. The strong growth in stocks of goods prior to the opening of the department store, including related value added tax and advance customs payments, came during the period before the sharp depreciation of the rouble in the latter part of the year.

The Department Store Division's return on investment diminished from 24.2 per cent in the previous year to 17.3 per cent as a consequence of the weaker result and the increase in invested capital.

Operating profit of the Automotive Sales Division declined by FIM 2.0 million to FIM 25.9 million. This was due, among other things, to increased depreciation as a consequence of the establishment of new sales units. Because of the reduction in invested capital, the return on investment remained at the previous year's level and was 10.1 per cent.

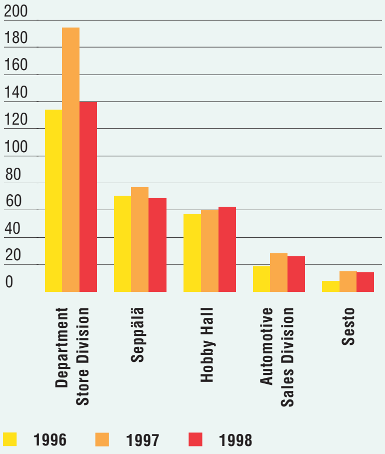
Thanks to good sales growth, Hobby Hall's operating profit increased by FIM 3.0 million to FIM 62.8 million even though the costs of hedging the Estonian crown increased by FIM 5 million on the previous year. Due to the growth in invested capital, return on investment diminished slightly compared with the previous year and was 15.3 per cent.

Sesto's operating profit diminished by more than FIM 1 million to FIM 13.9 million as a result of the costs of establishing a new Etujätti hypermarket. Return on investment fell from 14.6 per cent to 12.9 per cent.

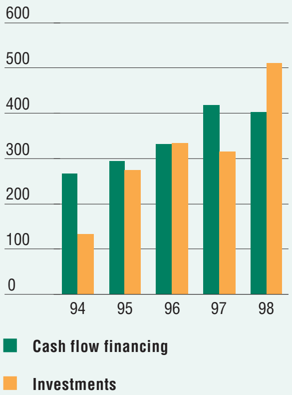
Seppälä's operating margin grew somewhat compared with the previous year. The expansion of operations and measures taken to ensure future competitiveness nevertheless increased costs and brought about a slide in operating profit to FIM 68.5 million, a decrease of FIM 8.3 million on the previous year's figure. Return on investment was still a healthy 55.1 per cent, although it diminished by 7.8 percentage points from the previous year's exceptionally high figure of 62.9 per cent.

The Real-Estate Unit's operating profit increased by FIM 4.6 million to FIM 89.5 million, mainly due to rental income from its new premises.

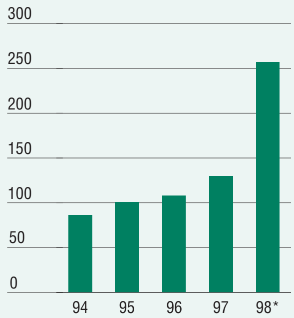
Operating profit of the commercial units 1996-1998, FIM million



Cash flow financing and investments 1994-1998, FIM million

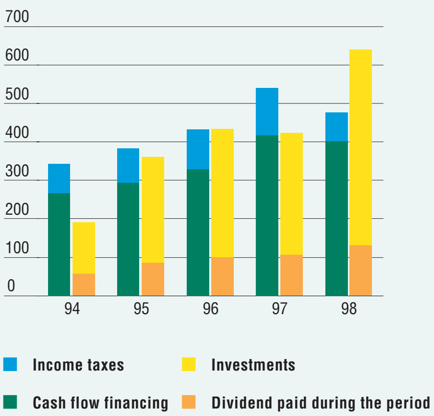


Dividend paid 1994-1998, FIM million



* Board proposal to the AGM. According to the proposal, FIM 154.1 million will be paid for the 1998 financial year and FIM 102.8 million as a supplementary "Millennium" dividend.

Cash flow financing, income taxes, dividend paid and investments 1994-1998, FIM million



A good financial position

Stockmann maintained very good liquidity. The amount of liquid funds remained at the previous year's level and was FIM 383 million.

The proceeds of share subscriptions in 1998 increased shareholders' equity by a total of FIM 607 million. Share subscriptions under the 1994 issue of bonds with warrants accounted for FIM 58 million of this amount and the rights issue carried out in the spring 1998 for FIM 550 million.

After paying income taxes of FIM 77.4 million, cash flow financing was FIM 399 million. Capital expenditures amounted to FIM 510 million and the dividend payout was FIM 130 million. In addition, funds committed to working capital grew by FIM 250 million.

Long-term loans were paid in the amount of FIM 188 million and FIM 16 million of new long-term loans was raised. Non-current creditors totalled FIM 688 million at the end of the year (FIM 849 million as at December 31, 1997). Taking into account interest-bearing trade receivables, interest-bearing receivables at the end of the year exceeded interest-bearing liabilities by FIM 324 million (FIM 107 million as at December 31, 1997).

The equity ratio grew to 65.1 per cent (55.6 per cent as at December 31, 1997).

Total contingent liabilities decreased by FIM 188.1 million from the end of 1997 and were FIM 366.1 million.

Capital expenditures grow to FIM 510 million

Capital expenditures on fixed assets totalled FIM 510 million, as against FIM 315 million in 1997.

The largest of the capital expenditures in 1998 was the modernization and extension project at the Tapiola department store, which required an outlay of FIM 94 million during the year. The project was completed at the beginning of October at a total cost of FIM 130 million. The department store's retail space grew by about 3 900 square metres, and a large amount of new parking space was added.

A store building was completed for Hobby Hall and Seppälä towards the end of September in the Friisilä district of Espoo at a total cost of FIM 19 million.

A building was completed for a Sesto Etujätti hypermarket and Seppälä store in Turku's Kupittaa district in November at a cost of FIM 45 million, including furnishings.

In Moscow, a department store was completed in rented premises towards the end of November, and FIM 67 million was spent on its finishing, interior decoration and furnishing works. The department store has about 5 000 square metres of retail space.

FIM 33 million was invested in the Hobby Hall logistics centre that is being built in the Viinikkala district of Vantaa. Plans call for putting the logistics centre with its new picking and packaging systems into use in the late summer 1999. The total cost estimate for the project is about FIM 100 million.

A major investment was the purchase of shares giving proprietary rights to store premises in Tapiola, Espoo, for use by Seppälä. A total of about FIM 40 million is invested in the Seppälä store in Tapiola, including reconditioning works and furnishings.

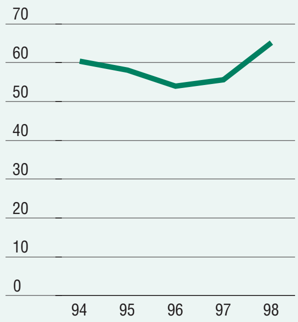
FIM 46 million was invested in real-estate properties that are occupied by the Automotive Sales Division.

The extension to the Tampere department store required an outlay of FIM 4 million in 1998. The landlord carried out the construction work. Stockmann's share of the total capital expenditures was about FIM 15 million. The extension comprises about 2 500 square metres of retail space and it was completed in the spring 1999.

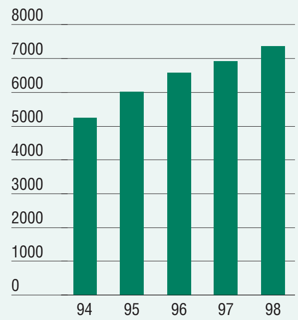
Of the other capital expenditures, FIM 29 million went for buildings, FIM 77 million for machinery and equipment, FIM 21 million for computer software programs included in intangible rights, FIM 7 million for other non-current investments, FIM 23 million for plots of land and FIM 8 million for shares.

Planning work on a parking building and extension to the department store in Tallinn got started in the early months of 1999. The parking building comprising 400 parking places will give Stockmann a significant competitive advantage when it is completed in the autumn 1999, as plans now stand. The approximately 9 000 square metre expansion of the department store, which comprises adding three new floors to the present department store, will be completed in the spring 2000. The expansion will mean an increase in the department store's retail space from about 5 500 square me-

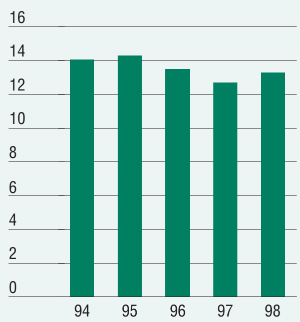
Equity ratio 1994-1998, %



Average number of staff 1994-1998



Staff costs 1994-1998, % of turnover



tres to more than 14 000 square metres. The total cost estimate for the project is somewhat more than FIM 100 million.

Planning works on a second Sesto Etujätti hypermarket in the Tampere economic area have also got under way. The costs of the Etujätti, which will be located in rental premises in Partola, Pirkkala, will for Stockmann be about FIM 10 million. The building will be completed for use in the summer 1999.

Share capital and shares

The halving of the par value of the company's share, a bonus issue and a rights issue were carried out in the spring in accordance with the resolution of the Annual General Meeting. The par value of the company's share was halved from 20 markkaa to 10 markkaa on May 12, 1998. Concurrently, a bonus issue was carried out in which holders of two Series A shares with a par value of FIM 10 or, similarly, two Series B shares, received one new share of the same series free of charge. A rights issue, in which holders of four Series A or B shares with a par value of FIM 10 prior to the bonus issue were entitled to subscribe one new Series B share with a par value of FIM 10 at a price of FIM 75 per share, was carried out from May 14 to June 12, 1998.

Following the halving of the par value and the share issues, the number of the company's Series A shares issued is 24 868 893 shares, the number of Series B shares is 26 514 084 and the share capital is FIM 513 829 770.

The Annual General Meeting approved the new Articles of Association according to which a shareholder of the company may elect to convert his or her Series A share to a Series B share. To date, no such conversions have been made.

The company's Board of Directors does not have valid authorizations to increase the share capital, issue convertible bonds or bonds with warrants or to purchase its own shares.

In disapplication of shareholders' preemptive subscription rights, the Annual General Meeting resolved to grant Stockmann's loyal customers whose registered purchases together with purchases made with other parallel cards that are charged to the same account were a minimum of FIM 5 000 during 1997 a total maximum of 2 400 000 options conferring the right to subscribe a total maximum of 2 400 000 Series B shares at a price of FIM 149 (25.06 euros) per share. The period for subscribing the shares by exercising loyal customer options is from April 24, 2000 to May 5, 2000.

Proposal of the Board of Directors for new options targeted at loyal customers

The purpose of the options to be granted to loyal customers in accordance with the resolution of the 1998 Annual General Meeting was not only to obtain risk capital but also to create a stronger bond between loyal customers and the company and to offer them a significant benefit, which nevertheless could not be realized at the present share price level. In order to carry out its original intention, the Board of Directors will propose to the Annual General Meeting that loyal customers be offered a new and better share option as an alternative to the previous share option.

According to the proposal, options will now be offered free of charge to loyal customers whose registered purchases together with purchases made with other parallel cards that are charged to the same account during 1997 and 1998 were at least FIM 10 000 in aggregate amount. The smallest option entitles its holders to subscribe 10 Series B shares during the subscription period either in May of 2001 or 2002. For each full one thousand markkaa by which the purchases exceed FIM 10 000, an additional option will be given which entitles its holder to subscribe one Series B share. The Board of Directors will propose that the subscription price of the shares to be subscribed on the basis of options be the average weighted price during the stock exchange trading days from March 22, 1999, to April 9, 1999, less the per-share dividend distributed after April 1, 1999.

As a consequence of the share subscriptions made on the basis of the new options, the share capital can be increased by a maximum of about FIM 26 million. The detailed terms and conditions of the options are set forth in the Board of Directors' proposal to the Annual General Meeting.

A larger payroll

Stockmann's payroll at the end of December was 8 361 employees, or 754 employees more than a year ago. Converted to full-time staff, the payroll grew by 703 employees and was 7 211 employees at the end of the year. The increased number of employees was due to the new units that were opened in the latter part of the year as well as to stepped-up resources to improve customer service. The staff at international units numbered 1 145 employees at the end of the year, 16 of whom were Finns. The number of employees at international units grew by 388 people as a result of the opening of the new department store in Moscow and the new store in St Petersburg towards the end of the year.

The company's business name

In accordance with the new Articles of Association approved by the Annual General Meeting, Stockmann is a public limited company and its business name is now STOCKMANN Oyj Abp and in English, STOCKMANN plc.

Preparations for introducing the euro and Year 2000

Preparations for introducing the euro have progressed in accordance with the plans of a project organization that was set up for this purpose. The bulk of the system changes required by the euro will be made already during 1999.

