2003

ANNUAL REPORT

Contents

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Frenckellin Kirjapaino Oy, Espoo 2004

New Stockmann staff – young salespeople in front of the Riga department store.

Stockmann in brief

Stockmann is a Finnish listed company which was established in 1862 and is engaged in the retail trade. It has about 16 000 shareholders. Customer satisfaction is the central objective of Stockmann's trading in all its areas of business. Stockmann's four divisions are the Department Store Division, the Vehicle Division, the Hobby Hall Division, which is specialized in mail order sales and e-commerce, and Seppälä, a chain of fashion stores. Stockmann operates in Finland, Russia, Estonia, Latvia and Lithuania.

Stockmann Group'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.

Social responsibility
Our way of operating is ethical, just and shows respect for environmental values.

Cover picture: The evening before the opening of the Stockmann department store in Riga in October 2003.

Stockmann in 2003

Key figures

		1999	2000	2001	2002	2003
Sales	EUR mill.	1 583.9	1 467.9	1 537.6	1 582.3	**1 698.6**
Change in sales	%	8.4	-7.3	4.7	2.9	**7.4**
Net turnover	EUR mill.	1 319.6	1 220.5	1 281.9	1 315.3	**1 412.7**
Staff expenses	EUR mill.	166.9	164.8	179.0	184.9	**194.9**
Share of net turnover	%	12.6	13.5	14.0	14.1	**13.8**
Operating profit	EUR mill.	81.8	35.7	46.3	61.9	**65.7**
Share of net turnover	%	6.2	2.9	3.6	4.7	**4.7**
Profit before extraordinary items	EUR mill.	86.7	41.2	51.2	68.6	**74.0**
Investment in fixed assets	EUR mill.	64.1	45.1	31.1	25.8	**40.9**
Total assets	EUR mill.	773.6	746.8	728.2	752.7	**800.8**
Share capital	EUR mill.	86.4	102.8	102.8	102.8	**105.3**
Market capitalization at December 31	EUR mill.	777.1	559.0	696.0	710.1	**955.6**
Dividend paid	EUR mill.	30.8	30.6	30.6	45.9	**70.5** *
Dividend per share 1)	EUR	0.60	0.60	0.60	0.90	**1.35** *
Earnings per share 1)	EUR	1.14	0.55	0.68	0.97	**1.01**
Earnings per share, diluted 1)	EUR	1.14	0.55	0.68	0.97	**1.00**
Equity ratio	%	65.3	67.2	69.5	69.7	**68.3**
Return on equity	%	11.8	5.6	6.9	9.6	**9.6**
Return on capital employed	%	15.8	8.4	9.8	12.6	**13.2**

1) Adjusted for share issues.

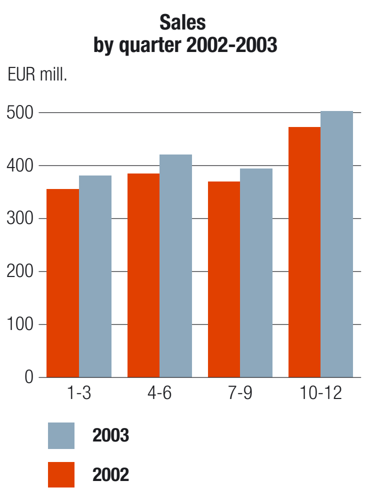
*) Board proposal to the AGM. According to the proposal, a dividend of EUR 0.90+0.45 per share will be paid.

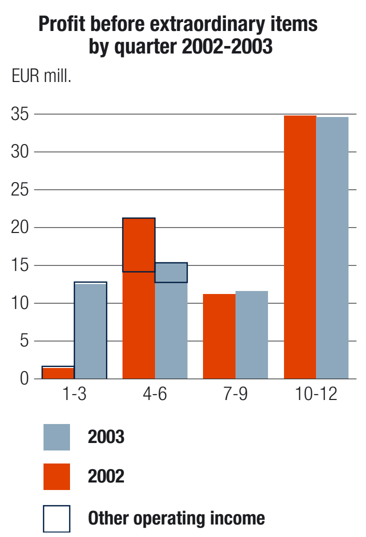
Sales by quarter 2002–2003, EUR mill.

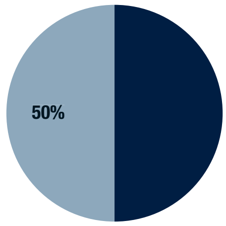
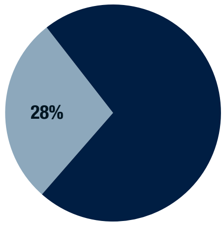
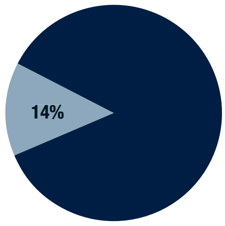
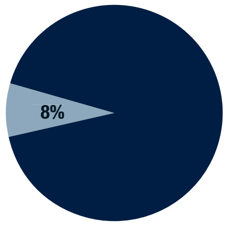
	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
Department Store Division	181.7	188.1	183.4	258.0	184.0	198.6	192.4	276.2
Vehicle Division	90.5	106.4	98.5	103.4	113.2	137.2	115.1	114.9
Hobby Hall	57.1	56.2	53.5	70.2	57.8	53.5	54.4	70.1
Seppälä	25.7	33.8	33.3	39.9	26.2	30.6	32.5	41.0
Real Estate	6.4	6.8	6.0	4.7	5.2	4.9	4.7	5.0
Eliminations	-6.3	-6.2	-5.4	-3.4	-5.0	-4.7	-4.5	-4.7
Total	355.1	385.2	369.3	472.7	381.4	420.2	394.5	502.5

Operating profit by quarter 2002–2003, EUR mill.

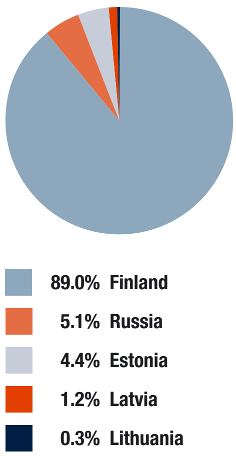
	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
Department Store Division	-1.1	7.2	6.0	27.7	-1.8	7.9	7.3	26.4
Vehicle Division	1.0	1.4	1.9	1.0	1.7	1.8	2.0	0.1
Hobby Hall	-0.7	0.9	-0.7	1.0	-0.7	-1.0	-2.6	0.9
Seppälä	-2.0	4.4	2.0	6.0	-1.9	2.7	2.6	6.7
Real Estate	4.5	4.4	4.0	3.6	4.2	3.6	3.3	3.3
Other operating income	1.7	7.1	0.0	0.0	12.8	2.6	0.0	0.0
Eliminations	-4.0	-5.2	-3.6	-6.6	-3.9	-4.4	-2.5	-5.3
Total	-0.7	20.2	9.7	32.7	10.5	13.1	10.0	32.1



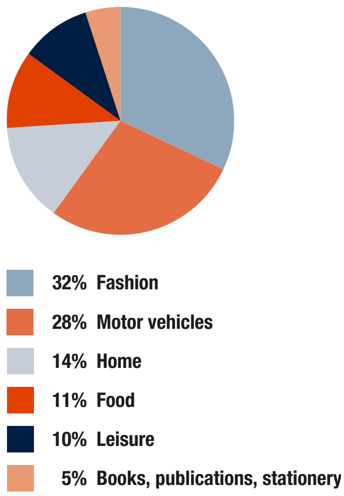


Divisions and their management	Offerings	Locations	Share of Stockmann's sales
Department Store Division Jukka Hienonen	Offers customers a knowledgeable shopping environment and good service in a congenial atmosphere. The key to Stockmann's success is a unique and broad assortment of good products at competitive prices.	• 6 department stores, 5 Academic Bookstores, 3 Zara stores and 7 Stockmann Beauty stores in Finland • A department store, a Zara store and a boutique in Moscow, Russia • 2 speciality stores in St Petersburg, Russia • A department store in Tallinn, Estonia • A department store in Riga, Latvia	EUR 851.3 mill. 
Vehicle Division Esa Mäkinen	Offers a very wide range of high quality car makes and models. Reliable quality and customer service are especially important advantages within servicing, repair and spare parts for customers' vehicles.	• 11 outlets in the Helsinki metropolitan area: Ford, Volkswagen and Audi cars, a wide selection of trade-in vehicles as well as vehicle servicing and repair centres • An outlet in Turku: Ford dealership, vehicle servicing and repair centre • An outlet in Tampere: Škoda dealership, a wide selection of trade-in vehicles as well as vehicle servicing and repair centre	EUR 480.4 mill. 
Hobby Hall Division Henri Bucht	Hobby Hall offers an easy, reliable and pleasant alternative for buying quality products at affordable prices. Its offerings consist primarily of household and leisure articles.	• Finland's largest mail order sales company and leading online store • 2 stores in Finland: in Helsinki and Vantaa • Estonia's largest mail order sales company, an online store, a store in Tallinn • Latvia's largest mail order sales company • Lithuania's largest mail order sales company	EUR 235.7 mill. 
Seppälä Division Heikki Väänänen	Offers customers women's, men's and children's apparel, shoes and cosmetics at reasonable prices. The collections are based on Seppälä's own product design and own brands. Seppälä's expertise rests on the correct combination of basic and trendy products.	• Finland's and Estonia's most extensive chain of fashion stores • 127 stores in Finland • 13 stores in Estonia • 4 stores in Latvia	EUR 130.3 mill. 

Sales by market



Sales by sector



Major events in 2003

February
- The first issue of the stylish Exclusive magazine for Stockmann's Exclusive Loyal Customers came out both in a Finnish and in a Swedish language version. The new magazine is published four times a year.
- Moscow's first Zara store was opened in the Mega Shopping Centre.
- Hobby Hall's mail order operations in Lithuania got under way in earnest by distributing a nationwide customer acquisition catalogue in conjunction with supporting television advertising.
- Loyal Customer marketing was launched in St Petersburg.
- Environmental system covering Stockmann's Helsinki department store and the Academic Bookstore in the centre of Helsinki as well as the the purchasing and warehousing functions of the Department Store Division received the Stockmann Group's first ISO 14001 certificate.

March
- In line with its strategy of freeing up capital, Stockmann sold its department store property in Espoo's Tapiola district to a wholly-owned subsidiary of the Dutch property company Wereldhave N.V. At the same time, Stockmann leased the divested property from the new owner for the Tapiola department store's use under a long-term leaseback agreement.

April
- Stockmann and IKEA's Russian subsidiary LLC IKEA MOS entered into a lease agreement on a Stockmann department store with about 10 000 square metres of retail space that will be located in the Mega Shopping Centre on the south side of Moscow. The new Stockmann will open its doors to the public in spring 2004.
- New Zara stores were opened in Finland in Helsinki's Itäkeskus Shopping Centre and in Turku's Hansa Block.
- Jordan's Queen Noor visited the Academic Bookstore.

May
- Stockmann sold Academic Bookstore's agency sales of magazine and newspaper subscriptions to Suomalainen Kirjakauppa Oy. The business was transferred to the new owner as from the beginning of June. Academic Bookstore will continue acting as an agent for magazine and newspaper subscriptions ordered by Stockmann's Loyal Customers.

June
- June 7 marked ten years from the date when Stockmann opened its first store in Estonia in Tallinn's Viru Centre.

August
- Seppälä opened its first store in Riga, Latvia's capital city.
- Sweden's Crown Princess Victoria paid a visit to the Academic Bookstore.
- The preliminary agreement that was signed with ZAO Znamenskaya concerning a department store in St Petersburg lapsed because the owner of the property did not manage to arrange the financing required for implementing the shopping centre by the deadline specified in the agreement.

September
- Hobby Hall closed its store in Helsinki's Herttoniemi district.

October
- Stockmann's new department store opened its doors in the centre of Riga. The department store, which has 11 000 square metres of retail space, is part of a joint project between Stockmann and Rautakirja, in which Rautakirja's share comprises a 14-cinema film centre. Seppälä opened its fourth store in Latvia in the same property.
- Stockmann entered into an agreement with IKEA on opening a Stockmann department store with 10 000 square metres of retail space in the Mega North Shopping Centre too. IKEA will build the Mega North on the north side of Moscow. This department store, Stockmann's third in Moscow, is to be opened at the end of 2004.
- Stockmann's territory as an Audi dealer was extended to eastern and western Uusimaa province in addition to the existing dealership in the Helsinki metropolitan area. Stockmann announced it was starting refurbishing and enlargement works in the Stockmann-owned building that is located in the Suomenoja district of Espoo and is used by the Vehicle Division. When the new facilities are completed in spring 2004, Finland's first Audi showroom will be opened in them.
- The Vehicle Division wound up its last Mitsubishi dealership. The Tampere sales outlet will continue acting as a Škoda dealer and will still service Mitsubishi cars in addition to Škoda.
- Hobby Hall announced it intended to pursue a sharper focus on distance retailing. Accordingly, it boosted the efficiency of logistics and product range management and altered the role of the stores to support distance retailing. It was decided to wind up three stores. Operations of the stores in Espoo, Tampere and the centre of Tallinn were terminated during the winter season.
- The Tapiola department store received 670 square metres of additional retail space. The new facilities will house the One Way youth clothing department and the Music Department. The department store now has a total of about 12 000 square metres of retail space.

December
- December saw the publication of journalist Jaakko Ojanne's historical review Eteenpäin, enemmän, paremmin – Seppälä, suomalainen vaatettaja 1930-2003 ("Ahead, more, better – Seppälä, Finnish Clothier, 1930-2003").
- The environmental system of the Oulu department store marked the last of Stockmann's department stores in Finland to be certified according to the ISO 14001 standard. Stockmann is the first Finnish company whose entire chain of department stores in Finland has received the ISO 14001 accreditation.

Annual General Meeting

The 2004 Annual General Meeting of the shareholders of Stockmann plc will be held on Tuesday, March 30, 2004, 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 *March 25, 2004*, at *4.00* p.m., telephone *+358 9 121 4010* or e-mail *agm@stockmann.fi*.

Those shareholders are entitled to participate in the Annual General Meeting, who have been entered on March 19, 2004, 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.

A shareholder shall exercise his right to vote at a General Meeting personally or via a proxy. In addition, a shareholder has the right to use an assistant.

Payment of dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.90 per share and a supplementary dividend of EUR 0.45 per share or a total of EUR 1.35 per share be paid for the 2003 financial year. The dividends decided by the Annual General Meeting will be paid to a shareholder who on the record date for dividend payment, April 2, 2004, has been entered in the Shareholder Register kept by Finnish Central Securities Depository Ltd. The Board proposes to the Annual General Meeting that the dividends be paid on April 14, 2004, upon termination of the record period.

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 2004:

– January-March Interim Report April 27, 2004
– January-June Interim Report August 11, 2004
– January-September Interim Report October 26, 2004

In addition to these reports, we will release a monthly report on the sales of the units.

Financial reports and bulletins are published in Finnish, Swedish and English.

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

Investor Relations:

e-mail *investor.relations@stockmann.fi*

Report and bulletin requests:

STOCKMANN, Corporate Communications,
P.O. Box 220, FI-00101 Helsinki, Finland
Telephone *+358 9 121 3089*
Fax *+358 9 121 3153*
e-mail *info@stockmann.fi*

Information on Stockmann for investors

According to information we have received, the analysts mentioned below follow Stockmann on their own initiative. The list may be incomplete. Stockmann does not assume responsibility for analysts' assessments.

Alfred Berg ABN AMRO
Tia Lehto
Kluuvikatu 3, FI-00100 Helsinki
Tel. +358 9 228 321

Carnegie Investment Bank AB, Finland Branch
Kim Nummelin
Eteläesplanadi 12, FI-00130 Helsinki
Tel. +358 9 618 711

Conventum Securities Limited
Kalle Karppinen
Kaivokatu 12 A, FI-00100 Helsinki
Tel. +358 9 231 231

CAI Cheuvreux
Frans Hoyer
122 Leadenhall Street, London EC3V 4QH
Tel. +44 (0) 207 621 5100

Deutsche Bank Global Equities
Mattias Karlkjell
Stureplan 4 A, S-114 87 Stockholm
Tel. +46 8 463 5519

Enskilda Securities AB
Alexander von Nandelstadh
Eteläesplanadi 12, FI-00130 Helsinki
Tel. +358 9 616 289 00

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Mika Karppinen
Aleksanterinkatu 19 A, FI-00100 Helsinki
Tel. +358 9 476 690

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Tel. +358 9 613 4600

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Tel. +358 10 236 4707

Nordea Securities
Juha Iso-Herttua
Aleksis Kiven katu 9, FI-00500 Helsinki
Tel. +358 9 1651

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Jari Räisänen
Teollisuuskatu 1 B, FI-00510 Helsinki
Tel. +358 9 404 739

Growth abroad gets under way

Finland's economic growth in 2003 was greatly dependent on the retail and service sector. Consumer confidence remained exceptionally high compared with many European countries and it strengthened towards the end of the year. In Russia and the Baltic countries, economic growth was again clearly faster than in Finland.

Of the Stockmann Group's business units, the Department Store Division, Vehicle Division and Seppälä reached or exceeded their year-ago earnings level, whereas Hobby Hall's result weakened and fell markedly into the red. Other operating income increased substantially compared with the previous year. This was due mainly to the capital gains booked on the disposal of the Tapiola department store property and Academic Bookstore's agency sales of magazine and newspaper subscriptions. Consolidated profit before extraordinary items was EUR 74 million, improving by 7.9 per cent on the previous year. The return on capital employed grew from 12.6 per cent to 13.2 per cent and the operating profit margin remained at the previous year's level of 4.7 per cent. These figures are still somewhat lower than the Group's long-term targets, a 15 per cent return on capital employed and a 5 per cent operating profit margin. The company is aiming to reach these targets by 2005 at the latest.

The Group's sales last year totalled EUR 1.7 billion, increasing by EUR 116.3 million or 7.4 per cent. Like-for-like growth net of the sales of the new units opened during the year was 6 per cent.

The department stores, motor trade and Seppälä show steady development

The Department Store Division maintained its record earnings level of a year ago. Earnings from department store operations in Finland improved markedly. The result of International Operations was burdened by the pre-opening expenses for the Riga department store that was opened at the end of the year as well as by the weakening in the exchange rate of the US dollar, which was still used as the pricing currency of operations in Russia last year, by more than 20 per cent against the euro. Nonetheless, international operations posted a positive result. The Department Store Division's return on capital employed is very high by international standards, 21.1 per cent.

As a consequence of the car tax reform, the aggregate new car market grew by about 25 per cent. Stockmann succeeded in increasing its market shares in all the localities where it operates. Despite a slight drop in the relative gross margin, the Vehicle Division improved on its record operating profit posted a year ago. The return on capital employed was 13.2 per cent.

The turnaround that Hobby Hall was expected to make failed to materialize. Although the company's sales were at the previous year's level and it retained its position as the out-and-out market leader in distance retailing in all its market areas, the operating result weakened substantially and was a loss. This was due to the marked weakening in the relative gross margin, which was caused by increased wastage and one-time write-downs made on stocks. In these conditions the actions carried out as part of the streamlining programme that was launched a year earlier were not enough to turn the company around. This made it necessary to start an additional programme that aims to sharpen Hobby Hall's focus on distance retailing. Three stores closed down their operations in the first part of 2004. Logistical functions will be centralized in a single location at the beginning of 2005. Hobby Hall's result is expected to swing upwards right in the first half of this year.

In a difficult year for the clothing trade, Seppälä improved its relative profitability further. Operating with a substantially lower stock level, the company's sales fell slightly short of the previous year's figure, but operating profit remained at a very high level. The return on capital employed improved and rose to 58.5 per cent. Seppälä succeeded in expanding its operations to the Latvian market in autumn 2003, and this year its operations will expand to Russia. If successful, this will offer excellent opportunities for Seppälä's future growth.

Future growth from abroad

The Stockmann Group has a strong position in its home market. The factors behind this solid position are the department store operations and Seppälä's chain of stores – both of which are highly profitable – Hobby Hall's market leadership in distance retailing and the Vehicle Division's track record as the largest seller of new vehicles in the Helsinki metropolitan area.

From now on, the Group has only limited possibilities to achieve organic growth in the Finnish market. Amongst the major growth projects in Finland are the opening of a department store in the extension to the Jumbo Shopping Centre in Vantaa in 2006 at the latest as well as the realization of the enlargement project for the Helsinki department store by the end of 2008. After these projects are completed, organic growth must be sought beyond Finland's borders – in Russia and the Baltic countries. The objective is that by 2008 at least a third of the Group's sales and earnings will come from abroad. In 2003, sales abroad accounted for 11 per cent of the Group's aggregate sales, already reaching 16 per cent in the Department Store Division.

The share of sales abroad will grow smartly in 2004, when the Riga department store is in business for its first full year and two new full-size department stores are opened in Moscow along with two or three new Zara stores. Seppälä too is continuing its expansion in Latvia and will open its first stores in Russia as well. Hobby Hall is carrying out test marketing in Russia, on the basis of which decisions on future measures will be taken.

Capital structure to be lightened by paying a bonus dividend

Over the past years the Stockmann Group has had a positive earnings trend, strong balance sheet and very high equity ratio. More than 50 000 share option subscriptions were made on the basis of the share option programme for Loyal Customers that was adopted back in 2000. Under the terms and conditions, shares must be subscribed for with the options no later than in May 2005. Because of the positive trend in the company's share price, presumably the bulk of the shares being offered will be subscribed for. This, together with the exercisable or soon-to-be-exercisable key employee share options, means that in the years 2003-2007 a total of about 60-65 million euros of equity will come into the company's coffers, further strengthening its equity ratio. For this reason, the Board of Directors is proposing that an ordinary dividend of EUR 0.90 and a bonus dividend of EUR 0.45 per share be paid out for the 2003 financial year.

The company's market capitalization rose strongly. At the close of the year it was EUR 955.6 million, or 34.6 per cent higher than at the end of the previous year. The trend in the HEX Portfolio Index over the same period was up 16.2 per cent. Share turnover was quite fair, with more than 20 per cent of the shares changing owners during the year. Foreign ownership grew substantially, but is still at a moderate level.

Operational result set to improve in 2004

The Group's earnings improved again in 2003. Although Hobby Hall's result was a substantial loss, the operational result was nevertheless only slightly below the previous year's figure. Owing to the disposals of real-estate and business operations last year, other operating income was markedly higher than a year ago.

Profit on ordinary operations in 2004 is expected to improve, driven above all by the clearly better earnings generated by the Department Store Division's International Operations and Hobby Hall. Other operating income will depend on the decisions that are taken during the year. The Group's objective is to post a higher profit before extraordinary items in 2004 than a year ago.

For my part and on behalf of our entire management, I wish to thank our customers for the confidence they have shown in us. We are striving for a continuous improvement in our customer service. We also measure the development of service closely. On the basis of the results obtained during the past year, we have succeeded well in improving our service. My thanks for this good performance go to our top-flight staff all across the Group, both as individuals and as members of teams, some of whom have been preserved for posterity in the photographs appearing in this Annual Report.

Helsinki, February 12, 2004

Hannu Penttilä

Board of Directors and auditors

The members of the Board of Directors and the personnel representatives on the Board. From the left, Christoffer Taxell, Henry Wiklund, Lea Musone, Erkki Etola, Kari Niemistö, Eva Liljeblom, Erik Anderson, Lasse Koivu and Jan Nordqvist.

Board of Directors

CHAIRMAN
Lasse Koivu *
(b. 1943), B.Sc.(Econ.), managing director, Föreningen Konstsamfundet rf. Member of the Board since 1991.
SHARES B 3 399

VICE CHAIRMAN
Erkki Etola **
(b. 1945), M.Sc.(Eng.), managing director, Oy Etola Ab. Member of the Board since 1981.
SHARES A 1 841 676, B 992 462

Erik Anderson **
(s. 1943), LL.M.,
Member of the Board since 2001.
SHARES B 5 650

Eva Liljeblom **
(b. 1958), D.Sc.(Econ.), professor, Swedish School of Economics and Business Administration. Member of the Board since 2000.
SHARES A 243, B 1 613

Kari Niemistö *
(b. 1962), M.Sc.(Econ.), managing director, Selective Investor Oy Ab. Member of the Board since 1998.
SHARES A 2 486 022, B 1 090 697

Christoffer Taxell *
(b. 1948), LL.M., ministeri[1].
Member of the Board since 1985.
SHARES A 2 250, B 2 838

Henry Wiklund *
(b. 1948), kamarineuvos[1], managing director, Svenska litteratursällskapet i Finland rf. Member of the Board since 1993.
SHARES A 720, B 2 690

Personnel representatives on the Board April 1, 2003 – March 31, 2004

At meetings of the Board of Directors, personnel representatives have the right to attend and to speak. They are not members of the Board of Directors.

Jan Nordqvist
(b. 1969), M.Sc.(Econ.), system manager, financial administration. Personnel representative on the Board, elected by Stockmann's senior salaried employees.

Lea Musone
(b. 1942), salesperson, Itäkeskus department store. Personnel representative on the Board, elected by the employee represantatives of the Group Council.

Auditors

Wilhelm Holmberg
(b. 1950), M.Sc.(Econ.), Authorized Public Accountant. Stockmann's regular auditor since 2000.

Henrik Holmbom
(b. 1970), M.Sc.(Econ.), Authorized Public Accountant. Stockmann's regular auditor since 2003.

DEPUTY AUDITOR
KPMG Wideri Oy Ab

[1] a Finnish title
* Independent of the company
** Independent of the company and major shareholders.

Information on the main job experience of members of the Board of Directors and their principal positions of trust is available on Stockmann's website at the address www.stockmann.fi.

Corporate management

The members of the Management Committee. From the left, Henri Bucht, Jukka Hienonen, Heikki Väänänen, Esa Mäkinen, Hannu Penttilä, Pekka Vähähyyppä and Jukka Naulapää.

Management Committee

Hannu Penttilä
(b. 1953), LL.M., CEO.
SHARES A 105, B 124
OPTIONS 2000: 150 000

Henri Bucht
(b. 1951), M.Sc.(Econ.), executive vice president with responsibility for the Hobby Hall Division.
SHARES A 60, B 45
OPTIONS 2000: 100 000

Jukka Hienonen
(b. 1961), M.Sc.(Econ.), executive vice president with responsibility for the Department Store Division.
SHARES A 1 600, B 4 500
OPTIONS 2000: 100 000

Pekka Vähähyyppä
(b. 1960), M.Sc.(Econ.), CFO.
SHARES B 1 000
OPTIONS 2000: 80 000

Esa Mäkinen
(b. 1959), M.Sc.(Econ.), director, Vehicle Division.
OPTIONS 2000: 80 000

Heikki Väänänen
(b. 1958), M.Sc. (Econ.), managing director, Seppälä Oy.
SHARES B 2000
OPTIONS 2000: 80 000

Jukka Naulapää
(b. 1966), LL.M., company lawyer, secretary to the Management Committee.
OPTIONS 2000: 20 000

The Stockmann plc shares and options in the personal ownership of the members of the Board of Directors and Management Committee as well as in the ownership of institutions under their control and persons under their guardianship at December 31, 2003, are reported exclusive of the 1999 Loyal Customer options, a total number of 973 of which were in the ownership of the members of the Board and a total number of 626 in the ownership of the members of the Management Committee. Information on Stockmann plc shares and options on page 44 of the Annual Report.