Preparations for the year 2000, too, have gone ahead as planned. By the end

Personnel, average	1998	1997	Change
Department Store Division	**4 627**	4 392	235
Automotive Sales Division	**620**	515	105
Hobby Hall	**563**	490	73
Sesto	**724**	674	50
Seppälä	**682**	638	44
Academic Bookstore, units sold		88	- 88
Management and administration	**145**	137	8
Total	**7 361**	6 934	427

of September 1999, the systems of all the business units will be ready to make the transition to the year 2000.

Earnings estimate, January 26, 1999

On the basis of the financial statement material that was under preparation, on January 26, 1999, the company's managing director made public an estimate according to which the company's result (profit before extraordinary items) for 1998 might be of the order of FIM 50 to 60 million smaller than the record result posted in 1997: FIM 415 million.

Outlook for 1999

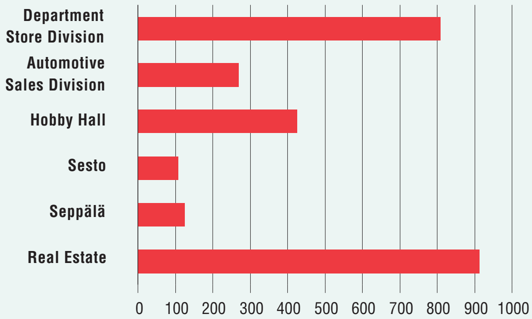
Private consumption and sales by the retail trade are estimated to grow by 3-4 per cent in Finland in 1999. The prevailing consensus is that economic growth will continue at a moderately good pace. There are nevertheless signs that growth may slow down or even come to a halt.

Given that the outlook for the retail trade is still fairly good and that over the past years Stockmann has made substantial investments in expanding its operations, the Board of Directors forecasts that Stockmann's sales growth will be clearly stronger in 1999 than it was in 1998.

The Board of Directors also estimates that the sales growth will have a positive impact on Stockmann's earnings. On the other hand, the economic crisis in Russia is expected to continue and will further affect sales and the result of operations in Russia. Despite the company's own restructuring measures, operations in Russia will be loss-making during the current year.

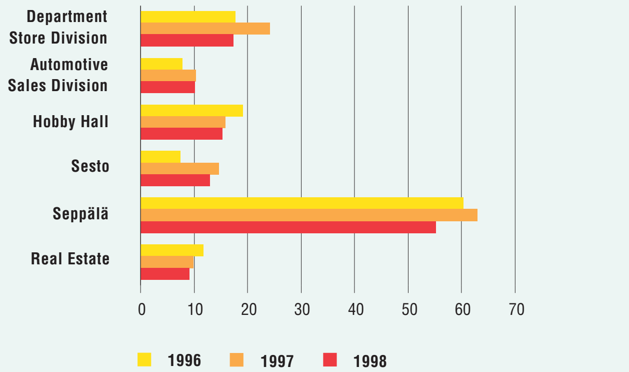
The Board of Directors estimates that profit after financial items will be of the same order of magnitude as it was in 1998. The result in the first part of the year 1998 was improved by FIM 41.5 million of other operating income, which is a non-recurring item.

Capital invested 1998, FIM million



Return on investment, percentage* 1996-1998

*operating profit according to management accounting as a ratio of capital invested



Share capital and shares

The share capital of STOCKMANN plc is divided into Series A and Series B shares. Series A shares carry ten votes and Series B shares one vote. The par value of both series of shares is FIM 10. The shares of both series entitle their holders to an equal dividend.

Share capital

The company's shares are in the book-entry system. At the balance sheet date, 99.8% of the company's shares outstanding had been registered in the book-entry system.

The number of shareholders as at December 31, 1998, was 12 669 (10 772 shareholders as at December 31, 1997).

Share capital of STOCKMANN plc, December 31, 1998

Series A:	24 868 893 shares at FIM 10 each = FIM 248 688 930
Series B:	26 514 084 shares at FIM 10 each = FIM 265 140 840
Total:	51 382 977 shares at FIM 10 each = FIM 513 829 770

Changes in the share capital 1994-1998

1994

Issue of bonds with warrants. The company floated a FIM 1.5 million issue of bonds with warrants directed at the Group management, which, according to the terms of the issue, fell due on April 12, 1998. The annual interest payable on the issue was one percentage point below the 12-month helibor rate quoted by the Bank of Finland.

The A warrants of the issue were used to subscribe 15 000 Series B shares during 1996. The effect of these shares on the share capital was FIM 300 000 and they added FIM 2 900 100 to the Reserve fund.

During 1997 the B warrants of the issue were used to subscribe 15 000 Series B shares, whose effect on the share capital was FIM 300 000, adding FIM 3 100 050 to the Reserve fund.

Warrants A, B and C of the issue were used to subscribe 240 000 Series B shares during 1998. The effect of these shares on the share capital was FIM 4 800 000 and they added FIM 52 800 000 to the Reserve fund.

Bonus issue. One new Series B share free of charge for two old Series A and/or Series B shares. The increase in the share capital via the bonus issue was FIM 96 097 400. Following the share issue, the share capital totalled FIM 288 292 200.

1997

Issue of bonds with warrants. The company floated a FIM 360 000 issue of bonds with warrants directed at the Group's key employees. The issue is non-interest bearing and it was subscribed in its entirety during 1997. In accordance with the terms of the issue, the bonds will be repaid in one instalment on April 21, 2000.

The warrants attached to the bonds entitle their holders to subscribe a total of 1 260 000 Series B shares at a price of FIM 99.57 per share, or 16.75 euros per share, less the per-share dividend distributed after May 1, 1998.

The subscription periods are as follows: 315 000 shares from April 1, 2000 to January 31, 2004, 315 000 shares from April 1, 2001 to January 31, 2004 and 630 000 shares from April 1, 2002 to January 31, 2004. The shares subscribed entitle their holders to a dividend right from the year of subscription.

1998

Halving of the par value, bonus issue and rights issue. The par value of the share was halved from FIM 20 to FIM 10. In the bonus issue that was carried out concurrently, two Series A shares with a par value of FIM 10 or, similarly, two Series B shares entitled their holders to receive one new share of the same series free of charge. In the rights issue, four Series A or Series B shares with a par value of FIM 10 prior to the bonus issue entitled their holders to subscribe one new Series B share with a par value of FIM 10 at a price of FIM 75 per share. Following the halving of the par value and the share issues, the number of the company's issued Series A shares is 24 868 893, the number of Series B shares is 26 514 084 and the share capital is FIM 513 829 770. In accordance with the new Articles of Association, shareholders shall have the possibility of converting their Series A shares into Series B shares.

Loyal customer share options. In 1998 the Annual General Meeting resolved to grant to loyal customers options entitling them to subscribe Series B shares during the period from April 24 to May 5, 2000, at a price of FIM 149 per share (25.06 EUR/share). As a consequence of subscriptions made on the basis of these options, the share capital can increase by a maximum of FIM 24 million.

1999

Proposal for new loyal customer share options. The Board of Directors will propose to the Annual General Meeting that loyal customers be offered, as an alternative to the above-mentioned options, new share options whose terms and conditions are discussed in the Board Report on Operations. If the proposal is approved, loyal customers will be able to subscribe in May of either 2001 or 2002 a maximum total of 2.6 million Series B shares. As a consequence of the subscriptions the share capital can increase by a maximum of FIM 26 million.

Shares

General price development

Share prices rose 68.52 per cent during the financial year as measured by the HEX General Index of the Helsinki Exchanges. The retail industry index fell by 6.07 per cent.

Price development of Stockmann's shares

	Closing prices Dec. 31, 1998		Share-issue adjusted prices Dec. 31, 1997		Change, %*
	FIM	EUR	FIM	EUR	
Series A	130.00	21.87	109.88	18.48	18
Series B	95.60	16.08	104.89	17.64	-9

* Taking into account the effect of the change in par value, bonus issue and rights issue.

Turnover of Stockmann's shares

	No. of shares*	% of total shares outstanding*	FIM	Average price, FIM*	Average price, EUR*
Series A	2 923 736	12	441 709 829	151.08	25.41
Series B	5 194 189	20	597 788 310	115.09	19.36
Total	8 117 925	16	1 039 497 139		

* Taking into account the effect of the change in par value, bonus issue and rights issue.

The total value of the shares traded was FIM 1 039.5 million, representing 0.33% of the share turnover on the Helsinki Exchanges. The market capitalization of the company as at December 31, 1998, was FIM 5 768 million (as at December 31, 1997, the capitalization was FIM 5 036 million).

SHAREHOLDERS

Ownership structure

		Shareholders	Percentage of shares
	no.	%	%
Households	11 786	93.1	17.8
Private and public corporations	447	3.5	18.6
Banks and insurance companies	58	0.5	9.0
Public sector entities and non-profit organizations	303	2.4	48.4
Foreign shareholders	75	0.6	6.0
Unregistered shares			0.2
Total	12 669	100.0	100.0

Numbers of shares

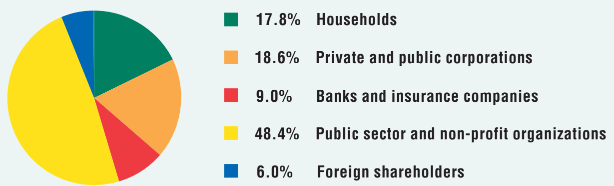
		Shareholders	Percentage of shares
	no.	%	%
1-100	2 747	21.7	0.3
101-1000	7 733	61.0	5.9
1001-10000	1 959	15.5	9.8
10001-100000	182	1.4	9.5
100001-	48	0.4	74.5
Total	12 669	100.0	100.0

Major shareholders as at December 31, 1998

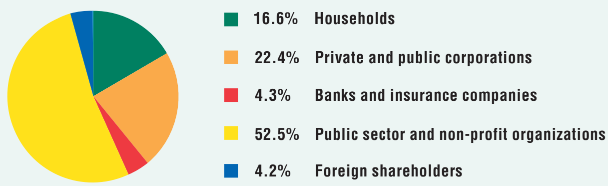
	Percentage of votes	Percentage of shares
1. Föreningen Konstsamfundet	14.63	11.50
2. Svenska litteratursällskapet i Finland	12.10	7.65
3. Niemistö grouping	10.04	7.84
4. Etola companies	8.67	6.50
5. Sampo-Varma Group	7.04	6.80
6. Stiftelsen för Åbo Akademi	5.87	4.78
7. Wilhelm och Else Stockmanns Stiftelse	2.56	1.60
8. Jenny ja Antti Wihurin rahasto	2.42	2.44
9. Samfundet Folkhälsan i svenska Finland	1.80	1.62
10. Stiftelsen Bensows Barnhem Granhyddan	1.65	1.31
11. Helene och Walter Grönqvists Stiftelse	1.59	1.09
12. Stiftelsen Brita Maria Renlunds minne	1.02	0.95
13. William Thurings stiftelse	0.87	0.66
14. Sigrid Jusélius Stiftelse	0.85	0.74
15. Ilmarinen Mutual Pension Insurance Company	0.65	3.51
16. Pension Fund Polaris	0.54	0.44
17. SFV-Foundation	0.45	0.35
18. Kuistila Katja	0.43	0.27
19. Kuistila Kaj	0.40	0.27
20. Signe och Ane Gyllenbergs stiftelse	0.38	0.24
Total	73.96	60.56

The holdings in the personal ownership of the members of the company's Board of Directors and managing director as well as the ownership of institutions under their control and persons under their guardianship as at December 31, 1998, was a total of 7 304 701 shares, which represents a total of 14.22 per cent of the shares outstanding and 18.69 per cent of the voting rights. (December 31, 1997: 1 174 777 shares, representing 8.13 per cent of the shares and 10.68 per cent of the voting rights).