Stockmann staffers at a morning briefing in the department store in the Itäkeskus Shopping Centre.

Department Store Division

Stockmann's department stores in the centre of Helsinki and in the Itäkeskus Shopping Centre in eastern Helsinki, Tapiola in Espoo, Oulu, Tampere and Turku along with five Academic Bookstores offer customers a knowledgeable shopping environment and excellent 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 units comprise department stores in Moscow, Tallinn and Riga together with the speciality stores in Moscow and St Petersburg. New expanding chains are the cosmetics chain Stockmann Beauty as well as Zara in Finland and Russia.

The department stores' internationalization shifts into high gear

The Department Store Division's sales inclusive of VAT were EUR 851.3 million, up 5 per cent on the previous year. The division had net turnover of EUR 713.2 million and posted operating profit of EUR 39.7 million.

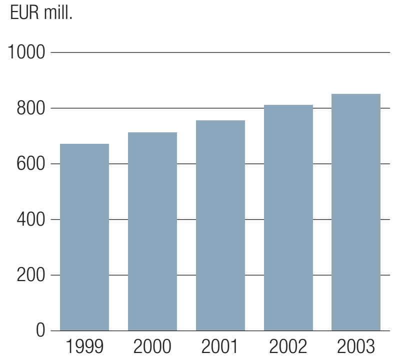
Sales by the department stores in Finland and the Academic Bookstores were EUR 700.5 million, an increase of EUR 19.6 million, or 3 per cent. The strongest growth at the annual level (+ 22 per cent) was racked up by the department store in Oulu. Sales by the International Operations units grew by 10 per cent to EUR 134.4 million, rising to 16 per cent of the entire Department Store Division's sales. The dollar-denominated sales growth in Russia was 16 per cent and the growth in kroons in Estonia was 1 per cent. During the year the exchange rate of the dollar weakened by 20 per cent. Consequently, the euro-denominated sales growth in Russia diminished by 5 per cent compared with the previous year.

The measures to improve the gross margin are moving ahead and the division's average gross margin rose to 40.2 per cent. By means of judicious stock management, price reductions remained moderate and the division was able to improve purchase conditions by placing orders with a carefully culled group of key suppliers. Changes in foreign exchange rates were hedged primarily through the company's internal forward contracts and if necessary also through external hedging. This made it possible to dampen the effects of a depreciating dollar on earnings from International Operations. Nonetheless, the fall in the exchange rate of the dollar, especially in the last quarter, meant that the earnings generated by International Operations fell short of the forecast figure. ⇨

Key figures

DEPARTMENT STORE DIVISION, EUR mill.	2003	2002	change %
Sales	**851.3**	811.1	5
Proportion of Group Sales, %	**50.1**	51.3	
Operating profit	**39.7**	39.7	0
Return on capital employed, %	**21.1**	21.0	
Capital employed	**188.6**	189.0	0
Investments	**18.2**	10.1	
Staff, December 31	**6 894**	6 243	10
Sales area, square metres	**128 947**	115 087	12

Development of the Department Store Division's sales 1999-2003



Development of the Department Store Division's operating profit 1999-2003

At the "Politicians' cook-out at Stockmann's", forty-odd MP candidates from different parties showed their skills at the Stockmann department stores in Finland before the parliamentary elections. From the left, Antti Kalliomäki (The Social Democratic Party) and Ville Itälä (The National Coalition Party) enjoying themselves, flanked on the right by an attentive and busy Jan-Erik Enestam (The Swedish People's Party).

The new Exclusive magazine for Stockmann's Exclusive Loyal Customers comes out four times a year in both a Finnish and a Swedish language version.

Measuring service and rewarding achievement

Salary expenses are a service department store's biggest cost item, but inputs into top-flight service should be viewed more as an investment than an expense. From the customer's perspective, the quality that is experienced in the service event is one of the key criteria for choosing a place to go shopping. A personal service quality assessment system was introduced for the sales staff in 2003. It provides a means of guiding the development of professional skill in the desired direction and encourages high achievers to serve as an example to others. Further measures were taken to improve job productivity, and new methods were developed for measuring the quality of customer service. Well over 90 per cent of the Department Store Division's personnel are covered by specific bonus systems. Concurrently, Stockmann has nevertheless managed to keep the growth in salary and other expenses smaller than the rise in gross margin. This has enabled the department stores in Finland to improve their earnings level further.

It is estimated that it will become more difficult to obtain staff who work in the service professions in growth centres and the largest cities as babyboomers leave the labour market over the next few years. The department store trade is a highly labour-intensive form of retailing, in which long opening hours and shopping that is done largely in the evenings and at the weekend make obtaining high-calibre labour a challenging task. Because nearly two thirds of the Stockmann department stores' labour is part time, recruitment – especially amongst students – is of prime importance. Thanks to a large group of applicants, the division has succeeded in ensuring the high calibre of its employees and seeing to it that they are motivated to carry out demanding customer service work. One of the main factors that are monitored is the company's attractiveness on the labour market. According to the Universum Graduate Survey that is conducted annually amongst commercial studies students, in 2003 Stockmann was the most attractive employer in the retail field in Finland. The survey covered a total of more than 130 companies, and Stockmann ranked 7th. Maintaining and developing a good employer image is one of the most central criteria for ensuring that a company meets its recruitment needs successfully.

The consumer values quality

Against a backdrop of moderate growth in Finland, a few merchandise areas reported a buoyant and gratifying sales trend. Consumer electronics sales grew all across Finland at a faster rate than the rest of the retail sector, and Stockmann's sales were in line with this trend too. Cosmetics and groceries were other merchandise areas that outpaced the retail trade as a whole. The media and numerous surveys have pointed to increased consumption demand amongst youth, and this was apparent in a number of product categories in the department stores. Consumers appear to be attracted increasingly to higher priced and quality products.

Stockmann has expanded its emphasis on its own private label products, which are growing at a faster rate than other retail categories. Cap Horn, Global, STC, Bodyguard, Bogi and Casa Stockmann are good examples of products that are available only from Stockmann. The development of new concepts is another important part of successful department store operations. Customers are made aware of the introduction of the new One Way, the men's casual slacks concept and the new Children's World throughout the entire department store chain.

Co-operation with suppliers of merchandise has been fine-tuned so that demand data can be relayed from the cash register across the entire manufacturing chain faster than ever before. The amount of manual work and errors has been reduced by means of automatic restocking and by allocating the bulk of merchandise invoices directly to delivery lots. Co-operation with suppliers is aided by a key supplier system allowing both parties to give regular written assessments of each other's performance and to suggest areas for improvement in the following year.

Up-front expansion costs

Stockmann has long experience in its line of business and the company's earn-

The growth in Crazy Days sales year after year is customary by now. Nonetheless, the runaway success of the Crazy Days in autumn 2003 came as a surprise.

Paris came to Stockmann's in September. An impressive L'amour & Paris campaign was carried out in conjunction with the famous Parisian Galleries Lafayette department store.

ings record proves its ability to replicate its competence, not only in Finland but also in the Baltic countries and Russia. In retailing, opening new units always means up-front costs. The operational result in the new units opened during the year has been in the red. All the well-established units both in Finland and abroad turned an operating profit.

When the profitability of the core business is good but at the same time growth prospects are fairly limited, the cornerstone of the company's strategy must be to find businesses that can grow and, after a short input phase, generate earnings in the long term. These investments in the future are essential in order for the company to be able to retain its vitality and to hold its own in the face of ever-keener competition in the retail trade.

During 2003 it was decided to invest in four major department store projects. In Finland a final lease agreement was signed for opening an approximately 10 000 square metre department store in Vantaa in the new section of the Jumbo Shopping Centre, which is scheduled for opening in 2006 at the latest. In Helsinki, preparations moved ahead for launching the construction works for the main department store's "All-time Stockmann" project during 2004. The project will comprise, among other things, about 10 000 square metres of new retail space, a new car-park, an underground logistics tunnel, modern goods handling areas, a new restaurant world as well as refurbished staff social facilities. The cost estimate for the project is EUR 115 million and it is scheduled for completion during 2008.

Russia is Europe's biggest growth market

The economic environment in Russia has continued to develop in a positive direction. During 2003 Stockmann made big strides on the way towards achieving its strategic objective of becoming the country's leading company in the department store sector. Stockmann signed final lease agreements for building two new department stores in Moscow as part of the Mega Shopping Centres established by IKEA. Both department store units will have about 10 000 square metres of retail space and they will be completed during 2004. By this date, there will be three full-scale Stockmann department stores in Moscow, with a total staff of over 1 500 employees and estimated full-year sales of about EUR 160 million. Moscow's population of over 10 million people and its growing disposable income offer the potential for establishing several more department store units there over the next few years. Business operations in these units will be run by Stockmann's wholly-owned subsidiaries. Significantly, the company will be able to tap into the human resources capital that is built up in a business environment that can be difficult from time to time. A further indication that Stockmann's know-how in the Russian market has gained a good reputation is that Spain's Inditex Group has chosen the company as its franchising partner in carrying out the expansion of the Zara chain into Russia. The country's first Zara store began operations in the Mega Shopping Centre in Moscow in February 2003 and building out of the chain of stores will continue during 2004 with 2 to 3 new stores.

A stabilizing business environment, more straightforward tax regulations and Russia's imminent membership of the World Trade Organization mean substantial earnings potential from the standpoint of Stockmann's business operations. A track record of fourteen years of uninterrupted operations in Russia have given Stockmann a lead that competitors can catch up with only if they are ready to undertake onerous up-front investments and make heavy outlays on marketing. In the department store field, there are no evident players who appear willing to embark on ventures in the Russian business environment.

Local retail know-how is developing rapidly in Russia, and certain international speciality store and hypermarket chains also have ambitious Russia strategies. Nonetheless, in Moscow, for example, there is retail sales space of only 0.1 square metre per resident, which falls considerably below even the average for the new EU accession countries. This is a clear indication that Russia is considered an exceptionally difficult business environment. It is an area where practical operations still run up against a number of surprising difficulties and profits come only by dint of a long-term com-

Sweden's Crown Princess Victoria paid a visit to the Academic Bookstore in August. As the princess admired the ambience of the largest bookstore in the Nordic countries, she was escorted by Stockmann's CEO Hannu Penttilä and Stig-Björn Nyberg, the director of Academic Bookstore.

With the opening of an Alko in the Tapiola department store, the services of all Stockmann's department stores now include a wines and spirits shop. A Stockmann account card can also be used to pay for purchases at Alko shops.

mitment and the efforts of a staff who have a firm grasp of the special features of this business environment. The biggest bottleneck has been the problem of finding sites where it would be possible to carry on profitable operations in changing conditions. In practice, difficulties have also been encountered in implementing projects, as Stockmann found out, for instance, when the pending department store project in St Petersburg fell through.

In Estonia, sizeable investments in the retail trade have continued and the country's liberal economic policy has resulted in a low investment threshold. In Tallinn, retail space is anticipated to exceed one square metre per inhabitant during 2004. As a ratio of disposable income, the figure is disproportionately high and reflects the wishful optimism stemming from Estonia's membership of the EU that will take place in May 2004. In the present conditions, very many of the companies operating in the retail trade in Tallinn do not have the wherewithal to operate profitably.

In Latvia, the retail market has not yet reached the same stage of development as in Estonia. Although quite a few new shopping centres have sprung up in recent years, in Riga the square metres of retail space per resident is only a fraction of the figure for Tallinn. Furthermore, customers' consumer behaviour is still in the formative stage. Tellingly, a market for branded goods has not yet come into being to a similar extent.

All the department stores in Finland earn an environmental certificate

The preparatory work which the Department Store Division launched in 2001 with the aim of gaining an environmental certificate reached its goal during 2003, when all Stockmann's department stores in Finland were certified in accordance with the international ISO 14001 standard. The objective was to create a set of benchmarks for the entire chain along with methods for reducing needless environmental loading in department store operations. Activities are centred on minimizing energy consumption and waste output. The first results of measurements indicate that mainly through improved ways of operating the department stores have succeeded in reducing energy consumption by nearly 10 per cent, whilst cutting the volume of waste significantly. By directing attention to these factors, right after its launch the system has brought incontestable positive business and ecological results that are encouraging in view of further development of these activities.

Stockmann thrives on Loyal Customers

During 2003 the number of Stockmann's Loyal Customers rose to nearly 950 000. The relatively fastest growth was registered in the new market areas in the Baltic countries and Russia, where more than 150 000 Loyal Customers have already made Stockmann the place where they do their shopping. In Finland, the ratio of Loyal Customers to the country's population is one of the highest recorded for similar customer loyalty systems worldwide. The proportion of purchases registered by Loyal Customers has already reached about 60 per cent of the department stores' aggregate sales and it is growing evenly year after year. For a couple of years now, the card of the most loyal customers of all has been the platinum-coloured Stockmann Exclusive (so far in use only in Finland). This group is pampered with benefits such as their own customer magazine and Exclusive shopping days twice a year, when they receive a 10 per cent discount on nearly the entire product assortment in the department store. This has been an incentive for customers to bundle their one-time purchases together during these Exclusive days – which was the objective when the system was originally planned.

Profitable growth

In the last decade, Stockmann's Department Store Division was able to increase its volume of business by a factor of 2.5. In the mature department store markets in Europe and North America, this is exceptional given the general trend in the sector. Of the member companies that report their sales to IADS, the international umbrella organization in the department store sector, Stock-

The children's fashion show in August was fun for spectators.

All Stockmann department stores in Finland received an ISO 14001 environmental certificate during 2003.

mann ranked highest in terms of growth during the past decade. The division has set the objective of achieving sales growth of the same magnitude during the current decade. This will mean energetic establishment of new stores, above all in Russia.

The trend in the breakdown of the Department Store Division's sales and earnings by 2007 is expected to be that a third of the division's aggregate sales and earnings is generated by International Operations. Growth will make possible better purchasing terms and the ability to spread overhead over a greater number of units, thus creating a basis for improved profitability. The biggest question mark for implementing this strategy is the overall development of the Russian economy, which at present nevertheless appears more stable than at any time during the country's short history as a market economy.

Outlook for 2004

The inputs made in 2003 to reach a higher volume of operations (opening of the Riga department store, expansions of the Zara and Beauty chains) have burdened earnings in the short term. Because the result of department store operations in Finland is healthy and cash flow is strongly positive, Stockmann is well placed to continue improving its profitability further.

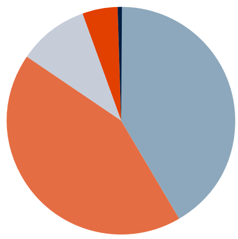
During 2004, two new 10 000 square metre Stockmann department stores will be opened in Moscow in the Mega Shopping Centres built for IKEA. Plans call for expanding the Zara chain in Russia by adding 2-3 new stores during 2004. The lease on the Smolenskaya department store in Moscow, which has been in operation for five years, was changed to a turnover-linked basis beginning in November 2003. It is estimated that this will improve its earnings significantly in 2004.

Sales by Finland's retailers are estimated to grow by about 2 per cent in 2004. Sales by Stockmann's Department Store Division are set to top this slightly. With retail sales space remaining at the previous year's level, considerable sales growth in Finland is not expected. Thanks to continuous improvement of operational efficiency, the result of operations in Finland is nevertheless expected to show further, albeit moderate, improvement.

The earnings trend of International Operations is crucially dependent on the success achieved in starting up new units as well as on the trend in foreign exchange rates in the target countries. As from January 2004, pricing in dollars has been dropped in Russia and Stockmann has gone over to using the rouble – which has recently seen a stabilization of its exchange rate – as its pricing currency.

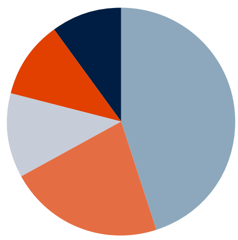
The operating profit of the Department Store Division as a whole is estimated to continue its growth in 2004. ▫

Distribution of the Department Store Division's sales by unit 2003



- 41.5% Helsinki department store
- 43.0% Other units in Finland
- 10.0% Russia
- 5.0% Estonia
- 0.5% Latvia

Distribution of the Department Store Division's sales by sector 2003



- 45% Fashion
- 22% Food
- 12% Leisure
- 11% Home
- 10% Books, publications, stationery

A pre-servicing inspection at the Vehicle Division's outlet in Pitäjänmäki.

Vehicle Division

Stockmann's Vehicle Division serves its customers at eleven sales outlets in the Helsinki metropolitan area, acting as a dealer for Audi, Ford and Volkswagen. In the Turku economic area the Vehicle Division operates a Ford dealership and in Tampere it has a Škoda dealership. The Vehicle Division's strengths are an organization staffed by service-minded professionals, high-quality products and versatile services. The division's success is based on reliable operations and good customer relationships that have been built up over the years.

A year of growth and adjustment

The lowered tax on new cars that has been expected for a number of years set the tone for the market in 2003. Prices of new cars fell on average by 7 per cent, and 147 405 new cars were registered, the fourth highest figure in Finland's history. Growth compared with 2002 was 26 per cent. Similarly, the reform of the tax structure for used vehicles that are imported raised their imports to a new level. According to customs documents, 33 158 used cars were imported, compared with 4 629 a year earlier. The importation of used vehicles centred on older cars and vans, with ten-year and older vehicles accounting for about 80 per cent of the figure. Accordingly, the impact of these imports on sales of new vehicles was fairly minor. The total market for vans remained at the customary level. The number of new vans registered was 12 752, down 0.1 per cent on 2002.

The clientele outside the Helsinki metropolitan area consists mainly of private persons, and it was this segment of the car market that showed the strongest growth. In the Helsinki metropolitan area, total car registrations were up 21.5 per cent, whereas registrations of company cars grew by a more modest 16 per cent. The growth in registrations by private car buyers reached 27 per cent. Apart from the tax cut, low interest rates acted as a further spur to purchase decisions.

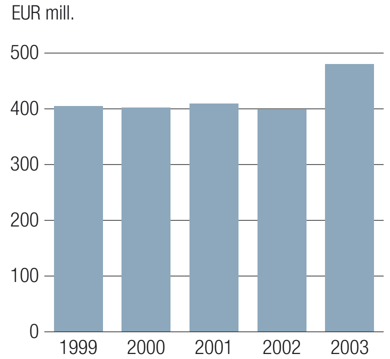
The Vehicle Division had sales of EUR 480.4 million, representing growth on the previous year of EUR 81.5 million, or 20 per cent. The division's net turnover was EUR 394.5 million, compared with EUR 328.3 million a year earlier. The return on capital employed in 2003 was 13.2 per cent and operating profit was EUR 5.6 million, the best in the division's history. In 2002 the return on capital employed was 13.5 per cent and operating profit was EUR 5.4 million.

With its market share of 24 per cent, Stockmann's Vehicle Division retained its position as the clear market leader in the Helsinki metro- ⇨

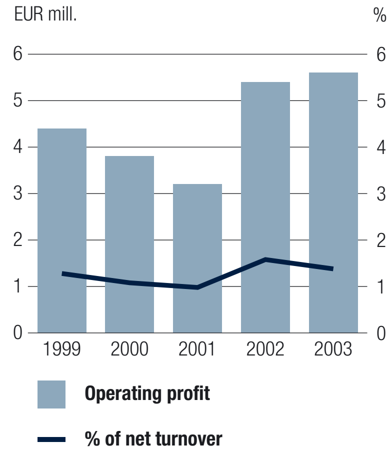
Key figures

VEHICLE DIVISION, EUR mill.	2003	2002	change %
Sales	**480.4**	398.9	20
Proportion of Group Sales, %	**28.3**	25.2	
Operating profit	**5.6**	5.4	4
Return on capital employed, %	**13.2**	13.5	
Capital employed	**42.0**	39.7	6
Investments	**1.8**	0.6	
Change of leasing assets	**-0.6**	-0.8	
Staff, December 31	**781**	736	6

Development of the Vehicle Division's sales 1999-2003



Development of the Vehicle Division's operating profit 1999-2003



The versatile Ford Focus C-MAX combines the driving comfort of a conventional car with the design and modifiability of an MPV.

The legendary Volkswagen Golf is now completely new, roomier and more striking than ever.

politan area. In Turku, Ford was the second best-selling make of vehicle in the area. The market share of Ford cars in Turku was 9.6 per cent and 10.5 per cent in vans, the corresponding figures for 2002 being 9.1 per cent and 8.8 per cent. In Tampere, Škoda's market share grew from 1.8 per cent a year ago to 2.5 per cent. At the beginning of October, the Tampere outlet wound up its selling operations for Mitsubishi vehicles, but will continue to operate a servicing and repair shop for the marque.

The Vehicle Division delivered a total of 11 333 new vehicles, up 26.4 per cent on 2002. The number of trade-in vehicles sold was 9 327, up 16.6 per cent on the previous year. The Volkswagen product line delivered 4 965 new vehicles and increased its sales by 39.7 per cent. Deliveries of vehicles in the Ford product line totalled 4 928, up 13.9 per cent on 2002, which made Stockmann the largest Ford dealership in the Northern countries. For the first time, the Audi product line topped the one thousand new car mark. Sales reached 1 140 vehicles and increased by 39.2 per cent. The Tampere dealership for the Škoda-Mitsubishi product line boosted its sales of new vehicles by 53.8 per cent and delivered 300 new vehicles.

The biggest challenge in developing profitability were the large inventories of new vehicles along with the slowdown in sales of trade-in vehicles towards the end of the year, resulting in increased inventories of trade-in vehicles.

Because the growth in demand for cars in the Ford product line did not come up to expectations, the stock of new cars ordered in advance resulted in additional costs. Lowered taxes on new vehicles led to booking losses due to lowering the prices of showroom vehicles and fairly new trade-in vehicles that were purchased in deals made towards the end of 2002. Despite the tax cut, Stockmann guaranteed that customers were credited for the original price of a trade-in vehicle.

Sweeping changes in the motor trade

At the beginning of October, the motor trade saw the entry into force of new dealership agreements prescribing that authorized dealers must take steps to adjust and comply with the standards required. These requirements stem from the EU's new Block Exemption, which seeks to remove competition restrictions in the motor trade stage by stage.

With the entry into force of the new regulation, previously permitted sales territory boundaries will be eliminated, enabling active marketing to be carried on in a wider area. In respect of servicing, the new dealership agreements differ from the old ones in that they are no longer associated with selling a specific make of vehicle. Instead, new vehicles can be sold without servicing commitments and vice versa. This ushers in a new competitive situation within servicing and spare part sales, because it allows new businesses to enter the market. These entrepreneurs must nevertheless meet tight criteria for both knowledge and skills as well as quality in order to be able to operate as authorized service centres for a given make of vehicle. Since the capital expenditures are fairly large, the real effects of deregulation in this respect will not be apparent until some years in the future.

Efficiency is all-important

The Vehicle Division's objective in 2003 was to improve efficiency both by lifting vehicle sales at each site and through higher servicing revenue. Sales of new and trade-in vehicles did increase at all outlets, with like-for-like sales of servicing procedures up about 6 per cent.

A further goal is to be able to meet the growth for servicing demand in step with an ever-growing vehicle market. The project to expand servicing capacity at the Turku dealership was completed during the year, at the same time making it possible to move the body shop to the expanded site in Turku. At the facility in Helsinki's Pitäjänmäki district, the area's entire body shop and paint shop functions were centralized at the Takkatie location. Concurrently, the servicing capacity of the Kutomotie site was beefed up.

Close cooperation with the Department Store Division

In 2003 the Vehicle Division increased further its cooperation with the Department Store Division. Eight Loyal Customer campaigns for new vehicles were run during the year. In addition, the Vehicle Division participated successfully in both the spring and autumn Exclusive Loyal Customer days and in the Crazy Days. There were three trade-in vehicle campaigns targeted at Stockmann's Loyal Customers during the year and six af-

The sporty new Audi A3. Three levels of standard equipment – Attraction, Ambition and Ambiente – provide guaranteed individuality.

Škoda sales grew strongly in Finland in 2003. The best-selling Škoda model is the Octavia.

ter-sales campaigns featuring offers of servicing, tyres and supplies.

No-hassle customer service

The Vehicle Division operates at eleven sales outlets in the Helsinki metropolitan area. In 2003, the division saw to completion a development project aiming at improving customer service and resulting in replacing five different telephone exchange numbers with a single number. In addition, the division introduced an electronic service booking calendar that aids in optimizing the use of servicing capacity at the various outlets.

The Vehicle Division's new website that was in use during 2003 proved to be a big step forward in the area of electronic communications. The Vehicle Division's Internet pages at the address www.stockmann.fi became an important channel for get-in-touch requests from customers interested in buying a vehicle or having it serviced. Over 6 000 electronic messages came in to vehicle sales staff in 2003. The number of servicing time reservations that came in through the website also grew significantly.

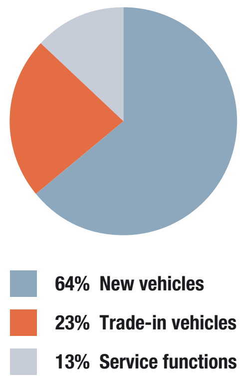
Outlook for 2004

The motor trade is forecasting a total market of about 145 000 new cars in 2004. Aggregate sales of vans are estimated to be about 13 000 vehicles. The market is thus estimated to come in at nearly the level seen in 2003. Dealers face a hard challenge owing to the far greater inventories of trade-in vehicles at the beginning of the year compared with 2003, a result of the high volume of new vehicles delivered up to the end of 2003. Continued brisk imports of used cars and vans has also jacked up the supply on the market. The biggest factors will nevertheless be the level of interest rates, economic growth and the employment situation.

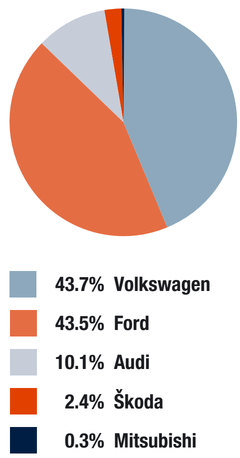
At Suomenoja in Espoo, construction works for converting the Martinkuja servicing centre into an Audi showroom were started in the summer 2003. This will be Finland's first full-service car dealership that has been designed in accordance with the recommendations of the Audi plant. The Audi showroom is scheduled for completion by summer 2004. Owing to the construction work, the Martinkuja servicing centre was discontinued in August. The investment will contribute to developing the Volkswagen functions in Espoo area at the Merituuli outlet. Stockmann has made an agreement with VV-Auto Oy, which is owned by Kesko Corporation, on termination of the lease agreement for the VW-Audi car dealership in Helsinki's Herttoniemi district by December 31, 2004 at the latest. The parties are negotiating on a possible sale of business operations by the end of August 2004.