Distribution of shares

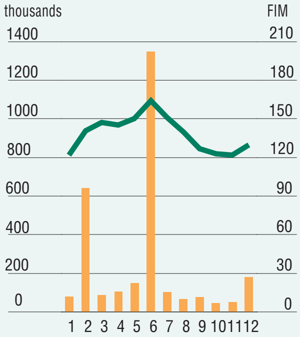


Distribution of votes



Share graphs

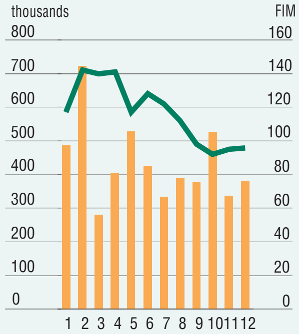
Turnover and price trend (share-issue adjusted) of Series A shares in 1998



Monthly closing price

Turnover, no. of shares

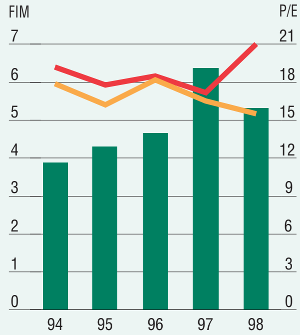
Turnover and price trend (share-issue adjusted) of Series B shares in 1998



Monthly closing price

Turnover, no. of shares

Earnings per share and P/E ratio 1994-1998 (share-issue adjusted)

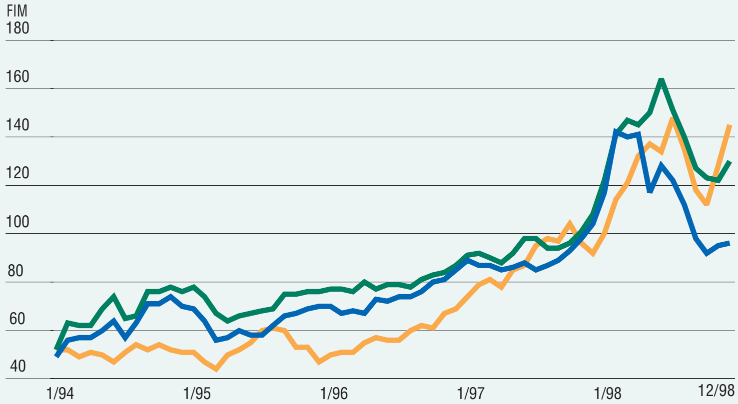


Profit coefficient (A)

Profit coefficient (B)

Earnings per share

Price trend of Series A and Series B shares (share-issue adjusted) compared with the HEX General Index 1994-1998

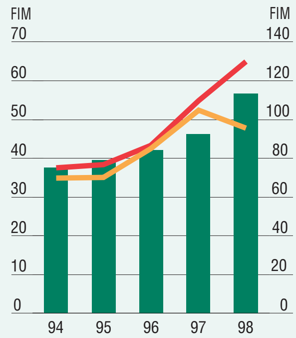


HEX General Index

Stockmann A

Stockmann B

Equity per share and share price 1994-1998

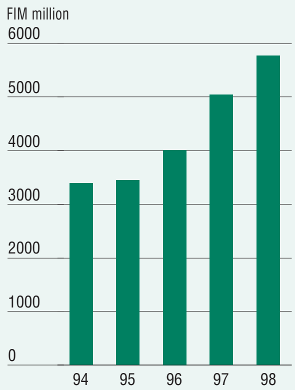


Share price at year end, share-issue adjusted (A)

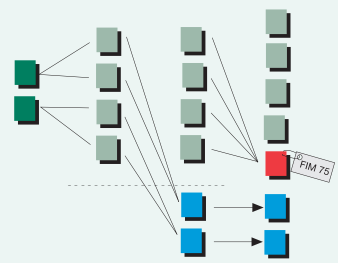
Share price at year end, share-issue adjusted (B)

Equity per share

Market capitalization 1994-1998



Example of halving of the par value, the bonus issue and the rights issue in 1998

		Halving of the par value of the share May 12,1998	Bonus issue, one new share for two old shares May 12, 1998	Rights issue, one new share for four old shares May 14-June 12, 1998
Change in the number of shares				
Share price, FIM (EUR in brackets)	462 (77.70)	231 (38.85)	154 (25.90)	142.71 (24.00)
Par value of the share, FIM (EUR in brackets)	20 (3.36)	10 (1.68)	10 (1.68)	10 (1.68)
Additional investment, FIM (EUR in brackets)				75 (12.61)
Market value of the shares, FIM (EUR in brackets)	924 (155.41)	924 (155.41)	924 (155.41)	999 (168.02)

Original shares

Shares after halving of the par value

New shares obtained in the bonus issue

New shares subscribed in the rights issue

The share price used in the example is the closing price of Stockmann's Series B share on April 21, 1998, i.e. FIM 462. The calculations do not take into account the effect of market factors on the share price trend.

The Board of Directors will propose the payment in 1999 of a total dividend of FIM 5.00 (EUR 0.84) per share. This corresponds to a dividend of FIM 16.19 (EUR 2.72) per share prior to the halving of the par value of the shares, the bonus issue and the rights issue.

Key figures

FIM million	1994	1995	1996	1997	**1998**
Net turnover	4 556.6	5 213.8	6 164.5	6 900.0	**7 233.2**
Operating profit	216.9	248.5	291.4	394.6	**337.7**
% of net turnover	4.8	4.8	4.7	5.7	**4.7**
Profit before extraordinary items	246.9	280.3	315.9	415.2	**364.0**
% of net turnover	5.4	5.4	5.1	6.0	**5.0**
Profit before taxes	246.9	281.6	316.0	415.2	**349.5**
% of net turnover	5.4	5.4	5.1	6.0	**4.8**
Return on equity, %	10.7	11.2	11.4	14.4	**11.1**
Return on investment, %	12.7	13.2	13.3	15.6	**12.3**
Equity ratio, %	60.4	58.1	54.0	55.6	**65.1**
Investment in fixed assets	132.9	273.7	333.2	315.2	**509.9**
% of net turnover	2.9	5.2	5.4	4.6	**7.0**
Total assets	2 899.7	3 176.2	3 645.9	3 889.5	**4 470.9**
Personnel, average	5 248	6 015	6 589	6 934	**7 361**

Key figures in euros on page 61

Definition of key indicators

Profit before extraordinary items = Operating profit + financial income and expenses

Profit before income taxes = Profit before extraordinary items + extraordinary income and charges

$$\text{Return on equity, \%} = 100 \times \frac{\text{Profit before extraordinary items - income taxes}}{\text{Capital and reserves + minority interest (average over the year)}}$$

$$\text{Return on investment, \%} = 100 \times \frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Total assets - non-interest-bearing liabilities (average over the year)}}$$

$$\text{Equity ratio, \%} = 100 \times \frac{\text{Shareholders' equity + minority interest}}{\text{Total assets - advance payments received}}$$

Per-share data

Per-share data[1]	1994	1995	1996	1997	**1998**
Earnings per share, FIM	3.89	4.31	4.67	6.37	**5.32***
Equity per share, FIM	37.56	39.58	42.15	46.24	**56.64**
Dividend per share, FIM	1.85	2.16	2.32	2.78	**5.00****
Dividend per earnings, %	47.7	50.2	49.6	43.6	**94.0****
Effective yield of shares, %					
Series A	2.5	2.8	2.7	2.5	**3.8****
Series B	2.7	3.1	2.7	2.7	**5.2****
P/E ratio for shares					
Series A	19.2	17.8	18.5	17.2	**24.5***
Series B	17.9	16.2	18.2	16.5	**18.0***
Share quotation on December 31					
Series A, FIM	74.91	76.76	86.67	109.88	**130.00**
Series B, FIM	69.72	70.03	84.84	104.89	**95.60**
Highest price during the period					
Series A, FIM	66.58	81.10	86.67	109.88	**183.00**
Series B, FIM	63.76	74.04	84.84	107.98	**154.26**
Lowest price during the period					
Series A, FIM	41.27	60.36	70.88	84.38	**107.00**
Series B, FIM	35.99	53.06	66.02	81.45	**85.00**
Average price during the period					
Series A, FIM	80.16	71.45	80.93	94.76	**151.08**
Series B, FIM	50.56	64.16	74.76	89.43	**115.09**
Share turnover					
Series A	3 257 589	2 224 710	1 691 607	2 731 548	**2 923 736**
Series B	6 268 897	6 919 011	6 380 517	6 258 957	**5 194 189**
Share turnover					
Series A, %	13.1	8.9	6.8	11.0	**11.8**
Series B, %	31.2	34.0	31.4	28.6	**19.6**
Market capitalization on December 31, FIM million	3 390.3	3 446.2	4 009.6	5 035.5	**5 767.7**
Number of shares on December 31	46 635 261	46 635 261	46 683 882	46 732 503	**51 382 977**
Series A	24 868 893	24 868 893	24 868 893	24 868 893	**24 868 893**
Series B	21 766 368	21 766 368	21 814 989	21 863 610	**26 514 084**
Average number of shares	46 635 261	46 635 261	46 683 882	46 692 007	**49 522 738**
Series A	24 868 893	24 868 893	24 868 893	24 868 893	**24 868 893**
Series B	21 766 368	21 766 368	21 814 989	21 823 114	**24 653 845**

1) Adjusted for share issues

*) The dilution effect of options has been taken into account

**) Board proposal to the Annual General Meeting

Per-share data in euros on page 61

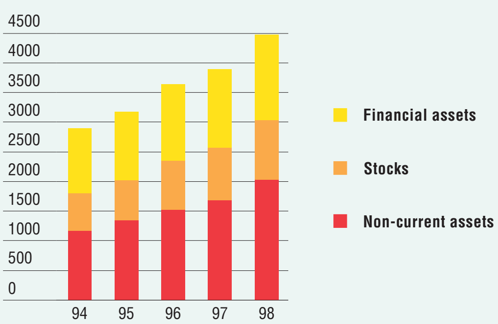
Definition of key indicators

Earnings per share, adjusted for share issues	=	$\frac{\text{Profit before extraordinary items - income taxes}}{\text{Average number of shares, adjusted for share issues}}$
Equity per share	=	$\frac{\text{Capital and reserves}}{\text{Number of shares at the balance sheet date, adjusted for share issues}}$
Dividend per share, adjusted for share issues	=	Dividend per share, adjusted for share issues
Dividend per earnings, %	= 100 x	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Effective yield of shares, %	= 100 x	$\frac{\text{Dividend per share, adjusted for share issues}}{\text{Share quotation at December 31, adjusted for share issues}}$
P/E ratio for shares	=	$\frac{\text{Share quotation at December 31, adjusted for share issues}}{\text{Earnings per share}}$
Share quotation on Dec. 31, adjusted for share issues	=	Share quotation at the balance sheet date, adjusted for share issues
Highest share price during the period, adjusted for share issues	=	Highest price of the company's shares during the period, adjusted for share issues
Lowest share price during the period, adjusted for share issues	=	Lowest price of the company's shares during the period, adjusted for share issues
Average share price over the period, adjusted for share issues	=	Share turnover in markka terms divided by the number of shares traded during the period, adjusted for share issues
Share turnover	=	Quantitative share turnover, adjusted for share issues
Market capitalization at December 31	=	Number of shares multiplied by the quotation for the respective share type on the balance sheet date

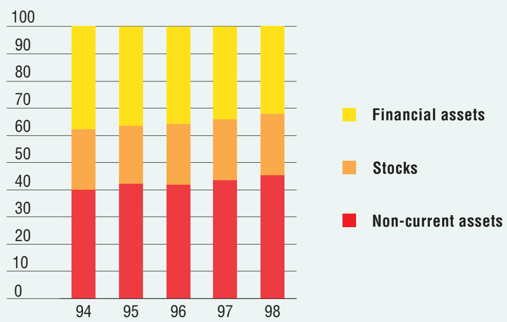
	Ref.	Jan. 1 - Dec. 31, 1998 FIM million	% Turnover	Jan. 1 - Dec. 31, 1997 FIM million	% Turnover	Change %
NET TURNOVER	1	**7 233.2**	100.0	6 900.0	100.0	4.8
Other operating income	2	**41.4**		31.5		31.4
Raw materials and services						
Raw materials and consumables:	3					
Purchases during the financial year		**5 204.0**		4 870.6		6.8
Variation in stocks, increase (-)		**-128.3**		-54.6		135.2
Raw materials and services, total		**5 075.7**	70.2	4 816.0	69.8	5.4
Staff expenses	4	**958.6**	13.3	877.3	12.7	9.3
Depreciation and reduction in value	5	**126.9**	1.8	120.6	1.7	5.2
Other operating expenses	6	**775.7**	10.7	722.9	10.5	7.3
		6 936.9	95.9	6 536.8	94.7	6.1
OPERATING PROFIT		**337.7**	4.7	394.6	5.7	-14.4
Financial income and expenses:	7					
Income from other investments held as non-current assets		**4.6**		4.8		
Other interest and financial income		**80.1**		74.5		
Reduction in value of securities held in current assets		**0.0**		-3.0		
Interest and other financial expenses		**-58.3**		-55.7		
Financial income and expenses, total		**26.4**	0.4	20.6	0.3	28.2
PROFIT BEFORE EXTRAORDINARY ITEMS		**364.0**	5.0	415.2	6.0	-12.3
Extraordinary items						
Extraordinary expenses	8	**-14.5**		0.0		
PROFIT BEFORE TAXES		**349.5**	4.8	415.2	6.0	-15.8
Income taxes	10					
For the financial year		**75.9**		120.0		-36.8
For previous financial years		**-1.9**		-2.2		
Change in imputed deferred taxes/tax claims		**3.4**		-0.9		
Income taxes, total		**77.4**	1.1	117.0	1.7	-33.8
PROFIT FOR THE FINANCIAL YEAR		**272.1**	3.8	298.2	4.3	-8.7