In 2004 the Vehicle Division will tap into the potential of the new Block Exemption, particularly within servicing operations, where it will be possible to use the expertise of professionally skilled staff for a wider range of marques. The Vehicle Division is seeking to leverage the additional possibilities brought by recent and future investments and to step up the employment of capital in all areas. The main objective for 2004 is to improve the return on capital employed. It is estimated that operating profit will come in at least at the level registered in 2003.

Distribution of the Vehicle Division's sales 2003



Distribution of the Vehicle Division's sales by make 2003



A Hobby Hall team preparing to have a set of duvet covers photographed for a catalogue.

Distance retailer Hobby Hall markets products and services to its customers via catalogues, an online store and its own stores. Its assortment consists primarily of household and leisure articles. The market leader in Finland, Estonia, Latvia and Lithuania offers its more than 1.3 million customers an easy, reliable and pleasant alternative for buying quality products at affordable prices.

Hobby Hall is focusing on distance retailing and boosting operational efficiency

The Hobby Hall Division's sales totalled EUR 235.7 million, on a par with the figure a year earlier. Net turnover was EUR 197.3 million. The volume of packages dispatched to customers was 2.6 million, an increase of 5.6 per cent on the previous year.

The division's operating result, EUR 3.4 million, was markedly short of the target and the previous year's figure.

The main reasons that the Hobby Hall Division's operating result was in the red were the weakening in the gross margin compared with the previous year, the non-recurrent costs of discontinuing stores and sales that fell clearly short of target. The factors behind the weaker gross margin were the exceptionally large wastage amounts that were booked in 2003, the non-recurring writedowns that were made on stocks as well as the fall in the relative margin on commercial operations.

The result on operations was unsatisfactory, especially in the Baltic countries, where earnings were furthermore burdened by the start-up of operations in Lithuania in 2003.

The cost savings programme that was launched in autumn 2002 was carried out during the year in accordance with plans. Thanks to good cost control, the division's costs were at the previous year's level, though they now also included the functions of a new market area, Lithuania.

Internet sales gain a larger share of the market

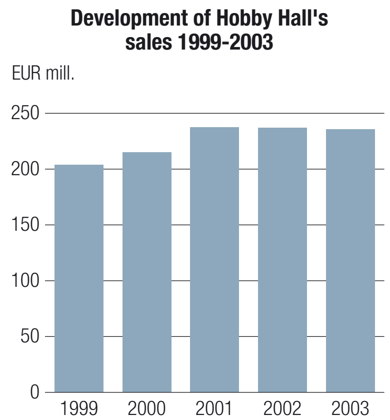
Measured in terms of package volumes, Finland's total distance retail market grew by 2.4 per cent on 2002, but nevertheless was 5.1 per cent below the level reached in 2001.

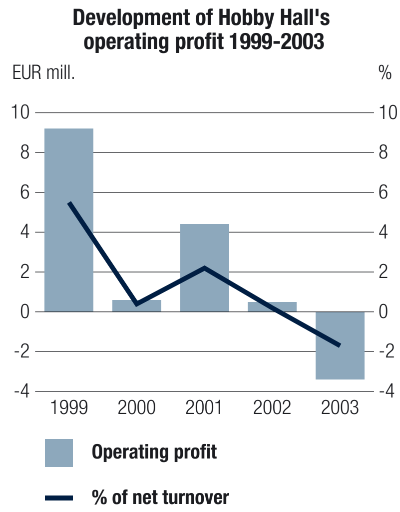
The shakeout in Finland's overall distance retail market continued in the manner forecast, with online stores gaining a substantially greater share of the market. It is believed that the trend in distance retailing volumes will be stable over the next few years and that online stores will continue to gain a greater slice of the market.

In Estonia, the overall distance retail market shrank further as competition hotted up and other retail offerings increased significantly. ⇨

Key figures

HOBBY HALL, EUR mill.	2003	2002	change %
Sales	**235.7**	237.1	-1
Proportion of Group Sales, %	**13.9**	15.0	
Operating profit	**-3.4**	0.5	
Return on capital employed, %	**-3.4**	0.5	
Capital employed	**100.4**	103.1	-3
Investments	**1.7**	3.2	
Staff, December 31	**863**	957	-10





A new customer management system and purchasing system will boost operational efficiency.

An illustrated e-mail letter is a new precisely targetable direct marketing tool.

The uncontested market leader in Finland

Hobby Hall's sales in Finland were EUR 192.3 million, down 2 per cent on the figure a year earlier. Hobby Hall retained its position as the uncontested market leader in distance retailing in Finland.

The best-selling product areas were interior decorating, furniture and household goods, whereas sales of home appliances showed the biggest drop compared with last year.

The sales appeal and offerings of the nationwide catalogues that reach every home were developed, and they exceeded both the previous year's sales figure and the targets that had been set. By contrast, the smaller price-driven catalogues were an outright disappointment all year long. Owing to the effect of an increase in competing marketing communications and offerings, the life cycle of mail order catalogues has generally been growing shorter for a couple of years now. The catalogues are aiming to realize a process of continuous development so that in future years too they will be able to offer customers the most attractive alternative on the market in each product group: to make good selections together with the customer.

During the best days of the Christmas sales period, over 9000 calls came in to the Hobby Hall customer centres in Helsinki and Kuopio. Thanks to improved work shift planning, the response times shortened and the number of unanswered calls dropped further.

The volume of orders placed via the Internet grew strongly and was EUR 32.7 million, up 34 per cent on the figure a year ago. The online store accounted for 17 per cent of Hobby Hall's sales in Finland and 22 per cent of Finland's distance retail trade. Growth was spurred by a further increase in the number of customers: during the year more than 160 000 purchasing customers visited the online store. The online store and new electronic commercial solutions will also be developed and marketed in the future as part of the Hobby Hall Division's range of distance retail offerings.

Aggregate sales of the Hobby Hall Division's stores in Finland were EUR 41.7 million, down 4 per cent on the previous year. The closing of the store in Helsinki's Herttoniemi district in September was one of the factors causing the drop in sales. In-store sales accounted for 22 per cent of the Hobby Hall Division's sales in Finland.

Drop in sales in Estonia

The Hobby Hall Division's sales in Estonia totalled EUR 23.1 million, falling 11 per cent short of the previous year's sales. Faced with a further sharp drop in Estonia's total distance retail market, Hobby Hall nevertheless retained its position as the market leader.

The volume of orders placed over the Internet grew by 55 per cent in Estonia, but so far they account for a fairly modest share of aggregate sales: 5 per cent.

In-store sales growth in Estonia was 15 per cent, representing 19 per cent of aggregate sales.

Change in the structure of sales in Latvia

Sales for the third full year of operations in Latvia were EUR 14.6 million, down 4 per cent on the previous year. The drop contrasts with the positive trend in package volumes, which grew by 24 per cent on the figure a year ago.

The structural change in sales was due mainly to Hobby Hall's tighter credit policy, especially for new customers, and to changes in the product mix offered in catalogues. Hobby Hall maintained its position as the market leader in Latvia's distance retail trade too.

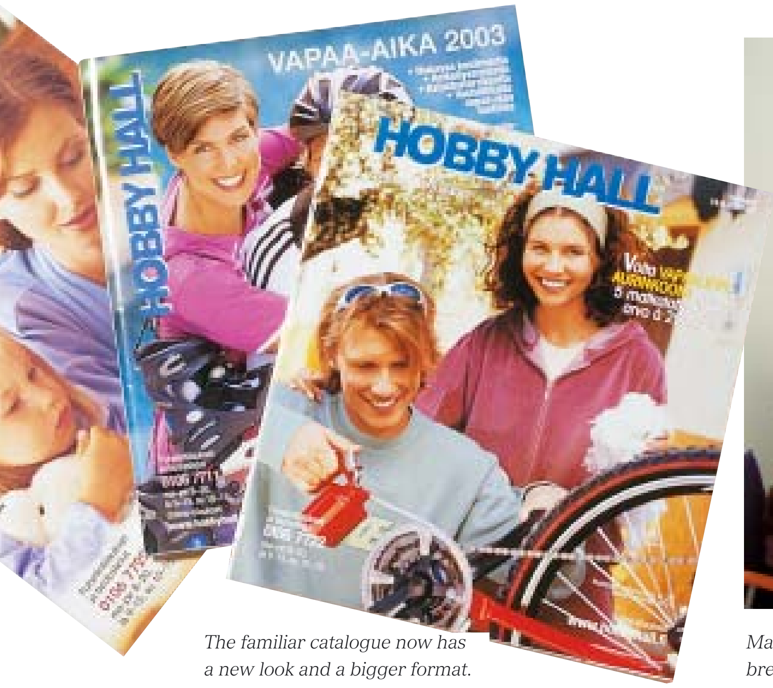
The result of operations in Latvia was burdened by high postal charges and heavy credit losses that piled up well into the first months of the year.

Mail order sales get under way in Lithuania

Hobby Hall's operations in Lithuania got under way in February 2003 with a nationwide customer acquisition catalogue and supporting television advertising. Sales in Lithuania amounted to EUR 5.8 million, which was somewhat short of the target. During the year four catalogue campaigns covering the whole country's households were carried out. The marketing focus was still on increasing the number of customers and on making distance retailing known as a form of retailing. Total offerings in this field are so far very modest in Lithuania. In addition to a call centre, Hobby Hall's presence in Vilnius consists of a small store specializing in selling returned products.

System revamp moves ahead

In the first phase of Hobby Hall's large-scale system development initiative, two important information technology system overhaul projects were carried out in 2003 and the first part of 2004, in accordance with plans. The new customer management system will enable Hobby Hall to target its marketing



The familiar catalogue now has a new look and a bigger format.

Market leadership in Lithuania's mail order sales is Hobby Hall's newest breakthrough. Happy team members get together at the site in Vilnius.

more effectively and facilitate the analysis and development of customer profitability. The objective of the new purchasing system is more efficient product management, enabling an improved degree of service whilst lowering the warehousing and cost level significantly. The capital expenditures carried out for the system revamp totalled about EUR 1.3 million.

An integrated overhaul of customer service systems will be carried out as part of the next phase, which will take place in 2004–2006.

Streamlining operations

In October it was decided that Hobby Hall would launch a programme of measures enabling the division to focus more closely on distance retailing. It was furthermore decided to step up distance retailing logistics and category management significantly. The role of the network of stores will be altered so that it supports distance retailing. At the same time, a decision was taken to wind up the stores in Espoo, Tampere and the centre of Tallinn in the first part of 2004.

The logistics and category management for distance retailing will be adjusted in line with the changes of an evolving business. The aim is to consolidate the warehousing functions in the Viinikkala and Tammisto districts of Vantaa at a single location within the Viinikkala warehouse facility at the beginning of 2005.

Measures connected with improving anti-wastage and inventory balance management were carried out as part of the programme. The division's operations were streamlined in accordance with the decisions taken, and concurrently a number of changes were implemented in areas of responsibility and the organizational structure.

The objective of the programme of measures is to improve profits by about EUR 7.5–8.5 million at the annual level. The measures will take effect for the most part in 2004.

The winding up of stores resulted in staff reductions of 46 employees in different functions in Finland and 7 employees in Estonia, some of whom were part-time employees.

Challenges in 2004

The paramount objective of the Hobby Hall Division in 2004 is to achieve a significant improvement in the operating result and return on capital employed.

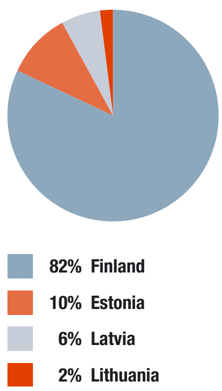
The high quality of customer service will be boosted further. The aim is to be for customers the best distance retailing alternative in all Hobby Hall's market areas.

The profitability and cost-effectiveness of operations will be improved in all market areas in accordance with the programme of measures that was launched in October 2003. The phase-by-phase upgrade of information systems will also enhance the division's commercial operations and cost-effectiveness.

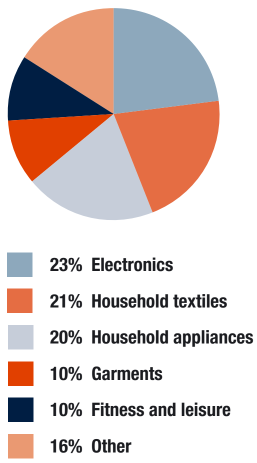
Hobby Hall will carry out limited test marketing in Russia in the first part of 2004.

It is estimated that the division's operating result will be in the black and significantly better than in 2003.

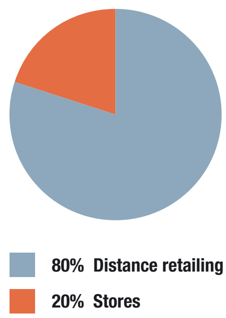
Distribution of Hobby Hall's sales by market 2003



Distribution of Hobby Hall's sales by merchandise sector 2003



Distribution of Hobby Hall's sales by channel 2003



Seppälä's product manager, designer and clothing pattern-maker setting out to design a fashion garment.

Seppälä

Seppälä is Finland's most extensive chain of fashion stores, with locations throughout Finland. It offers apparel for women, men and children as well as footwear and cosmetics. The stores are sited in prime commercial locations. Centralized chain-store operations guarantee affordable prices together with reliable quality. The entire collection is based on Seppälä's own design. In addition to 127 stores in Finland, Seppälä has 13 stores in Estonia and 4 stores in Latvia.

Growth in sight in the Baltic countries and Russia

The Seppälä Division reported sales in 2003 of EUR 130.3 million, a drop of 2 per cent on the figure a year earlier. Net turnover was EUR 107.3 million. Women's apparel continued to account for a growing share of aggregate sales, whereas sales of children's and men's clothing contracted. The number of customers increased on the previous year, but the average purchase per customer diminished. Seppälä's relative profitability is at a good level. In 2003 operating profit was EUR 10.1 million, or 9.4 per cent of the turnover.

Sales fell below last year's level for several reasons. The competitive situation in the Finnish market tightened up owing to new hypermarkets and the new stores opened by foreign chains. The changes to Seppälä's network of stores in Finland and Estonia had a negative impact on sales. Also clothing sales thrive or falter in step with the weather: the latter part of the spring was particularly chilly and it too was a factor weakening the sales trend. Although sales were rung up at a normal pace in the autumn, it was no longer possible to offset the sales shortfall caused by the chilly spring.

Being nimble, being quick

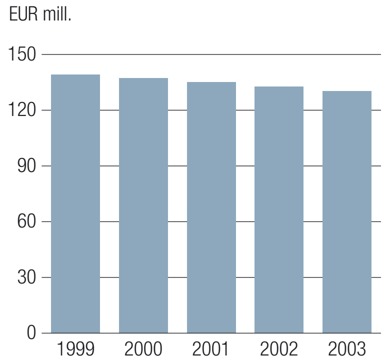
Seppälä seeks continually to improve its ability to understand customers' wishes and market trends. This is a demanding task because more and more factors have a bearing on the operating environment and on consumers' readiness to buy clothes.

Ideally, customers must always be able to find something to buy in Seppälä's extensive collections, whether they are interested in the latest new fashions or in good utility clothing. The challenge is to be more alert than ever in responding to changes in fashion, the competitive situation and the weather. More and more these days, customers are buying articles of clothing to wear right away. This steps up the tempo of supply and demand. ⇨

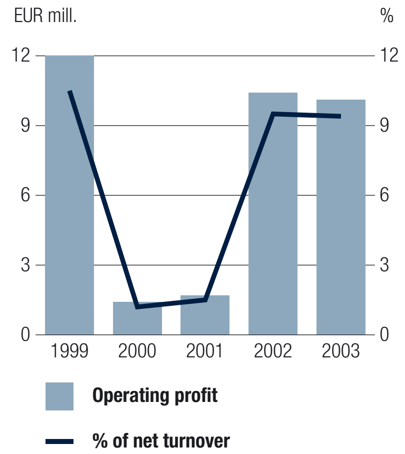
Key figures

SEPPÄLÄ, EUR mill.	2003	2002	change %
Sales	**130.3**	132.7	-2
Proportion of Group Sales, %	**7.7**	8.4	
Operating profit	**10.1**	10.4	-2
Return on capital employed, %	**58.5**	52.4	
Capital employed	**17.2**	19.8	-13
Investments	**1.2**	0.6	
Staff, December 31	**901**	887	2

Development of Seppälä's sales 1999-2003

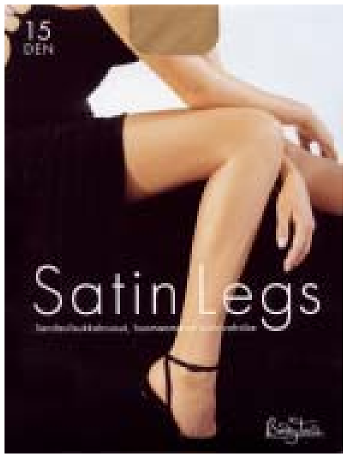


Development of Seppälä's operating profit 1999-2003



The entire chain's stores were given a new fashion magazine look in the autumn.

In October, Seppälä opened its fourth store in Riga in the Stockmann department store there.



Revitalizing assortments is essential for successful retailing. During the year, the assortment of ladies' tights was one of the articles renewed.

Seppälä's ability to respond to changes in competitive factors and fashion has been developed energetically, and this emphasis will continue. The annual flow of goods is some 13 million individual products. Thanks to a good logistics system, products are in the right places at the right time. The stores do not have stocks of their own, but instead they receive a basic assortment in accordance with the store size, and this is topped up in line with demand and the central warehouse situation. The stores receive both new products and supplementary articles five days a week. This operational model creates a basis for chain operations in stores of different sizes and in communities large and small. The system furnishes information on when it is necessary to purchase goods at a quicker pace and when caution needs to be observed.

Own collections

The sources of fashion are found in life about us: on the street, in media, in youth culture. Seppälä relies on its own collection. Some fifty people are engaged in designing and buying the collection. Seppälä's fashion comes into being at textile and fashion fairs and by keeping a close eye on garment industry trends and the world around us. Seppälä must create fashion for its customers: understand fashion phenomena and be aware of the kind of people who visit stores in the chain. Seppälä makes clothes for its customers' needs.

The collection must also be renewed structurally. Including new products in the assortment whilst expanding old product groups broadens and refreshes Seppälä's assortment. These measures also help Seppälä find new customers. The assortment of young men's clothes was expanded in 2003. An important expansion move was the inclusion of a shoe department in a number of stores. The assortment of ladies' tights was renewed and a teenage collection for girls was created to supplement the children's and young people's apparel line.

Close to the customer

One of Seppälä's main strengths is a comprehensive network of 127 stores in Finland. The stores are sited in central commercial locations – where people are on the move. Opening hours and the service concept support shopping convenience.

In-store merchandising plays a central role in Seppälä's overall concept. The task of visual marketing is to tell customers in an interesting way what is happening in the world of fashion and to enrich the shopping ambience by highlighting the many dimensions of Seppälä's assortments in an attractive and clearly-stated way.

Seppälä faces the challenging task of keeping its extensive chain of stores appealing and on the pulse of the times. In 2003 eight stores moved into new premises in Finland and additionally nine stores were refurbished in accordance with Seppälä's modern light-toned and fresh look.

In addition to products, the store is an important medium for communicating the corporate image, and this will be a development focus in the years ahead. Revamping the store look was a major initiative that was carried out across the entire chain in autumn 2003. This was manifested in the changing of pictures, posters, price signs and shopping bags.

In Finland three new stores were opened and four were closed during the year. It is unlikely that Seppälä will increase the number of its stores further in Finland, but will instead concentrate on seeing to it that the stores are sited in good commercial locations and are in step with the times.

Thirteen stores in Estonia

Seppälä is Estonia's largest chain of clothing stores. It had 13 stores in Estonia at the turn of the year. The largest store in Estonia, which was located in Tallinn's Viru Centre, was closed in March 2003 due to the renovation of the entire business and shopping centre. The Viru Centre, including the Seppälä store, will be reopened in spring 2004.

In Estonia, the clothing trade is largely concentrated in a few big cities and the shopping centres located in them. Many new shopping centres have sprung up in recent years, above all in the Tallinn area. Their proliferation creates oversupply in view with the level of disposable income. Because commercial space is available, Seppälä moved one of its stores into new premises at the end of the year. Because Seppälä

In the spring, Seppälä opened 14 new shoe departments that were launched with high-profile campaigns.

Advertising too was given a new, fashion magazine look.

has quite a good position in the Estonian market, there is no need at the present time to increase the number of stores in Estonia, either.

The first stores in Latvia

A major element of Seppälä's strategy is to operate in all the Baltic countries. After Estonia, the next natural step was to move ahead in the Latvian market.

The first four stores were opened in Riga in autumn 2003. The city's economic area is home to nearly a million people. The structure of the retail trade in the whole country and the capital city are changing dramatically. Shopping is moving away from market squares and alleys to larger sites: the first shopping centres were opened in the 2000 decade. Seppälä's stores are located in the three largest shopping centres in the city and as part of the Stockmann department store. Seppälä's growth in Latvia will proceed ahead as large shopping centres are built. The focus will of course be on Riga, but stores will also be established in other cities.

Seppälä writes up its history

Towards the end of 2003, Seppälä published the historical account *Eteenpäin, enemmän, paremmin – Seppälä, suomalainen vaatettaja 1930-2003* ("Ahead, More, Better – Seppälä, Finnish Clothier 1930-2003"). The book tells how Seppälä has become a unique concept within the Finnish clothing trade and fashion, a part of daily Finnish life.

Well into the 1970s – when Seppälä was on its way to establishing a nationwide presence – affordable, stylish dressing that was in tune with fashion was not an obvious approach. For seven decades, Seppälä has in many respects been a pioneer in retail and chain operations in Finland. Own collections, own brands, goods manufactured abroad and franchising were all originally Seppälä-initiated new ways of operating in the Finnish retail clothing trade. Soon, Seppälä went international. The manufacture of clothing moved abroad in the 1970s, the first store in Germany was opened in 1984, and in 1987 Seppälä tried its wings in New York.

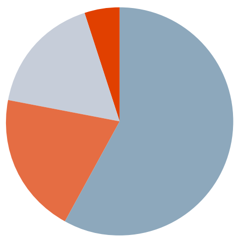
The guiding principle of the company's founder, Edvard Seppälä, is still the spirit that is instilled in every Seppälä employee: ahead, more and better. If a business stands still, it will fall behind.

Russia up next

In 2004 Seppälä will enter the Russian market. The first stores will be opened in Moscow. With its population of already more than 10 million people, Moscow offers Seppälä an attractive growth opportunity. The opening up of the Russian market will burden Seppälä's earnings to some extent.

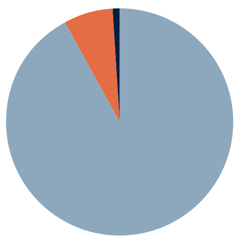
Seppälä's profitability is now at a good level. Thanks to the development work on the collection, the revamp of the store network and economic growth in the Baltic countries, sales and operating profit too are set to improve on the level posted in 2003. ▫

Seppälä's sales by merchandise sector 2003



58% Ladies' fashion
20% Children's fashion
17% Men's fashion
5% Cosmetics

Distribution of Seppälä's sales by market 2003



92% Finland
7% Estonia
1% Latvia

Corporate Governance

The corporate bodies of the parent company Stockmann plc which are responsible for the Group's administration and operations are the general meeting of shareholders, the Board of Directors and the chief executive officer.

Annual General Meeting

The highest decision-making body of Stockmann plc is the general meeting of shareholders. The Annual General Meeting shall be held each year before the end of June. Stockmann has two series of shares, of which each Series A share confers ten votes at a general meeting and each Series B share one vote. No one, however, can cast more than one fifth of the votes represented at the general meeting except in situations in which the Companies Act calls for passing a resolution with a majority of the votes cast. Information on share ownership is given on pages 45-46 of the Annual Report.

A Series A Share can be converted to a Series B Share upon the demand of a shareholder provided that the conversion can take place within the limits of the minimum and maximum amounts of the share series.

A two-tier provision concerning the obligation to exercise a pre-emptive purchase of shares is written into the Articles of Association. A shareholder whose proportion of all the company's shares or the number of votes conferred by the shares reaches or exceeds 33 1/3 per cent is liable, at the demand of the other shareholders, to purchase their shares and the securities which according to the Companies Act give title to them. If a previous pre-emptive purchase offer has not led to the pre-emptive purchase of all the company's shares, the shareholder shall make a new pre-emptive purchase offer when the shareholder's proportion of all the company's shares or the votes conferred by the shares reaches or exceeds 50 per cent.

The business of the Annual General Meeting includes approval of the company's annual financial statements and the passing of resolutions on the dividend and the election of members of the Board of Directors.

Board of Directors

The company's Board of Directors shall have a minimum of five and a maximum of nine members. The members of the Board of Directors have been elected to a three-year term of office such that, as far as possible, one third of them have been due to retire each year. To arrive at a distribution of this type, part of the members have customarily been elected for one or two years.

The Board of Directors will propose to the Annual General Meeting to be held on March 30, 2004, that the Articles of Association be amended by a provision specifying that all the members of the Board of Directors be elected for one year at a time.

A person who has reached the age of 65 years cannot be elected a member of the Board of Directors. At present, the Board of Directors has seven members, none of whom are full-time members.

The Board of Directors shall elect from amongst its number a chairman and a vice chairman for one year at a time.

The company's officers who participate regularly in meetings of the Board of Directors are the chief executive officer, the executive vice presidents, the chief financial officer and the company lawyer, all of whom are not members of the Board of Directors. The company lawyer acts as secretary to the Board of Directors. Two employee representatives also participate in meetings of the Board of Directors, and they likewise are not members of the Board of Directors. One of these representatives is elected by the employee representatives of Stockmann's Group Council and the other by the association representing Stockmann's senior salaried employees.

The Board of Directors attends to the due organization of the company's administration and operations. In addition to the duties defined separately in law and in the Articles of Association, the Board of Directors, among other things, confirms the company's long-term strategic and financial objectives, approves the budget and decides on major individual capital expenditures, acquisitions, divestments and real-estate deals and other projects of strategic importance. The Board of Directors also approves the principles of the company's risk management.

In its meeting of December 18, 2003, the Board of Directors adopted rules of procedure defining the principles governing the Board's composition and method of election, its tasks, decision-making procedure and meeting practice as well as the principles of the Board's self-assessment. The Board of Directors' rules of procedure are published on the company's website at the address www.stockmann.fi.

The Board of Directors met 11 times in 2003. The average attendance was 96 per cent.

At its meeting of February 12, 2003, the Board of Directors set up a Compensation Committee, which was superseded by an Appointments and Compensation Committee that was set up at the Board's meeting of December 18, 2003. The committee is made up of three members of the Board of Directors. Its task is the preparation of appointment and compensation matters concerning the chief executive officer, the executive vice presidents and the other members of the Management Committee, the preparation of the election of members of the Board of Directors for proposal to the Annual General Meeting as well as the preparation of compensation matters concerning the Board of Directors. The committee meets as necessary at least once a year. During the 2003 financial year the members of the committee were Lasse Koivu, chairman of the

Board of Directors, who served as its chairman, the other members being Erkki Etola, vice chairman of the Board of Directors, and Board member Henry Wiklund. The chief executive officer has the right to attend meetings of the committee. The committee met once during the financial year.