ASSETS	Ref.	Dec. 31, 1998 FIM million	Dec. 31, 1997 FIM million
NON-CURRENT ASSETS			
Intangible assets	12		
Intangible rights		**35.5**	30.2
Goodwill arising on consolidation		**8.9**	8.0
Goodwill		**0.9**	0.0
Other capitalized long-term expenses		**131.1**	79.7
Advance payments and projects in progress		**7.9**	5.7
Intangible assets, total		**184.4**	123.6
Tangible assets	13		
Land and water		**166.4**	133.6
Buildings and constructions		**977.5**	841.4
Machinery and equipment		**355.3**	297.1
Other tangible assets		**0.6**	0.3
Advance payments and construction in progress		**49.6**	40.8
Tangible assets, total		**1 549.3**	1 313.3
Tangible and intangible assets, total		**1 733.7**	1 436.9
Investments	14		
Other shares and participations		**298.1**	251.2
Investments, total		**298.1**	251.2
NON-CURRENT ASSETS, TOTAL		**2 031.8**	1 688.1
CURRENT ASSETS			
Stocks			
Raw materials and consumables		**1 008.5**	879.9
Stocks, total		**1 008.5**	879.9
Non-current debtors	15, 16, 24		
Trade debtors		**5.5**	17.4
Loan receivables		**11.3**	12.1
Non-current debtors, total		**16.8**	29.5
Current debtors			
Trade debtors		**870.9**	808.4
Loan receivables		**0.4**	0.0
Other debtors		**102.1**	41.0
Prepayments and accrued income		**57.4**	61.7
Current debtors, total		**1 030.9**	911.2
Debtors, total		**1 047.7**	940.7
Securities held in current assets	17, 24		
Bonds and other promissory notes		**332.7**	328.2
Securities held in current assets, total		**332.7**	328.2
Cash in hand and at banks	24	**50.2**	52.6
CURRENT ASSETS, TOTAL		**2 439.1**	2 201.4
TOTAL		**4 470.9**	3 889.5

Assets, FIM million

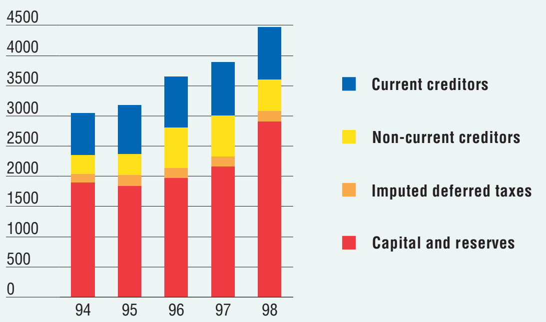


Assets, %

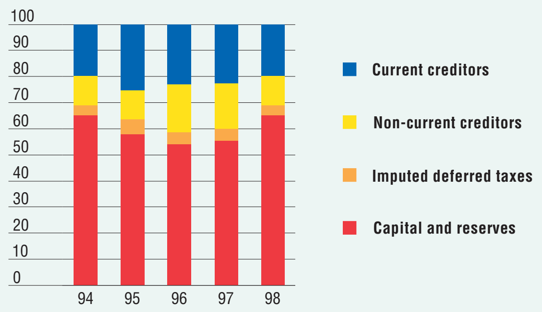


LIABILITIES	Ref.	Dec. 31, 1998 FIM million	Dec. 31, 1997 FIM million
CAPITAL AND RESERVES	18, 19		
Share capital		**513.8**	288.9
Premium fund		**888.7**	0.0
Revaluation fund		**0.0**	140.0
Reserve fund		**8.8**	374.6
Other funds		**260.0**	260.0
Retained earnings		**966.7**	799.4
Net profit for the financial year		**272.1**	298.2
CAPITAL AND RESERVES, TOTAL		**2 910.2**	2 161.1
Minority interest		**0.0**	1.0
CREDITORS	15, 21-25		
Imputed deferred taxes		**175.8**	172.4
Non-current creditors			
Bonds and notes		**300.0**	300.0
Loans from credit institutions		**80.1**	80.6
Pension loans		**131.3**	295.5
Other creditors		**0.3**	0.3
Non-current creditors, total		**511.8**	676.4
Current creditors			
Loans from credit institutions		**11.6**	0.7
Pension loans		**14.6**	22.8
Trade creditors		**442.7**	419.7
Other creditors		**199.5**	136.5
Accruals and prepaid income		**204.7**	298.9
Current creditors, total		**873.1**	878.6
CREDITORS, TOTAL		**1 560.7**	1 727.4
TOTAL		**4 470.9**	3 889.5

Financing, FIM million



Financing, %

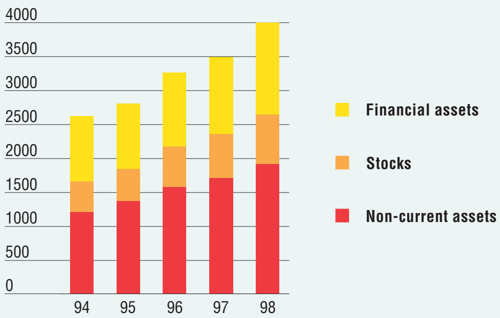


	1998 FIM million	1997 FIM million
Generated from operations		
Cash flow financing		
Operating profit + depreciation	**464.5**	515.2
Financial income and expenses	**26.4**	20.6
Extraordinary items	**-14.5**	-
Income taxes	**-77.4**	-117.0
	399.0	418.8
Change in working capital		
Stocks, increase (-)	**-128.7**	-54.2
Current trade debtors, increase (-)	**-118.5**	-40.1
Non-interest-bearing current creditors, increase (+), decrease (-)	**-3.8**	17.1
	-250.9	-77.3
Cash flow from operations	**148.1**	341.6
Capital expenditure		
Capital expenditures on fixed assets	**-509.9**	-315.2
Sales of fixed assets	**24.9**	33.6
Reduction in value of investments	**14.5**	-
	-470.6	-281.6
Cash flow before financing	**-322.5**	60.0
Financing		
Non-current debtors , decrease (+)	**11.5**	3.6
Imputed deferred taxes, decrease (-), increase (+)	**3.4**	-0.9
Non-current creditors, increase (+)	**15.5**	49.8
Non-current creditors, decrease (-)	**-188.4**	-36.3
Current creditors, increase (+)	**5.6**	20.8
Distribution of profit	**-130.4**	-108.6
Share subscriptions	**607.3**	3.4
Other changes in capital and reserves	**0.1**	0.0
	324.6	-68.2
Liquid funds, increase (+), decrease (-)	**2.1**	-8.2
Liquid funds as at January 1	**380.8**	388.9
Change	**2.1**	-8.2
Liquid funds as at December 31	**382.9**	380.8

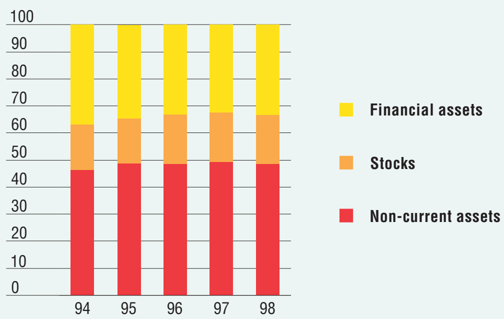
	Ref.	Jan. 1 - Dec. 31, 1998 FIM million	% Turnover	Jan.1 - Dec. 31, 1997 FIM million	% Turnover	Change %
NET TURNOVER	1	**5 297.6**	100.0	4 974.6	100.0	6.5
Other operating income	2	**95.1**		83.8		13.5
Raw materials and services						
Raw materials and consumables:	3					
Purchases during the financial year		**3 928.2**		3 633.7		8.1
Variation in stocks, increase (-)		**-89.0**		-45.6		95.3
Raw materials and services, total		**3 839.2**	72.5	3 588.1	72.1	7.0
Staff expenses	4	**762.9**	14.4	704.9	14.2	8.2
Depreciations and reduction in value	5	**96.8**	1.8	97.3	2.0	-0.5
Other operating expenses	6	**475.3**	9.0	433.6	8.7	9.6
		5 174.2	97.7	4 824.0	97.0	7.3
OPERATING PROFIT		**218.5**	4.1	234.4	4.7	-6.8
Financial income and expenses:	7					
Income from other investments held as non-current assets		**4.4**		4.8		
Interest and financial income from Group undertakings		**6.0**		5.9		
Interest and financial income from outside the Group		**77.3**		73.8		
Reduction in value of non-current investments		**55.7**				
Reduction in value of investments held as current assets		**0.0**		3.0		
Interest and other financial expenses for Group undertakings		**14.2**		11.2		
Interest and other financial expenses outside the Group		**89.4**		55.4		
Financial income and expenses, total		**-71.7**	-1.4	14.9	0.3	
PROFIT BEFORE EXTRAORDINARY ITEMS		**146.8**	2.8	249.3	5.0	-41.1
Extraordinary items						
Extraordinary income	8	**50.0**		0.0		
Extraordinary expenses		**14.5**		0.0		
Extraordinary items, total		**35.5**	0.7	0.0		
PROFIT BEFORE APPROPRIATIONS AND TAXES		**182.3**	3.4	249.3	5.0	-26.9
Appropriations	9					
Change in depreciation reserve, increase (+)		**17.7**		100.9		-82.4
Change in untaxed reserves, increase (+), decrease (-)		**0.0**		-109.7		-100.0
Appropriations, total		**17.7**	0.3	-8.9	-0.2	
Income taxes	10					
For the financial year		**46.3**		70.3		-34.1
For previous financial years		**-2.1**		-2.7		
Income taxes, total		**44.3**	0.8	67.6	1.4	-34.5
PROFIT FOR THE FINANCIAL YEAR		**120.4**	2.3	190.6	3.8	-36.9

ASSETS	Ref.	Dec. 31, 1998 FIM million	Dec. 31, 1997 FIM million
NON-CURRENT ASSETS			
Intangible assets	12		
Intangible rights		**28.8**	24.1
Goodwill		**2.9**	4.2
Other capitalized long-term expenses		**64.2**	67.0
Advance payments and projects in progress		**6.4**	4.9
Intangible assets, total		**102.4**	100.2
Tangible assets	13		
Land and water		**80.7**	55.8
Buildings and constructions		**868.9**	743.2
Machinery and equipment		**263.9**	230.4
Other tangible assets		**0.6**	0.3
Advance payments and construction in progress		**37.4**	39.9
Tangible assets, total		**1 251.4**	1 069.6
Tangible and intangible assets, total		**1 353.8**	1 169.8
Investments	14		
Holdings in Group undertakings		**274.8**	297.1
Receivables from Group undertakings		**22.0**	22.0
Other shares and participations		**269.9**	227.6
Investments, total		**566.7**	546.7
NON-CURRENT ASSETS, TOTAL		**1 920.5**	1 716.5
CURRENT ASSETS			
Stocks			
Raw materials and consumables		**732.1**	643.1
Stocks, total		**732.1**	643.1
Non-current debtors	15, 16, 24		
Trade debtors		**5.5**	17.4
Loan receivables		**11.3**	12.1
Non-current debtors, total		**16.8**	29.5
Current debtors			
Trade debtors		**517.3**	482.9
Amounts owed by Group undertakings		**289.8**	190.5
Other debtors		**73.7**	33.7
Prepayments and accrued income		**97.3**	40.5
Current debtors, total		**978.0**	747.6
Debtors, total		**994.8**	777.1
Securities held in current assets	17, 24		
Bonds and other promissory notes		**332.7**	328.2
Securities held in current assets, total		**332.7**	328.2
Cash in hand and at banks		**25.5**	24.0
CURRENT ASSETS, TOTAL		**2 085.0**	1 772.4
TOTAL		**4 005.5**	3 488.9

Assets, FIM million

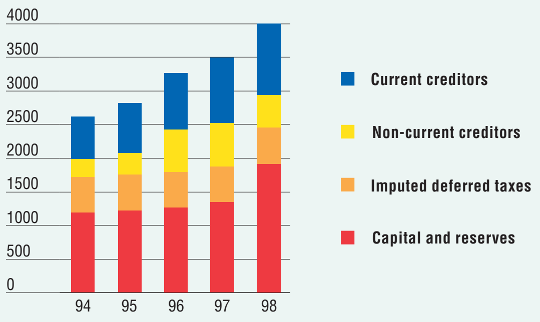


Assets, %

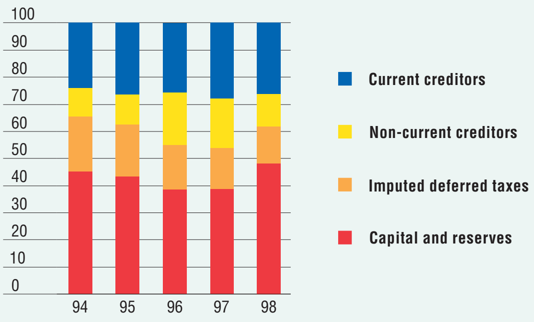


LIABILITIES	Ref.	Dec. 31, 1998 FIM million	Dec. 31, 1997 FIM million
CAPITAL AND RESERVES	18, 19		
Share capital		**513.8**	288.9
Premium fund		**888.7**	0.0
Revaluation fund		**0.0**	140.0
Reserve fund		**0.0**	366.4
Other funds		**260.0**	260.0
Retained earnings		**163.6**	103.4
Net profit for the financial year		**120.4**	190.6
CAPITAL AND RESERVES, TOTAL		**1 946.5**	1 349.3
ACCUMULATED APPROPRIATIONS			
Depreciation reserve		**544.7**	527.0
ACCUMULATED APPROPRIATIONS, TOTAL		**544.7**	527.0
CREDITORS	15, 21-25		
Non-current creditors			
Bonds and notes		**300.0**	300.0
Loans from credit institutions		**80.1**	80.6
Pension loans		**101.9**	263.8
Other creditors		**0.4**	0.4
Non-current creditors, total		**482.4**	644.8
Current creditors			
Loans from credit institutions		**0.7**	0.7
Pension loans		**12.4**	20.5
Advances received		**0.6**	1.5
Trade creditors		**356.7**	316.9
Amounts owed to Group undertakings		**324.5**	259.4
Other creditors		**182.7**	214.8
Accruals and prepaid income		**154.4**	154.1
Current creditors, total		**1 031.9**	967.9
CREDITORS, TOTAL		**1 514.3**	1 612.7
TOTAL		**4 005.5**	3 488.9

Financing, FIM million



Financing, %



	1998 FIM million	1997 FIM million
Generated from operations		
Cash flow financing		
Operating profit + depreciation	**315.3**	331.7
Financial income and expenses	**-71.7**	14.9
Extraordinary items	**35.5**	-
Income taxes	**-44.3**	-67.6
	234.9	279.0
Change in working capital		
Stocks, increase (-)	**-89.0**	-45.6
Current trade debtors, increase (-)	**-230.6**	-39.4
Non-interest-bearing current creditors, increase (+)	**80.2**	111.3
	-239.4	26.3
Cash flow from operations	**-4.5**	305.4
Capital expenditure		
Capital expenditures on fixed assets	**-395.7**	-261.5
Sales of fixed assets	**24.7**	33.6
Reduction in value of investments	**70.2**	-
	-300.8	-227.9
Cash flow before financing	**-305.3**	77.4
Financing		
Non-current debtors , decrease (+)	**12.9**	2.1
Non-current creditors, increase (+)	**15.5**	49.8
Non-current creditors, decrease (-)	**-186.1**	-33.7
Current creditors, decrease (-), increase (+)	**-8.1**	20.8
Distribution of profit	**-130.4**	-108.6
Share subscriptions	**607.3**	3.4
	311.1	-66.3
Liquid funds, increase (+), decrease (-)	**5.9**	11.1
Liquid funds as at January 1	**352.2**	341.1
Change	**5.9**	11.1
Liquid funds as at December 31	**358.1**	352.2

ACCOUNTING POLICY

General principles

Stockmann's annual accounts have been prepared in accordance with the new regulations of the Finnish Accounting Act which came into force on December 31, 1997. The figures for the previous financial year have been grouped to correspond to the new practice. The most important principle of disclosure affecting the financial result concerns the treatment of imputed deferred taxes and the change relating to it. In this respect the change has been made directly in the consolidated profit and loss account and balance sheet for the previous year (Note 11).

Scope of the consolidated accounts

The consolidated accounts cover the parent company STOCKMANN plc and those companies in which the parent company controls, directly or indirectly, more than 50 per cent of the voting rights conferred by the shares as well as those property management companies in which the parent company controls, either directly or indirectly, 100 per cent of the voting rights conferred by the shares. The companies acquired during the year have been included in the consolidation from the time of acquisition.

Property management companies in which Group companies have more than a 20 per cent interest have not been treated as associated undertakings.

Internal transactions

Transactions as well as debtors and creditors between Group companies have been eliminated.

Shares in subsidiaries

Shareholdings between Group companies have been eliminated by the purchase cost method. In carrying out eliminations, the acquired company's provisions at the time of acquisition excluding imputed deferred taxes are also considered to constitute the company's capital and reserves. The difference between the purchase price of subsidiary shares and equity has been allocated in part to fixed assets. The proportion exceeding going values is shown as a separate goodwill item which is amortized on a straight-line basis over a period of five years.

Subsidiaries abroad

The consolidated accounts figures of foreign subsidiaries have been translated into Finnish markka amounts at the middle rate quoted by the Bank of Finland on the balance sheet date. The translation differences arising on the elimination of the capital and reserves of subsidiaries have been entered in capital and reserves. The annual account figures for Russian subsidiaries have been translated into Finnish markkaa using the monetary-non-monetary method according to which fixed assets, stocks and equity are translated into Finnish markkaa at the average rate quoted by commercial banks at the time of acquisition and the other balance sheet items at the average rate quoted by commercial banks on the balance sheet date.

Foreign currency-denominated debtors and creditors

Foreign currency-denominated debtors and creditors are valued according to the middle rates quoted by the Bank of Finland on the balance sheet date. Gains and losses on foreign exchange in financial operations are entered as net amounts under Other financial income or Other financial expenses.

Net turnover

Net turnover comprises sales income excluding indirect taxes, discounts granted and foreign exchange differences.

Other operating income

The items stated as other operating income are capital gains on the sale of non-current assets connected with business operations, compensation obtained from the sale of businesses as well as charges for services rendered to foreign subsidiaries.

Extraordinary income and expenses

The items stated as extraordinary income and expenses are non-recurring income and expenses that are not a part of ordinary operations.

Taxes

The direct taxes entered in the profit and loss account are the taxes corresponding to Group companies' net profits for the financial year as well as rectifications of taxes for previous financial years.

In the consolidated accounts the imputed deferred tax liability is calculated for all the periodization differences between the annual accounts and taxation, applying the tax base for the next year, which has been confirmed at the balance sheet date.

Imputed deferred taxes are included in their entirety in the consolidated balance sheet.

Tangible and intangible assets and depreciation on them

Tangible and intangible assets are valued according to the original cost excluding planned depreciation. The balance sheet values furthermore include revaluations of land areas and buildings.

Revaluations have been made during the period from 1950 to 1984 and are based on then estimates of real-estate valuers. Revaluations are not depreciated.

Planned depreciation is based on the original cost and the estimated economically useful life of intangible and tangible assets as follows:

– Intangible assets: 5 years
– Goodwill and goodwill arising on consolidation: 5 years
– Other capitalized expenditures: 5-10 years
– Buildings: 20-50 years
– Machinery and equipment: 7-12 years
– Lightweight store furnishings, motor vehicles and data processing equipment: 5 years

Securities included in non-current assets are valued at acquisition cost or, if their market value has decreased permanently, at this lower value.

Current assets

Securities included in financial assets are valued at acquisition cost or, if their value is lower, at this lower value.

In the valuation of stocks the principle of lowest value has been used, i.e. the stocks have been entered in the balance sheet at the lowest of acquisition cost or a lower repurchase price or the probable market price. The acquisition cost of stocks has been defined applying the variable expenses incurred in making the purchase in accordance with the FiFo principle.

Appropriations

The parent company's appropriations comprise voluntary provisions and the depreciation difference. The change in imputed deferred taxes resulting from the change in appropriations has been stated in taxes for the financial year in the consolidated accounts. Accumulated appropriations in the consolidated accounts are divided into a portion in imputed deferred taxes and a portion in capital and reserves.

PROFIT AND LOSS ACCOUNT

1. Net turnover

Breakdown of net turnover by market area

FIM million	1998	Group 1997	1998	Parent company 1997
Finland	**6 727.0**	6 372.2	**5 297.6**	4 974.6
Estonia	**320.0**	275.1	**0.0**	0.0
Russia	**186.1**	252.7	**0.0**	0.0
Total	**7 233.2**	6 900.0	**5 297.6**	4 974.6

2. Other operating income

FIM million	1998	Group 1997	1998	Parent company 1997
Gains on the sale of non-current assets	**21.4**	31.5	**21.4**	31.5
Goodwill-compensation	**20.0**	0.0	**20.0**	0.0
Rental income from subsidiaries	**0.0**	0.0	**10.4**	10.7
Compensation for expenses, invoiced to Group companies	**0.0**	0.0	**43.3**	41.6
Total	**41.4**	31.5	**95.1**	83.8

3. Gross margin

	Group 1998		Group 1997		**Parent company 1998**		Parent company 1997	
	FIM mill.	**%**	FIM mill.	%	**FIM mill.**	**%**	FIM mill.	%
Net turnover	**7 233.2**		6 900.0		**5 297.6**		4 974.6	
Raw materials and consumables	**5 204.0**		4 870.5		**3 928.2**		3 633.7	
Variation in stocks	**-128.3**		-54.6		**-89.0**		-45.6	
Gross margin	**2 157.5**	**29.8**	2 084.0	30.2	**1 458.5**	**27.5**	1 386.5	27.9

4. Staff costs

FIM million	1998	Group 1997	1998	Parent company 1997
Salaries and emoluments paid to the boards of directors and managing directors	**4.1**	3.9	**2.4**	1.9
Other wages and salaries	**757.4**	694.2	**604.0**	560.1
Pension expenses	**112.2**	107.4	**88.1**	86.4
Other indirect employee costs	**84.9**	71.7	**68.5**	56.4
Total	**958.6**	877.3	**762.9**	704.9

Group and parent company staff, average

	1998	Group 1997	1998	Parent company 1997
Finland	**6 530**	6 215	**5 322**	5 110
Estonia	**363**	333	**6**	9
Russia	**468**	386	**10**	18
Total	**7 361**	6 934	**5 338**	5 137

Loans to persons closely associated with the company

Loans granted to the managing directors and members of the boards of directors of companies belonging to the Group totalled FIM 1.4 million (FIM 2.3 million in 1997).

The maturities are 5-10 years. The interest rate on the loans is tied to the Bank of Finland's base rate.

Management pension liabilities

The agreed retirement age for Group company managing directors is 60-65 years.

The agreed retirement age for the parent company managing director is 60 years.

5. Depreciation and reduction in value

FIM million	1998	Group 1997	1998	Parent company 1997
Intangible rights	**13.6**	14.2	**12.9**	13.6
Goodwill arising on consolidation	**2.6**	1.6	**0.0**	0.0
Goodwill	**0.0**	0.0	**1.3**	1.3
Other capitalized long-term expenses	**11.6**	8.5	**7.3**	6.6
Buildings and constructions	**23.7**	20.8	**19.0**	17.6
Machinery and equipment	**75.4**	75.4	**56.3**	58.2
Total	**126.9**	120.6	**96.8**	97.3

6. Other operating charges

FIM million	1998	Group 1997	1998	Parent company 1997
Rents	**212.8**	203.8	**140.1**	138.2
Marketing expenses	**189.2**	172.9	**83.0**	76.3
Warehouse, packaging and transportation	**31.0**	22.6	**24.9**	17.1
Freight charges on sales	**46.2**	44.9	**0.0**	0.0
Real-estate maintenance	**103.4**	94.0	**80.9**	74.4
Travel and conferences	**20.2**	18.5	**15.1**	14.3
Postal and telephone expenses	**26.8**	23.9	**18.5**	16.2
Credit losses	**10.6**	9.3	**1.9**	2.9
Voluntary indirect employee costs	**20.3**	17.6	**15.5**	13.3
Other costs	**115.3**	115.4	**95.4**	80.9
Total	**775.7**	722.9	**475.3**	433.6

7. Financial income and expenses

FIM million	1998	Group 1997	1998	Parent company 1997
Dividend income				
From others	**4.6**	4.8	**4.4**	4.8
Interest income on non-current investments				
From Group undertakings			**1.3**	1.3
Other interest and financial income				
From Group undertakings			**4.6**	4.6
From interest-bearing trade debtors	**51.3**	49.9	**51.3**	49.9
From others	**28.8**	24.5	**26.0**	23.9
Other interest and financial income, total	**80.1**	74.4	**81.9**	78.4
Reduction in value of investments				
Reduction in value of securities held in current assets	**0.0**	3.0	**0.0**	3.0
Reductions in the value of non-current investments				
ZAO Kalinka-Stockmann shares			**55.7**	0.0
Reductions in value of investments, total	**0.0**	3.0	**55.7**	3.0
Interest and other financial expenses				
For Group undertakings			**14.2**	11.2
For others	**58.3**	55.7	**89.4**	55.4
Interest and other financial expenses, total	**58.3**	55.7	**103.6**	66.6
Includes foreign exchange losses on international operations	**5.6**	0.0	**40.1**	0.0
Includes other foreign exchange gains and losses (net)	**2.5**	-0.4	**2.5**	-0.4
Financial income and expenses, total	**26.4**	20.6	**-71.7**	14.9