Chief executive officer

The Board of Directors appoints the company's chief executive officer and decides on the terms and conditions of his executive post, which are set forth in a written chief executive officer agreement. The chief executive officer is in charge of the company's line operations in accordance with the instructions and regulations issued by the Board of Directors. Hannu Penttilä has been the company's chief executive officer since March 1, 2001.

The Group's line organization

Apart from the chief executive officer, the Board of Directors appoints the executive vice presidents, the chief financial officer and the directors of the divisions. Henri Bucht, managing director of the Hobby Hall Division, has also acted as the company's executive vice president as from February 1, 2001, and as the CEO's alternate. Jukka Hienonen, director of the Department Store Division, has acted as the other of the company's two executive vice presidents as from January 1, 2003.

Corporate Administration oversees the entire Stockmann Group. Commercial operations are organized into four divisions, which are the Department Store Division, the Vehicle Division, the Hobby Hall Division and the Seppälä Division. The directors of the divisions report to the chief executive officer and are members of the company's Management Committee.

Management Committee

The Group's Management Committee comprises the chief executive officer, the executive vice presidents and the other directors of the divisions, the chief financial officer as well as the company lawyer, who acts as secretary to the Management Committee.

Headed by the chief executive officer, the Management Committee is responsible for directing line operations and for preparing strategic and financial plans.

Oversight

The Board of Directors and operational management are responsible for internal oversight, the objective of which is to ensure the efficiency and performance of operations, the reliability of information as well as the observance of rules and operating principles. An essential part of internal oversight is the Internal Audit, which operates as a separate unit within Corporate Administration and reports to the chief executive officer. The Internal Audit is a function which is independent of line operations and supports the Group management in operations control and risk management, examining and assessing the effectiveness of business operations and internal oversight as well as producing information and recommendations to management on how to enhance these functions. The Internal Audit's work is guided by a risk-oriented approach in line with the priority areas of business operations and their development.

The auditors elected by the Annual General Meeting examine the company's accounting records, financial statements and administration. The audit work is carried out during the financial year through audits of the divisions and company administration and by carrying out the official audit of the financial statements at the close of the year. The company has a minimum of one and a maximum of three auditors, who have a minimum of one and a maximum of three deputies. At present the company has two auditors and a deputy auditor which is a firm of independent public accountants authorized by the Central Chamber of Commerce.

The Internal Audit coordinates auditing activities between the external and internal audits in order to ensure the comprehensiveness of the auditing work and to avoid overlapping auditing tasks.

The fees paid to the auditors for the 2003 financial period totalled EUR 136 000 for the audit of the parent company and a total of EUR 324 000 for the audit of the Group. In addition, KPMG was paid EUR 54 300 in consultancy fees.

Management's remuneration and other benefits

The Annual General Meeting passes resolutions on the remuneration paid to the members of the Board of Directors. In accordance with the resolution passed by the Annual General Meeting held on March 25, 2003, the fixed emoluments paid for the 2003 financial year were EUR 45 000 to the chairman of the Board of Directors, EUR 30 000 to the vice chairman and EUR 20 000 to each of the other members of the Board. About 50 per cent of the annual emoluments were paid in the form of the company's shares and the remainder in cash. All the members of the Board of Directors were paid a meeting fee of EUR 250 per meeting. For the 2003 financial year, the members of the Board of Directors were paid cash emoluments totalling EUR 104 361 and share emoluments of 6 251 of the company's Series B shares. The value of the emoluments paid was a total of EUR 190 000. The cash and share emoluments paid to each of the members of the Board of Directors for 2003 are itemized on the company's website.

The total amount of the salary, emoluments and fringe benefits paid to the chief executive officer in 2003 was EUR 418 163, of which fringe benefits accounted for EUR 11 400. In the chief executive officer agreement, the CEO's pension age is set at 60. The pension is determined in accordance with the Employees' Pensions Act and a separate insurance plan which is taken out by the company. The CEO's period of notice is specified bilaterally at 6 months. Should the company terminate the agreement, the CEO has the right to com- ⇨

pensation corresponding to 12 months of fixed salary upon expiry of the termination period. In addition, the CEO is entitled to extra compensation corresponding to 12 months of fixed salary one year after expiry of the termination period if the CEO has not retired on an employment, voluntary or health-based pension funded by the company. Should the company terminate the executive post relationship on cancellation grounds due to personal reasons, neither of said classes of compensation shall be paid.

Incentive systems

The Group makes use of annual performance-based systems of rewards and incentives to promote the achievement of short-term objectives. The amount of the incentive is generally influenced by the earnings reported for the financial year and the personal job contribution.

The principles of determining the incentive bonuses of the CEO and the other members of the Management Committee is confirmed annually by the Board of Directors on the basis of a proposal prepared by the Appointments and Compensation Committee. Bonuses are determined primarily on the basis of the Group's earnings and profitability trend such that the determining factors are the Group's profit before extraordinary items net of other operating income, the Group's return on capital employed and the key figures for the divisions, which are derived from the aforementioned. The maximum incentive is generally no more than 25 per cent of annual salary income, but the limit can be exceeded on a sliding scale in respect of Group targets.

On April 24, 2003, the Board of Directors approved for the members of the company's Management Committee, as a supplement to the annual incentive, a long-term share bonus scheme extending, in two year periods, up to the end of 2006. Carrying out of the share bonus scheme is tied to the realization of the Group's development in accordance with its long-term strategy, and its benchmarks are both consolidated profit before extraordinary items net of other operating income and the Group's trend in the return on capital employed. Attainment of the share bonus targets will be assessed in two-year periods, for the first time in 2005 on the basis of whether the aggregate targets for the years 2003–2004 have been reached. For this period, the maximum incentive payable in the form of Stockmann Series B shares to all the members of the Management Committee is a total not to exceed 19 161 shares as well as 1.5 times the cash value of the shares. If the lower limits defined for each target period are not exceeded for both target criteria, no share bonus will be paid.

Achievement of the company's long-term objectives has been supported by two share option schemes for key employees, which were approved through resolutions passed at the Annual General Meetings in 1997 and 2000. The subscription period for shares with the 1997 share options ended on January 31, 2004. Information on these share option arrangements is given on page 44 of the Annual Report.

Insiders

Stockmann complies with the insider guidelines approved by Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. Counted as permanent insiders of Stockmann plc under the Securities Market Act, Chapter 5, Section 2, are the members of the Board of Directors, the chief executive officer, executive vice presidents and the auditors. In addition, the Insider Guidelines specify that permanent insiders include persons who act from time to time in tasks assigned by the chief executive officer, said persons including the members of the Group's Management Committee. Stockmann's Board of Directors has decided that the restriction on trading in the company's shares by insiders is 14 days before the publication of an interim report or the financial statements. A list of the persons classified as permanent insiders is available on Stockmann's website. The company makes use of the Insider Register service kept by Finnish Central Securities Depository Ltd, which makes available for public scrutiny the up-to-date share ownership data on insiders. Additionally, the data on shareholdings of the members of the Board of Directors and the Management Committee, which are updated quarterly, are available on the company's website.

New recommendation on the Corporate Governance of listed companies

HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers published in December 2003 a new recommendation on the Corporate Governance of listed companies. Helsinki Exchanges adopted it as a minimum set of regulations forming part of the stock exchange's regulatory regime. The recommendation sets new requirements for the corporate governance of stock exchange companies and also for their duty to inform, and it will come into force on July 1, 2004. Stockmann will comply with the recommendation as far as possible even before its official entry into force. ▫

Financing and management of financial risks

The Group's financing and management of financial risks are handled on a centralized basis within Stockmann plc Treasury function in accordance with the Treasury Guidelines that are approved by the Board of Directors. Group Treasury has more detailed operational instructions that include the principles for management of financial risks as well as liquidity and securities management. The divisions have separate instructions for hedging foreign exchange exposure and a security policy.

The objective of the management of financial risks is to minimize the effect of the financial risks related to the business operations on the Group's financial result, balance sheet and liquidity. The Group Treasury is responsible for the management of the hedging of foreign exchange exposure in cooperation with the divisions, financing operations at a reasonable price in all conditions and investing liquid funds productively and safely. The Group Treasury also has an internal bank function and is furthermore responsible for managing Group accounts and securities.

Foreign exchange risk

Stockmann's foreign exchange risk derives from purchases and sales in foreign currency as well as foreign currency-denominated investments made in units abroad.

The most important purchasing currencies are the United States dollar, British pound, Hong Kong dollar and Swedish krona and the most important sales currencies are the Russian rouble, Estonian kroon and Latvian lat. In 2003, purchases made in foreign currencies account for 13 per cent of the Group's purchases, whereas sales denominated in foreign currencies make up 11 per cent of the Group's aggregate sales. The fast turnover rate typical of the retail trade reduces the foreign exchange risk deriving from the purchases.

The management of foreign exchange risk related to the business operations cash flows is based on the forecast 12-month cash flow in foreign currencies, currency by currency. The hedging period is usually a maximum of 12 months. The foreign exchange risk related to balance sheet items derives from foreign currency-denominated investments made in units abroad. Balance sheet risk is monitored and hedged separately.

The instruments used in hedging foreign exchange risk are currency derivatives and currency-denominated borrowing.

Interest rate risk

Stockmann's interest rate exposure arises from the cash flows from the Group's operations, capital expenditures and financing. A dual approach is employed in managing interest rate risk. The Group's borrowings and investments are diversified across different maturities and, furthermore, floating rate and fixed-interest instruments are used. The management of interest rate risk also involves the use of forward rate agreements and futures, interest rate options and interest rate swaps. The average interest rate period of the loan and investment portfolio is a maximum of five years.

Liquidity risk

The aim of managing liquidity risk is to ensure that Stockmann is able to meet its financial obligations at any time. The trend in liquidity is monitored by cash flow forecasts. Liquidity risk is managed by ensuring the availability of sources of funds at a reasonable price and by allocating a sufficient part of the investments in liquid financial instruments.

Credit risk

Financial instruments involve the risk that the counterparty to an agreement does not fulfil its obligations. Credit risk is managed by means of counterparty limits. The counterparty limits are reviewed and approved semi-annually. ▫

Personnel

The establishment of new sites meant an increase in the Stockmann Group's number of personnel in 2003. The Zara and Stockmann Beauty chains opened new stores in Finland. Abroad, a Zara store was opened in Moscow in February and a department store in Riga in October. The cost savings programme that Hobby Hall launched in autumn 2002 resulted in 53 redundancies during 2003 owing to production and financial considerations. At the end of the year the Group had 9 542 employees, or 625 more than a year ago. Women made up 74 per cent of the Group's personnel and men 26 per cent. Amongst senior salaried employees, the ratio of women to men was fairly unchanged: 70 per cent women and 30 per cent men. The average age of the personnel was 34 years. Staff turnover among permanent employees in the Group's units in Finland was on average 15 per cent. Staff turnover abroad was greater, owing to the quite different labour markets.

Further information on the numbers of personnel is given in the Board Report on Operations under the section "Personnel strength" on page 43 of the Annual Report and in the accompanying table. Information on personnel is also given in Note 4 to the Annual Accounts on page 56.

Top employer in the retail trade

Each year some 30 000 people apply on their own initiative for a job with Stockmann in Finland. The Stockmann Group is seeking to be the most sought-after employer in the retail trade in all the localities where it operates. According to the Universum Graduate Survey that was carried out amongst Finnish commercial studies students in 2003, Stockmann emerged as the most desirable of the employers in the retail trade and ranked 7th among all the 136 companies included in the comparison.

With the aim of making the processing of personnel information more effective Group-wide, in 2003 Stockmann made further outlays on developing its electronic recruitment process and system of saving personnel data.

Preparations for opening the Riga department store

The goal in hiring staff for the Riga department store and arranging their job orientation was on finding a procedure for hiring, within a short time, a large number of people that were motivated and suitable for customer service work. The local personnel department took up the challenge, seeking to meet the dual objective of time management and cost-effectiveness. Service-mindedness was set as the most important criterion for selection.

To recruit employees, an evaluation team made up of supervisors already hired by the department store was set up. The applicants' mathematical aptitude and ability to concentrate were tested in group situations, whereas interactive skills were measured in discussions and role games. The entire recruitment process was carried through in a month. The department store hired 270 sales people from a total of 1 500 applicants. Each new hire went through an orientation programme that is also in use at the department stores in Finland.

Staff orientation in Finland

The high quality objectives of Stockmann's customer service also pose major challenges for swiftly carrying out the job and working environment orientation for new staff. Accordingly, all the divisions make use of a standardized orientation programme which both individual new Stockmann employees must go through, and it is also used with fairly large groups at new sites that are about to open.

A big challenge for orientation procedures was training the staff of the new Stockmann Beauty stores that were opened in 2003 in Stockmann's way of operating. A two-week, pre-opening orientation cycle was arranged for the staff of each new store. The points covered included Stockmann's core values, the Department Store Division's business idea and a presentation of the division's customer service strategy, training in sales and customer service, a detailed overview of assortments and products as well as guidance in handling the store's daily functions, from opening the cash register to dealing with customer feedback.

The managers selected for the Zara chain went through a thorough training programme. At first, each of them worked for 4-6 weeks as a sales person in one of the stores, learning all the store tasks under the guidance of a responsible sales person. Progress was monitored weekly during the learning cycle. On the basis of the evaluations and the individual in question, a foreign store in the Zara chain was selected for managerial training consisting of a stint of 4-8 weeks before starting in the job assigned to them.