8. Extraordinary items

FIM million	1998	Group 1997	1998	Parent company 1997
Extraordinary income				
Group contribution			**50.0**	0.0
Extraordinary expenses				
Reduction in the value of shares in Polar Corporation	**–14.5**	0.0	**–14.5**	0.0
Total	**–14.5**	0.0	**35.5**	0.0

9. Appropriations

FIM million	Parent company **1998**	1997
Change in depreciation reserve		
Intangible rights	**0.0**	0.0
Goodwill	**0.0**	0.0
Other capitalized expenditure	**-3.0**	25.5
Buildings	**13.1**	64.6
Machinery and equipment	**7.6**	10.8
Total	**17.7**	100.9
Decrease in transitional provisions		-109.7
Total	**17.7**	-8.9

10. Direct taxes

FIM million	Group **1998**	1997	Parent company **1998**	1997
Income taxes on ordinary operations for the financial year	**79.9**	120.0	**31.4**	67.8
Income taxes on extraordinary items	**-4.1**		**10.0**	
Income taxes on ordinary operations from previous financial years	**-1.9**	-2.2	**-2.1**	-2.7
Imputed change in deferred taxes/tax payable on appropriations	**3.4**	-0.9	**5.0**	2.5
Total	**77.4**	117.0	**44.3**	67.6

11. Change in the Group's comparison figures for 1997 due to amendment of the Accounting Act

The comparison figures in the 1997 consolidated accounts have been adjusted so that the net reduction in the accumulated depreciation difference and voluntary provisions as stated in 1997, which is FIM 3.1 million in total amount, has been apportioned as a reduction of FIM 0.9 million in imputed deferred taxes and a reduction of FIM 2.3 million in the net profit for the financial year. The accumulated depreciation difference in the balance sheet, FIM 615.7 million, has been apportioned between an amount of FIM 443.3 million in shareholders' equity and an amount of FIM 172.4 million as imputed deferred taxes.

BALANCE SHEET

Non-current assets

12. Intangible assets

FIM million	Group **1998**	1997	Parent company **1998**	1997
Intangible rights				
Acquisition cost Jan. 1	**68.2**	67.3	**60.5**	60.8
Increases Jan. 1-Dec. 31	**19.3**	6.7	**17.6**	4.9
Decreases Jan. 1-Dec. 31	**0.2**	5.9	**0.0**	5.2
Acquisition cost Dec. 31	**87.2**	68.2	**78.1**	60.5
Accumulated depreciation Jan. 1	**37.9**	23.7	**36.4**	22.7
Depreciation for the financial year	**13.7**	14.2	**12.9**	13.6
Accumulated depreciation Dec. 31	**51.7**	38.0	**49.3**	36.4
Book value Dec. 31	**35.5**	30.2	**28.8**	24.1
Accumulated difference between total and planned depreciation Jan. 1			**9.2**	9.2
Increase in accumulated depreciation Jan. 1-Dec. 31			**0.0**	0.0
Accumulated difference between total and planned depreciation Dec. 31			**9.2**	9.2
Group goodwill				
Acquisition cost Jan. 1	10.6	7.0		
Increases Jan. 1-Dec. 31	4.5	3.6		
Decreases Jan. 1-Dec. 31	1.0	0.0		
Acquisition cost Dec. 31	14.1	10.6		
Accumulated depreciation Jan. 1	2.7	1.0		
Depreciation for the financial year	2.5	1.7		
Accumulated depreciation Dec. 31	5.2	2.7		
Book value Dec. 31	8.9	8.0		

FIM million	Group 1998	1997	Parent company 1998	1997
Goodwill				
Acquisition cost Jan. 1			**6.3**	6.3
Increases Jan. 1-Dec. 31	**0.9**	0.0	**0.0**	0.0
Decreases Jan. 1-Dec. 31	**0.0**	0.0	**0.0**	0.0
Acquisition cost Dec. 31	**0.9**	0.0	**6.3**	6.3
Accumulated depreciation Jan. 1	**0.0**	0.0	**2.1**	0.8
Depreciation for the financial year	**0.0**	0.0	**1.3**	1.3
Accumulated depreciation Dec. 31	**0.0**	0.0	**3.3**	2.1
Book value Dec. 31	**0.9**	0.0	**2.9**	4.2
Accumulated difference between total and planned depreciation Jan. 1			**0.4**	0.4
Increase in Accumulated depreciation Jan. 1-Dec. 31			**-**	-
Accumulated difference between total and planned depreciation Dec. 31			**0.4**	0.4
Other capitalized long-term expenditure				
Acquisition cost Jan. 1	**116.8**	89.4	**99.0**	69.5
Increases Jan. 1-Dec. 31	**72.4**	39.9	**13.8**	29.4
Decreases Jan. 1-Dec. 31	**19.6**	12.6	**19.5**	0.0
Acquisition cost Dec. 31	**169.6**	116.8	**93.2**	99.0
Accumulated depreciation Jan. 1	**28.2**	30.5	**21.6**	25.4
Depreciation for the financial year	**10.2**	8.0	**7.3**	6.6
Accumulated depreciation Dec. 31	**38.5**	38.6	**29.0**	32.0
Book value Dec. 31	**131.1**	78.2	**64.2**	67.0
Accumulated difference between total and planned depreciation Jan. 1			**32.0**	6.5
Increase in Accumulated depreciation Jan. 1-Dec. 31			**0.0**	25.5
Decrease in Accumulated depreciation Jan. 1-Dec. 31			**3.0**	0.0
Accumulated difference between total and planned depreciation Dec. 31			**29.1**	32.0
Advance payments and construction in progress				
Acquisition cost Jan. 1	**5.7**	6.8	**4.9**	6.8
Increases Jan. 1-Dec. 31	**7.8**	5.7	**6.4**	4.9
Transfers between items	**-5.7**	-6.8	**-4.9**	-6.8
Book value Dec. 31	**7.9**	5.7	**6.4**	4.9
Intangible assets, total	**184.3**	122.1	**102.4**	100.2

13. Tangible assets

FIM million	Group 1998	1997	Parent company 1998	1997
Land and waters				
Acquisition cost Jan. 1	**133.6**	107.5	**55.8**	53.3
Increases Jan. 1-Dec. 31	**32.8**	26.2	**24.9**	2.6
Decreases Jan. 1-Dec. 31		0.0	**0.0**	0.0
Book value Dec. 31	**166.4**	133.6	**80.7**	55.8
Buildings and constructions				
Acquisition cost Jan. 1	**995.4**	899.5	**871.0**	804.7
Increases Jan. 1-Dec. 31	**165.6**	97.8	**146.4**	69.9
Decreases Jan. 1-Dec. 31	**3.5**	1.8	**1.7**	3.6
Acquisition cost Dec. 31	**1 157.5**	995.4	**1 015.7**	871.0
Accumulated depreciation Jan. 1	**156.7**	133.2	**127.8**	110.2
Depreciation for the financial year	**23.3**	20.8	**19.0**	17.6
Accumulated depreciation Dec. 31	**180.1**	154.0	**146.8**	127.8
Book value Dec. 31	**977.5**	841.4	**868.9**	743.2
Accumulated difference between total and planned depreciation Jan. 1			**393.3**	328.8
Increase in Accumulated depreciation Jan. 1-Dec. 31			**13.1**	64.6
Accumulated difference between total and planned depreciation Dec. 31			**406.4**	393.3

FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Machinery and equipment				
Acquisition cost Jan. 1	**618.1**	582.1	**493.1**	470.3
Increases Jan. 1-Dec. 31	**141.3**	112.2	**97.8**	65.8
Decreases Jan. 1-Dec. 31	**13.1**	76.2	**7.9**	43.0
Acquisition cost Dec. 31	**746.3**	618.1	**583.0**	493.1
Accumulated depreciation Jan. 1	**315.9**	244.1	**262.7**	204.5
Depreciation for the financial year	**75.1**	75.4	**56.3**	58.2
Accumulated depreciation Dec. 31	**391.0**	319.5	**319.1**	262.7
Book value Dec. 31	**355.3**	298.6	**263.9**	230.4
Accumulated difference between total and planned depreciation Jan. 1			**92.0**	81.2
Increase in Accumulated depreciation Jan. 1-Dec. 31			**7.6**	10.8
Accumulated difference between total and planned depreciation Dec. 31			**99.5**	92.0
Other tangible assets				
Acquisition cost Jan. 1	**0.3**	0.3	**0.3**	0.3
Increases Jan. 1-Dec. 31	**0.3**	0.0	**0.3**	0.0
Acquisition cost Dec. 31	**0.6**	0.3	**0.6**	0.3
Book value Dec. 31	**0.6**	0.3	**0.6**	0.3
Construction in progress				
Acquisition cost Jan. 1	**40.8**	27.6	**39.9**	27.6
Increases Jan. 1-Dec. 31	**49.8**	40.8	**37.4**	39.9
Transfers between items	**-41.1**	-27.6	**-39.9**	-27.6
Acquisition cost Dec. 31	**49.6**	40.8	**37.4**	39.9
Book value Dec. 31	**49.6**	40.8	**37.4**	39.9
Tangible assets, total	**1 549.3**	1 313.3	**1 251.4**	1 069.6
Tangible and intangible assets, total	**1 733.7**	1 436.9	**1 353.8**	1 169.8

Revaluations included in balance sheet values

FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Land and waters	**35.1**	35.1	**35.1**	35.1
Buildings	**157.7**	157.7	**157.7**	157.7
Total	**192.8**	192.8	**192.8**	192.8

The revaluations of real-estate properties were made during the period from 1950 to 1984 based on the estimates of real-estate appraisers.

Taxation and fire insurance values

FIM million	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Taxation values				
Land and waters	**384.3**	381.5	**358.1**	358.1
Shares in subsidiaries			**434.7**	371.2
Other shares	**190.6**	139.2	**177.7**	130.6
Buildings				
Taxation values	**213.4**	159.1	**161.7**	108.8
Fire insurance values	**1 892.5**	1 576.2	**1 548.0**	1 403.5

14. Investments

FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Holdings in Group undertakings				
Acquisition cost Jan. 1			**297.1**	265.1
Increases Jan. 1-Dec. 31			**35.7**	32.0
Decreases Jan. 1-Dec. 31			**58.0**	0.0
Book value Dec. 31			**274.8**	297.1
Amounts owed by Group undertakings				
Book value Jan. 1 and Dec. 31			**22.0**	22.0
Other shares and participations				
Acquisition cost Jan. 1	**251.2**	232.5	**227.6**	212.0
Increases Jan. 1-Dec. 31	**77.8**	18.7	**73.1**	15.6
Decreases Jan. 1-Dec. 31	**30.9**	0.0	**30.8**	0.0
Book value Dec. 31	**298.1**	251.2	**269.9**	227.6
Investments, total	**298.1**	251.2	**566.7**	546.7

Parent company holdings	Number	Shareholding and voting rights, %	Par value/share	Book value FIM million
Holdings in Group undertakings				
ZAO Kalinka-Stockmann, Moscow	583 450	100	RUR 100.00	21.2
ZAO Stockmann-Krasnoselskaja, Moscow	100	100	RUR 550.00	0.0
Kiinteistö Oy Aspius, Turku	100	100	FIM 600.00	4.4
Auto-Oriketo Oy, Turku	40 000	100	FIM 100.00	4.6
Espoon Autotalo Oy, Espoo	100	100	FIM 150.00	2.7
Tikkurilan Autocenter Oy, Helsinki	4 000	100	FIM 1 000.00	4.7
Kambrium Oy, Vantaa	17	100	FIM 1 000.00	1.3
Kiinteistö Oy Friisinkeskus, Espoo	1 000	100	FIM 50.00	0.1
Kiinteistö Oy Friisinkeskus II, Espoo	1 900	97.4	FIM 50.00	3.6
Kiinteistö Oy Hgin Valurinkatu 1, Helsinki	100	100	FIM 1 000.00	0.1
Kiinteistö Oy Luistelijanvuori, Vantaa	72	100	FIM 1 000.00	7.2
Kiinteistö Oy Muuntajankatu 4, Helsinki	30	100	FIM 1 666.67	19.5
Kiinteistö Oy Stävö, Helsinki	50	100	FIM 1 000.00	0.1
Kiinteistö Oy Vantaan Kiitoradantie 2, Vantaa	100	100	FIM 1 000.00	0.1
Kiinteistö Oy Vantaan Rasti, Vantaa	388	100	FIM 7 732.00	29.3
Kiinteistö Oy Vantaan Valimotie, Vantaa	500 000	100	FIM 10.00	5.0
Oy Hobby Hall Ab, Helsinki	120 000	100	FIM 500.00	111.8
Oy Hullut Päivät-Galna Dagarna Ab, Helsinki	10	100	FIM 6 000.00	0.1
Oy Suomen Pääomarahoitus-Finlands Kapitalfinans Ab, Helsinki	1 000	100	FIM 10 000.00	10.0
Seppälä Oy, Helsinki	30 000	100	FIM 1 000.00	30.0
SIA Stockmann, Riga	1 000	100	LVL 2.00	0.0
SIA Stockmann Centrs, Riga	1 000	100	LVL 2.00	0.0
Stockmann AS, Tallinn	1 800	100	EEK 1 000.00	6.8
TF-Autokeskus Oy, Vantaa	300	100	FIM 200.00	2.7
Upper Limit Oy, Tampere	100	100	FIM 600.00	9.7
Holdings in Group undertakings, total				274.8

Parent company holdings	Number	Shareholding, %	Par value FIM million	Book value FIM million
Other shares and participations				
Asunto Oy Eino Leinonkatu 7, Helsinki	1 583	25.0	2.7	8.5
Oy Kamppiparkki Ab, Helsinki	50	6.1	1.0	9.3
Kesko Corporation, Helsinki	217 000	0.2	2.2	8.6
Kiinteistö Oy Raitinkartano, Espoo	1 029	0.2	0.5	32.9
Kupittaan Kolmio Oy, Turku	4 612	15.0	2.3	42.7
Merita Plc, Helsinki	500 000	0.1	5.0	7.8
Pitäjänmäen Kiinteistöt Oy, Helsinki	10 360	19.5	62.2	64.5
Polar Corporation, Helsinki	3 627 100	3.1	36.3	7.8
Aktia Säästöpankki Oyj, Helsinki	430 900	1.3	5.2	6.8
Kt Oy Tapiolan Säästötammi Fastighets Ab, Espoo	3 125	37.8	3.1	36.6
TukoSpar Oy, Kerava	840	14.0	8.4	32.9
Others			11.5	11.5
Other shares and participations, total				269.9
Shares and participations owned by the parent company, total				554.7

Holdings of subsidiaries	Number	Shareholding and voting rights, %	Par value/share	Book value FIM million
Shares in subsidiaries				
Bullworker Myynti Oy, Helsinki	3	100	0.0	0.0
Oy Concert Hall Society Ab, Helsinki	10	100	0.0	0.0
ZAO Kalinka-Stockmann STP, St Petersburg	100	100	RUR 30 000.00	0.0
Shares in subsidiaries, total				0.0
Other shares				
Arabian Kiinteistö Oy, Helsinki	5 174	51.3	0.1	15.0
Arabian Pienteollisuustalo Oy, Helsinki	1 590	12.0	0.0	5.9
Others				7.3
Other shares, total				28.2
Shares owned by subsidiaries, total				28.3

The market value of the other publicly traded shares owned by the parent company and the subsidiaries exceeded the book value by FIM 33.7 million.

Changes in the Group structure

In the first part of 1998 the remainder of the shares of TF-Autokeskus Oy and Espoon Autotalo Oy were bought for a price of FIM 3.1 million. In addition, the shares outstanding of the real-estate undertakings Kiinteistö Oy Luistelinjanvuori and Kambrium Oy were acquired at a price of FIM 8.4 million.
The subsidiaries SIA Stockmann and SIA Stockmann Centrs were established in Latvia.

15. Debtors
Current debtors

	Group		Parent company	
FIM million	**1998**	1997	**1998**	1997
Amounts owed by Group undertakings				
Loan receivables	**0.0**	0.0	**289.8**	190.5
Total	**0.0**	0.0	**289.8**	190.5
From others				
Interest-bearing trade debtors	**574.1**	507.6	**227.9**	212.7
Non-interest bearing trade debtors	**296.8**	300.8	**289.4**	270.2
Trade debtors, total	**870.9**	808.4	**517.3**	482.9
Interest-bearing loan receivables	**0.4**	0.0	**0.0**	0.0
Other debtors	**102.1**	41.0	**73.7**	33.7
Pre-payments and accrued income	**57.4**	61.7	**97.3**	40.5
Current debtors, total	**1 030.9**	911.2	**978.0**	747.5

The Group's interest-bearing trade debtors include one time credits on mail order sales of FIM 346.2 million in 1998 and FIM 308.3 million in 1997.
The interest income on these debtors is entered in net turnover instead of in interest income because it is included in the sale price.
Other interest-bearing trade debtors are Stockmann Account, hire purchase and leasing payment debtors for which interest income is entered in interest income.

16. Essential items in prepayments and accrued income

	Group		Parent company	
FIM million	**1998**	1997	**1998**	1997
Deferred annual discounts	**9.9**	8.8	**9.9**	8.8
Deferred VAT	**4.4**	3.9	**4.4**	3.9
Deferred interest	**8.5**	8.1	**8.5**	8.1
Deferred indirect employee costs	**8.8**	2.5	**2.6**	2.5
Group contribution	**0.0**	0.0	**50.0**	0.0
Other	**25.7**	38.3	**21.8**	17.1
Total	**57.4**	61.7	**97.3**	40.5

17. Difference between cost and market value of current assets, bonds and promissory notes

	Group		Parent company	
FIM million	**1998**	1997	**1998**	1997
Market value Dec. 31	**332.9**	328.3	**332.9**	328.3
Book value Dec. 31	**332.7**	328.2	**332.7**	328.2
Difference	**0.3**	0.1	**0.3**	0.1

18. Changes in capital and reserves

FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Share capital				
Series A shares Jan. 1	**165.8**	165.8	**165.8**	165.8
Bonus issue	**82.9**	0.0	**82.9**	0.0
Series A shares Dec. 31	**248.7**	165.8	**248.7**	165.8
Series B shares Jan. 1	**123.1**	122.8	**123.1**	122.8
Bonus issue	**63.9**	0.0	**63.9**	0.0
Rights issue	**73.3**	0.0	**73.3**	0.0
Subscriptions with warrants	**4.8**	0.3	**4.8**	0.3
Series B shares Dec. 31	**265.1**	123.1	**265.1**	123.1
Share capital, total	**513.8**	288.9	**513.8**	288.9
Premium fund Jan. 1				
Subscriptions in share issue	**476.4**	0.0	**476.4**	0.0
Subscriptions with warrants	**52.8**	0.0	**52.8**	0.0
Transfer from Reserve fund	**359.5**	0.0	**359.5**	0.0
Premium fund Dec. 31	**888.7**	0.0	**888.7**	0.0
Revaluation fund Jan. 1	**140.0**	140.0	**140.0**	140.0
Transfer to share capital in bonus issue	**-140.0**	0.0	**-140.0**	0.0
Revaluation fund Dec. 31	**0.0**	140.0	**0.0**	140.0
Reserve fund Jan. 1	**366.4**	363.3	**366.4**	363.3
Reserve fund Jan. 1, Russia	**8.2**	8.2	**0.0**	0.0
Reserve fund Jan. 1, total	**374.6**	371.5	**366.4**	363.3
Subscriptions with warrants	**0.0**	3.1	**0.0**	3.1
Transfer to share capital in bonus issue	**-6.9**	0.0	**-6.9**	0.0
Formed in Estonia	**0.6**	0.0	**0.0**	0.0
Transfer to premium fund	**-359.5**	0.0	**-359.5**	0.0
Reserve fund Dec. 31	**8.8**	374.6	**0.0**	366.4
Other funds Jan. 1 and Dec. 31	**260.0**	260.0	**260.0**	260.0
Retained earnings Jan. 1	**1 097.7**	907.9	**294.0**	212.1
Distribution of profit	**-130.4**	-108.6	**-130.4**	-108.6
Total	**996.7**	799.4	**163.6**	103.4
Net profit for the financial year	**272.1**	298.2	**120.4**	190.6
Capital and reserves, total	**2 910.2**	2 161.1	**1 946.5**	1 349.3

Schedule of distributable funds Dec. 31

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Other funds	**260.0**	260.0	**260.0**	260.0
Retained earnings	**966.7**	799.4	**163.6**	103.4
Depreciation difference entered in capital and reserves	**-452.1**	-445.6	**0.0**	0.0
Net profit for the financial year	**272.1**	298.2	**120.4**	190.6
Total	**1 046.7**	912.1	**544.0**	554.0

Depreciation reserve

FIM million	Group 1998	Group 1997
Accumulated depreciation difference included in capital and reserves	**452.1**	443.3
Deferred taxes	**175.8**	172.4

19. The parent company's share capital is divided between share series as follows

Par value FIM 10	Number of shares
Series A shares (10 votes each)	24 868 893
Series B shares (1 vote each)	26 514 084
Total	51 382 977

20. Provisions

Compulsory provisions

In the 1998 consolidated accounts, a compulsory provision has not been made even though an application for a summons was submitted to the Helsinki District Court in January 1998 – this will come up before the District Court in the spring of 1999 – according to which a claim for damages has been filed against Stockmann following the company's withdrawal towards the end of 1994 from negotiations which concerned a department store project that was planned for St Petersburg. The company's management considers the claim for damages groundless and estimates that the company will not incur an obligation to pay damages in the case.

21. Bonds with warrants

Bonds with warrants 1994

In 1994, a FIM 1.5 million issue of bonds with warrants targeted at the Group management was floated and repaid on April 12, 1998.
During 1998 a total of 240 000 Series B shares were subscribed with the warrants of the bond issue.

Bonds with warrants 1997

In 1997, a FIM 0.4 million issue of bonds with warrants targeted at the key employees was floated, which according to the terms and conditions of the issue provides for a bullet payment on April 21, 2000. No interest will be paid on the loan. The subscription price of one share is FIM 99.57 less dividends paid after May 1, 1997. The subscription periods are as follows: 315 000 shares from April 1, 2000, to January 31, 2004, 315 000 shares from April 1, 2001 to January 31, 2004 and 630 000 shares from April 1, 2002 to January 31, 2004.

22. Loans with maturities longer than five years

		Group		Parent company
FIM million	**1998**	1997	**1998**	1997
Pension loans	**96.8**	218.0	**75.5**	194.3
Other loans	**30.0**	45.6	**30.0**	45.6
Total	**126.8**	263.6	**105.5**	239.9

23. Essential items in accruals and prepaid income

		Group		Parent company
FIM million	**1998**	1997	**1998**	1997
Accrued salaries and wages	**110.1**	105,9	**88.4**	87.7
Accrued purchase price	**32.4**	0.0	**32.4**	0.0
Accrued interest	**16.5**	22.2	**13.4**	22.0
Returns provision for mail order sales	**6.0**	6.1	**0.0**	0.0
Other	**39.7**	164.7	**20.3**	44.4
Total	**204.7**	298.9	**154.4**	154.1

24. Interest-bearing net liabilities

		Group
FIM million	**1998**	1997
+ Non-current liabilities	**511.8**	676.4
+ Current liabilities	**132.8**	135.5
- Trade receivables	**574.1**	525.7
- Loan receivables	**11.8**	12.1
- Investments	**332.7**	328.2
- Cash in hand and at banks	**50.2**	52.6
Total	**-324.2**	-106.6

25. Security pledged, contingent liabilities and other commitments

		Group		Parent company
FIM million	**1998**	1997	**1998**	1997
Liabilities				
Liabilities for which mortgages on real-estate have been lodged as security				
Pension loans Dec. 31	**145.9**	318.3	**114.2**	284.3
Loans from financial institutions Dec. 31	**1.0**	46.6	**1.0**	46.6
Mortgages given	**166.7**	392.3	**124.5**	336.1
Other security pledged for loans of the company				
Securities pledged	**10.4**	21.1	**10.4**	20.8
Security pledged on behalf of Group undertakings				
Real-estate mortgages given			**31.7**	16.2
Guarantees			**6.1**	23.4
Total			**37.8**	39.6

FIM million	1998	Group 1997	1998	Parent company 1997
Leasing commitments				
Payable during the 1999 financial year	**2.0**	3.0	**1.3**	1.9
Payable at a later date	**2.0**	2.4	**1.3**	2.4
Total	**4.1**	5.4	**2.6**	4.3
Other own commitments				
Other commitments	**185.0**	135.4	**181.3**	125.4
Commitments, total				
Mortgages	**166.7**	392.3	**156.2**	352.3
Pledges	**10.4**	21.1	**10.4**	20.8
Guarantees	**0.0**	0.0	**6.1**	23.4
Other commitments	**189.0**	140.8	**183.9**	129.7
Commitments, total	**366.1**	554.2	**356.6**	526.2

26. Pension liabilities

The pension liabilities of Group companies are insured with outside pension insurance companies. The pension liabilities are fully covered.

27. Financial risk management and derivative instruments

The purpose of Stockmann's financial risk management is to minimize the negative impact of foreign exchange, interest rate, credit and liquidity risks on the Group's net profit, shareholders' equity and cash reserves. Financial risk management is handled on a centralized basis by the Treasury Department, with the exception of the risk management of sales financing, which is handled by the profit centre in question. The risk management policy has been determined by the Board of Directors of STOCKMANN plc.

Financial risk reporting is submitted to the Board of Directors quarterly, and monthly to the top management of the Group.

Foreign exchange risk

Stockmann's foreign exchange risk arises from purchases made in foreign currencies, the most important purchasing currencies being USD, GBP, HKD and SEK, as well as sales denominated in RUR and EEK. Management of foreign exchange risks is based on determination of the foreign exchange position for each specific currency unit by company unit and on monitoring foreign exchange risk for the entire company against the Finnish markka. In hedging against foreign exchange risk the Treasury Department uses forward agreements and options. The foreign exchange risks of the Group's investments in international units are hedged separately from the cash flows in foreign currencies.

Interest rate risk

Stockmann's interest rate risk derives from the effect of interest rate changes on the value of investments as well as from the fact that at the close of interest rate periods, assets and liabilities are susceptible to changes in interest rates. The management of interest rate risk involves monitoring the relationship between assets and liabilities in different interest rate periods. The hedging instruments that are used are bond futures, FRA's and options as well as interest rate swaps.

Counterpart risk

Counterpart risk is managed by making agreements only with the leading banks, financial institutions and brokers and by investing cash assets only in selected debt instruments of counterparts.

Derivative instruments

FIM million	Underlying amount at the end of period	Remaining open at the end of the period
Interest rate derivatives		
Forward agreements	2 076.2	461.0
Interest rate swaps	100.0	100.0
Foreign exchange derivatives		
Forward agreements	286.0	235.0

If all the derivative instruments had been closed on December 31, 1998, the net result would have been FIM 0.7 million.

The principles observed in calculating market value

Bond futures and forward rate agreements

Forward rate agreements are valued at mark-to-market values on the balance sheet date.

Interest rate swaps

The market value of interest rate swaps is estimated on the basis of the net present value of future cash flows.

Foreign currency options and forward agreements

Foreign currency options and forward exchange contracts are valued at mark-to-market values on the balance sheet date.

PROPOSAL FOR THE DISTRIBUTION OF PARENT COMPANY PROFIT

According to the Consolidated Balance Sheet, the distributable funds as at December 31, 1998, were FIM 1 046.7 million.

The parent company's distributable funds according to the balance sheet as at December 31, 1998, were FIM 544.0 million.

According to the Parent Company Balance Sheet as at December 31, 1998, the following amounts are at the disposal of the Annual General Meeting:

- retained earnings, including the Contingency fund	423 639 235.06
- net profit for the financial year	120 351 368.27
	543 990 603.33

The Board of Directors proposes that this amount be distributed as follows:

- a dividend of FIM 3.00 per share be paid for the 1998 financial year	154 148 931.00
- a "Millennium" supplementary dividend of FIM 2.00 per share be paid on November 15, 1999	102 765 954.00
- to be set aside for benevolent purposes	500 000.00
- to be carried forward to the Contingency fund and Retained earnings	286 575 718.33
	543 990 603.33

Helsinki, March 11, 1999

BOARD OF DIRECTORS

Lasse Koivu

Erkki Etola   Ari Heiniö   Kari Niemistö

Kurt Stenvall   Christoffer Taxell   Henry Wiklund

Auditors' report

To the shareholders of Stockmann plc

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the Managing Director of Stockmann plc for the year ended 31 December 1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets, cash flow statements and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Board of Directors and the Managing Director have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. Consolidated and parent company income statements and balance sheet can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the distributable funds is in compliance with the Finnish Companies Act.

We have acquainted ourselves with the interim reports made public by the company during the year. It is our understanding that the interim reports have been prepared in accordance with the rules and regulations governing the preparation of such reports in Finland.

Helsinki, 11 March 1999

Eric Haglund, Authorized Public Accountant   Krister Hamberg, Authorized Public Accountant

EURO SUPPLEMENT

Profit and loss account

	1-12/98 FIM mill.	**1-12/98 € mill.**	1-12/97 FIM mill.	1-12/97 € mill.	Change %
Net turnover	**7 233.2**	**1 216.5**	6 900.0	1 160.5	4.8
Other operating income	**41.4**	**7.0**	31.5	5.3	31.4
Materials and services	**5 075.7**	**853.7**	4 816.0	810.0	5.4
Staff costs	**958.6**	**161.2**	877.3	147.6	9.3
Depreciation	**126.9**	**21.3**	120.6	20.3	5.2
Other operating expences	**775.7**	**130.5**	722.9	121.6	7.3
Operating profit	**337.7**	**56.8**	394.6	66.4	-14.4
Net financial income and expences	**26.4**	**4.4**	20.6	3.5	28.2
Profit before extraordinary items	**364.0**	**61.2**	415.2	69.8	-12.3
Extraordinary items	**-14.5**	**-2.4**	0.0	0.0	0.0
Profit before income taxes	**349.5**	**58.8**	415.2	69.8	-15.8
Income taxes	**77.4**	**13.0**	117.0	19.7	-33.8
Profit for the period	**272.1**	**45.8**	298.2	50.2	8.7

Balance sheet

	31.12.1998 FIM mill.	**31.12.1998 € mill.**	%	31.12.1997 FIM mill.	31.12.1997 € mill.	%
Fixed assets and other non-current assets	**2 031.8**	**341.7**	45.4	1 688.1	283.9	43.4
Current assets		–				
Stocks	**1 008.5**	**169.6**	22.6	879.9	148.0	22.6
Receivables	**1 047.7**	**176.2**	23.4	940.7	158.2	24.2
Liquid funds	**382.9**	**64.4**	8.6	380.8	64.0	9.8
Total assets	**4 470.9**	**752.0**	100.0	3 889.5	654.2	100.0
Capital and reserves *	**2 910.2**	**489.5**	65.1	2 161.1	363.5	55.6
Minority interest	**0.0**	**0.0**	0.0	1.0	0.2	0.0
Non-current liabilities **	**687.6**	**115.6**	15.4	848.8	142.8	21.8
Current liabilities	**873.1**	**146.8**	19.5	878.6	147.8	22.6
Total assets	**4 470.9**	**752.0**	100.0	3 889.5	654.2	100.0

* Includes provisions less deferred tax.

** Includes deferred tax portion of provisions.

EUR 1= FIM 5.94573

Key figures

€ million	1994	1995	1996	1997	**1998**
Sales	922.7	1 051.0	1 248.0	1 394.2	**1 461.4**
Net turnover	766.4	876.9	1 036.8	1 160.5	**1 216.5**
Staff costs	108.2	125.7	140.2	147.6	**161.2**
% of net turnover	14.1	14.3	13.5	12.7	**13.3**
Operating profit	36.5	41.8	49.0	66.4	**56.8**
% of net turnover	4.8	4.8	4.7	5.7	**4.7**
Profit before extraordinary items	41.5	47.1	53.1	69.8	**61.2**
% of net turnover	5.4	5.4	5.1	6.0	**5.0**
Profit before taxes	41.5	47.4	53.1	69.8	**58.8**
% of net turnover	5.4	5.4	5.1	6.0	**4.8**
Share capital	48.5	48.5	48.5	48.6	**86.4**
Dividends	14.5	17.0	18.2	21.9	**43.2**
Return on equity, %	10.7	11.2	11.4	14.4	**11.1**
Return on investment, %	12.7	13.2	13.3	15.6	**12.3**
Equity ratio, %	60.4	58.1	54.0	55.6	**65.1**
Investment in fixed assets	22.4	46.0	56.0	53.0	**85.8**
% of net turnover	2.9	5.2	5.4	4.6	**7.0**
Total assets	487.7	534.2	613.2	654.2	**752.0**
Personnel, average	5 248	6 015	6 589	6 934	**7 361**

Per-share data[1)]	1994	1995	1996	1997	**1998**
Earnings per share, €	0.65	0.72	0.79	1.07	**0.89***
Equity per share, €	6.32	6.66	7.09	7.78	**9.53**
Dividend per share, €	0.31	0.36	0.39	0.47	**0.84****
Dividend per earnings, %	47.7	50.2	49.6	43.6	**94.0****
Effective yield of shares, %					
Series A	2.5	2.8	2.7	2.5	**3.8****
Series B	2.7	3.1	2.7	2.7	**5.2****
P/E ratio for shares					
Series A	19.2	17.8	18.5	17.2	**24.5***
Series B	17.9	16.2	18.2	16.5	**18.0***
Share quotation on December 31					
Series A, €	12.60	12.91	14.58	18.48	**21.86**
Series B, €	11.73	11.78	14.27	17.64	**16.08**
Highest price during the period					
Series A, €	11.20	13.64	14.58	18.48	**30.78**
Series B, €	10.72	12.45	14.27	18.16	**25.94**
Lowest price during the period					
Series A, €	6.94	10.15	11.92	14.19	**18.00**
Series B, €	6.05	8.92	11.10	13.70	**14.30**
Average price during the period					
Series A, €	13.48	12.02	13.61	15.94	**25.41**
Series B, €	8.50	10.79	12.57	15.04	**19.36**
Share turnover					
Series A	3 257 589	2 224 710	1 691 607	2 731 548	**2 923 736**
Series B	6 268 897	6 919 011	6 380 517	6 258 957	**5 194 189**
Share turnover					
Series A, %	13.1	8.9	6.8	11.0	**11.8**
Series B, %	31.2	34.0	31.4	28.6	**19.6**
Market capitalization on December 31, € million	570.2	579.6	674.4	846.9	**970.1**
Number of shares on December 31	46 635 261	46 635 261	46 683 882	46 732 503	**51 382 977**
Series A	24 868 893	24 868 893	24 868 893	24 868 893	**24 868 893**
Series B	21 766 368	21 766 368	21 814 989	21 863 610	**26 514 084**
Average number of shares	46 635 261	46 635 261	46 683 882	46 692 007	**49 522 738**
Series A	24 868 893	24 868 893	24 868 893	24 868 893	**24 868 893**
Series B	21 766 368	21 766 368	21 814 989	21 823 114	**24 653 845**

1) Adjusted for share issues

*) The dilution effect of options has been taken into account

**) Board proposal to the Annual General Meeting

Key figures in FIM on page 37
Per-share data in FIM on page 38

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SEPPO JURVAINEN, Data Management
PEKKA POLVINEN, Marketing
YRJÖ STENBERG, Finance
VESA TUURI, Logistics

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LASSE LEHTINEN, Director
PIRJO K. HYVÄRINEN, Director, Food Products Purchasing
OLAVI LEHTINEN, Director, Non-food Goods Sales
EERO LESTELÄ, Etujätti Hypermarkets
ARJA RISSANEN, Administration
JARMO VÄISTÖ, Sesto Stores

Sesto Stores
Annankatu, Eino Leinon katu, Forum, Herttoniemi, Kauniainen, Lauttasaari, Lähderanta, Mellunmäki, Puistola, Reimarla, Tehtaankatu, Tikkurila, Vaasankatu

Etujätti Hypermarkets
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SEPPÄLÄ

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AKIF BESHAR, Field Operations, Administration
KIRSTI LEHMUSTO-ERÄNEN, Marketing
MERJA ILMAKUNNAS, Children's Wear, Cosmetics
ANJA RISSANEN, Ladies' Wear
TIMO SINKKONEN, Men's Wear

Stores
Espoo, Forssa, Hamina, Heinola, Helsinki, Hollola, Hyvinkää, Huittinen, Hämeenlinna, Iisalmi, Imatra, Joensuu, Jyväskylä, Jämsä, Järvenpää, Kaarina, Kajaani, Kangasala, Kankaanpää, Karhula, Kauhajoki, Kemi, Kemijärvi, Kempele, Kerava, Kirkkonummi, Klaukkala, Kokkola, Kotka, Kouvola, Kuopio, Kuusamo, Kuusankoski, Lahti, Lappeenranta, Lapua, Laukaa, Lieksa, Lohja, Loimaa, Loviisa, Mikkeli, Muurame, Mäntsälä, Naantali, Nastola, Nivala, Nokia, Orimattila, Oulu, Palokka, Parainen, Pello, Pieksämäki, Pietarsaari, Pirkkala, Pori, Porvoo, Raahe, Rauma, Raisio, Riihimäki, Rovaniemi, Salo, Savonlinna, Seinäjoki, Sodankylä, Tammisaari, Tampere, Tornio, Turku, Uusikaupunki, Vaasa, Valkeakoski, Vammala, Vantaa, Varkaus, Ylivieska, Ylöjärvi, Äänekoski.

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