Human resources development

The human resources development function was reorganized by setting up a separate Human Resources Development Department within Corporate Management and Administration.

To ensure closer cooperation amongst the Group's divisions, a development coordinator was appointed for the different units and put in charge of monitoring the unit's training activities and passing along information on planned and implemented development actions. This network will enable Stockmann to survey common development needs and to identify the potential for making the most of synergy advantages in development activities.

Assessment of the quality of personal customer service continued at the department stores in Finland. All in all, during the year nearly 1 800 employees received feedback from their supervisor on an actual customer service situation. The new evaluation method has been well received by the personnel.

The biggest emphasis in training has again been on improving the competence of customer service staff. Development actions are based largely on measurements of the quality of customer service that were made at the department stores in 2003. In the surveys, external test purchasers assess customer service situations on the basis of pre-agreed criteria. Indicators of customer service quality are calculated on the basis of the assessments. A total of 1 084 situations were assessed in 2003. The results of these surveys show a clear improvement in the level of customer service. The customer service theme was reiterated at all the functions arranged for staff during the year.

More than one hundred Department Store Division employees took part in a training programme for purchasing staff. The programme is geared to concrete objectives: raising the gross margin level, uniform procedures for buyers, producing Stockmann presentation materials for suppliers and strengthening cooperation among buyers.

A development programme for the Department Store Division's managers was started in May. The pilot group consisted of 28 managers working in different tasks. The programme covered lectures, literature, exercises, group work and discussions. Learning on the job was a major emphasis and each trainee took part in project teamwork in his or her own working group during the training period.

At the end of the year the Department Store Division organized at each site in Finland a workplace atmosphere study that is repeated at two-year intervals. The results will be analysed in the first part of 2004, and development focuses will be selected on the basis of these analyses.

Hobby Hall arranged training in team leadership, teamwork and customer service after its stores went over to a team organization. Performance discussions began to be held systematically, initially at the manager, foreman and team leader levels. The discussions will be held with each member of the personnel. Timely training has been arranged for different employee groups, covering areas such as security matters and combating wastage and pilferage.

The year's theme for the Seppälä Spirit training programme was mobilizing strategy. For the store network the theme was carried out in the form of boosting the efficiency of direct customer service work, whereas for the administrative and warehousing functions this was done by staging a Great Adventure event. The spirit of the Adventure involved working as a group to find answers and to put forth proposals for action regarding the expansion strategy, competitive situation, product categories and assortment, visual marketing and issues connected with enhancing administrative work.

During 2003 the Vehicle Division put into action the teachings of the previous year's performance discussion training by holding more than 500 performance appraisal discussions. The feedback that came in from the personnel was very positive. Towards the end of the year the Resources on the Job questionnaire was revamped. One objective of the process was to obtain information on the implementation of areas that were chosen as development focuses after the previous year's study. The servicing staff took part actively in technical training arranged by various importers. A year-long training programme was built for staff that sell company cars.

Expanded incentive systems

A number of different incentive systems aiming at motivating the personnel and good job execution are employed across the Group. Nearly all staff working in sales positions are covered by the profit centre's sales-based incentive system.

During 2003 an incentive system based on the employees' personal sales figures was also tried out at some of the Department Store Division's units in Finland and Estonia. The pilot programme has got off to a positive start, though seasonal fluctuation in sales volumes means that the system will have to be developed further. The Vehicle Division arranged various sales volume-based competitions that showed good results both in terms of sales growth and the earnings objectives reached.

A large part of the managerial staff are covered by a personal incentive system. The amount of the incentive reward is generally influenced by the results of both personal work and the division's performance.

Management incentive systems and the share option schemes for key employees are discussed in the section "Corporate Governance" of the Annual Report on page 32. Detailed information on the share option arrangements is presented in the section "Share Capital and Shares" on page 44.

The Group paid a total of EUR 5 million in various incentive bonuses in 2003.

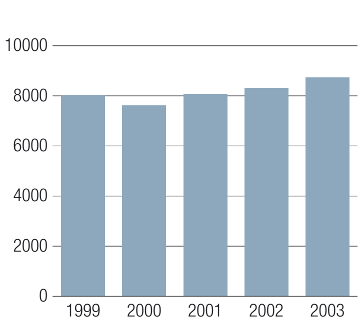
Codetermination

During the year the Employees' Councils of the different divisions conducted a review of the matters prescribed in their own statutes and in the Act on Co-operation within Undertakings in a good and constructive spirit. Hobby Hall's focus on distance retailing and boosting the efficiency of its functions meant closing stores and downsizing the staff. Of those who received notice of dismissal, 26 people have moved to other jobs within Hobby Hall or in other Stockmann Group units, and 53 employees will become redundant during 2004 unless suitable positions can be found within the Group.

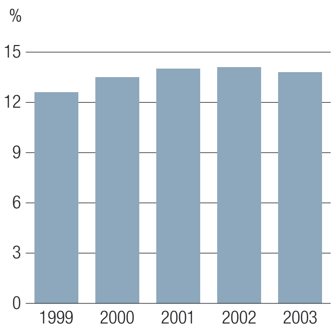
Personnel abroad

The total number of the Group's employees abroad was 1 946 people, of whom 1 274 had full-time jobs and 672 were part-timers. Stockmann adheres to the principle that its units abroad operate to the greatest possible extent with staff recruited in the host country.

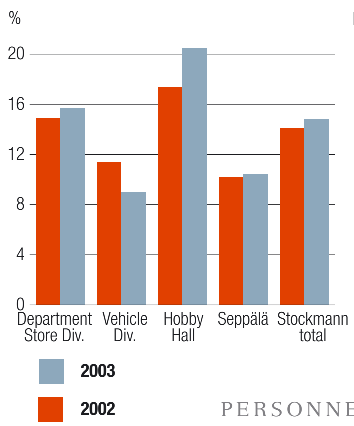
Average number of staff 1999-2003



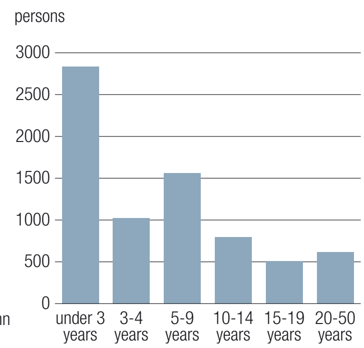
Staff costs 1999-2003, % of net turnover



Turnover of permanent personnel in Finland 2002-2003



Years of service, permanent personnel in Finland 2003



Environment and social responsibility

Social responsibility is an essential element of Stockmann's operating and management culture. The development of functions connected with social responsibility has been organized Group-wide to form a part of normal business operations. In 2002, the Group carried out a social responsibility project that brought a significant increase in its commitment in the area of environmental and social responsibility.

The social responsibility project involved a thorough assessment of the present state of environmental management across the divisions, whilst working out the Group's new environmental policy and organizing the management of environmental compliance.

Department Store Division

The objective of the environmental systems is to develop the department stores' operations to be increasingly environmentally sound and to prevent environmental impacts resulting from operations. The Helsinki department store undertook to adapt its environmental system in line with the ISO 14001 standard in autumn 2002. The environmental system covering the functions of the Helsinki department store and Academic Bookstore as well as the Department Store Division's joint purchasing and warehousing functions in Pitäjänmäki, Helsinki, was certified in February 2003.

Similar environmental systems were built for all Stockmann's department stores in Finland during the year. Stockmann is the first Finnish company whose entire chain of department stores in Finland has received ISO 14001 accreditation. The certification was carried out by Bureau Veritas Quality International and covers the functions of Stockmann's department stores and Academic Bookstores in Finland along with the Department Store Division's joint purchasing and warehousing functions in Pitäjänmäki. Just over 4 500 people work in jobs falling within the scope of the certified functions. For Stockmann's stakeholders, the certified environmental system is a guarantee that environmental impacts are taken into account in operations every step of the way.

In May, Stockmann signed a Letter of Intent with Helsinki Energy concerning the supply of district cooling energy to the department store in the centre of Helsinki in connection with the enlargement project. District cooling is a new way of conserving energy and the environment. It offers a means of replacing the conventional production of cooling energy within individual buildings.

Vehicle Division

Stockmann's Vehicle Division participates in the environmental programme of Finland's Central Organization for Motor Trade and Repairs (AKL). Stockmann's Volkswagen dealership in Vantaa took part in an AKL pilot project back in 1996, and the environmental programme resulting from this initiative today covers all the Vehicle Division's units. The environmental programme is structured along the lines of the ISO 14001 environmental standard. The objective is to adapt vehicle sales and repair shop operations to the requirements of environmental protection and to observe environmental values. In addition, the Vehicle Division's outlets operate in accordance with certified ISO 9001 quality systems that encompass environmental compliance.

Hobby Hall

During 2003, an overhaul of Hobby Hall's Enterprise Resource Planning system was launched. This will enable the division better to reduce environmental impacts by means of logistical efficiency. Over the year, Hobby Hall has carried out a comprehensive survey of waste management requirements. The survey has led to enhanced waste management that takes into account environmental impacts.

Hobby Hall offers its customers in the Helsinki metropolitan area the possibility to recycle an old home appliance when a new one is delivered. Plans are being made to expand the service to cover the entire country. A similar recycling service is also in use in Stockmann department stores.

Distance retailing catalogues and packaging are made from environmentally friendly materials and they are recyclable.

Seppälä

Seppälä's environmental compliance was stepped up at both the head office and the Goods Handling Centre. Recycling and sorting are performed according to plans, with an emphasis on the staff's own responsibility.

During 2003, the sorting and recycling possibilities of all the stores in Finland were surveyed and operational guidelines were prepared for the stores. Many Seppälä stores are located in shopping centres, where environmental and waste management matters have already been taken into account.

The patient efforts to develop environmental systems brought a splendid result. All the Stockmann department stores in Finland and the Academic Bookstores as well as the Department Store Division's purchasing and warehousing functions received an ISO 14001 environmental certificate during 2003.

For its suppliers, Seppälä has prepared co-operation instructions that aim to avoid overpackaging of products, whilst seeking to affect suppliers' selections of packaging materials and ways of packaging. These measures have also led to an improvement in the stock turn rate. The cooperation instructions also deal with the principles of responsible importing.

Social responsibility

In 2001, Stockmann and a number of other companies that engage in importing joined the Network to advance Social Responsibility in Importing that is coordinated by the Central Chamber of Commerce, and Stockmann signed a document in which the participating companies undertake cooperation to promote the observance of ethical principles within their importing activities.

Stockmann has also given its commitment to observe the principles of responsible import trade as set out by the International Association of Department Stores (IADS). The IADS principles are largely similar to those of the Network to advance Social Responsibility in Importing.

In its social responsibility project, Stockmann focused on social responsibility in international trade, and during 2003 the Commitment to Social Responsibility in Importing was placed in use across the divisions. By virtue of this commitment, which is based on UN declarations and International Labour Organization agreements, a supplier undertakes, for example, not to use child labour or forced labour, not to practice discrimination and to guarantee employees safe working conditions and adequate wages. By the end of 2003, the Commitment to Social Responsibility in Importing had been signed by all Seppälä's present suppliers and by nearly all the Department Store Division's and Hobby Hall's suppliers.

Stockmann was a founding member when the national chapter of Transparency International, an international organization that coordinates work aimed at combating bribery, began its operations in Finland in 2003. Stockmann plays an active role in the organization's activities and is seeking to work on behalf of anti-corruption business practices in its operating environment.

Objectives for 2004

During 2004, the divisions will continue the further development of their environmental protection and environmental responsibility activities in accordance with Stockmann's environmental policy. The Department Store Division's environmental systems will be developed and the systems will be adapted as a part of efficient chain operations. The Department Store Division's objectives are to reduce energy consumption and to raise the efficiency rate. The Vehicle Division will develop its operations in accordance with the environmental programme and quality systems. Among the Vehicle Division's goals is to raise the efficiency rate by reducing the volume of mixed waste. Hobby Hall is continuing to develop environmentally responsible operations at its stores and warehouse, notably by reducing the use of packaging material and boosting the efficiency rate. Seppälä is seeking to reduce further the volume of waste and to increase recycling across the entire chain.

Stockmann is continuing its work to develop social responsibility and promote responsible importing. Reporting will be upgraded so as to make use of information on the environment in daily operations and to distribute this information to stakeholders.

Board report on operations

The Stockmann Group's sales grew by 7.4 per cent to EUR 1 698.6 million. Profit before extraordinary items grew by 7.9 per cent and was EUR 74.0 million. The operating profit figures posted by the Department Store Division and Seppälä Division were at the previous year's good level. The Vehicle Division reported its best-ever earnings. The Hobby Hall Division's result was down on the previous year and in the red. Stockmann's earnings per share improved to EUR 1.01, as against EUR 0.97 a year earlier. The Board of Directors is proposing the payment of an ordinary dividend of EUR 0.90 for the 2003 financial year and a bonus dividend of EUR 0.45, or a total of EUR 1.35 per share.

Sales up 7.4 per cent

The Stockmann Group's sales grew by 7.4 per cent, or EUR 116.3 million, to EUR 1 698.6 million. Net turnover increased by EUR 97.4 million, or 7.4 per cent, to EUR 1 412.7 million. The net turnover figures by division are shown in the accompanying table.

Earnings improve

The gross margin on the Group's operations was EUR 457.5 million, an increase of EUR 18.6 million on the previous year (EUR 438.9 million), and 32.4 per cent of net turnover (33.4 per cent). The relative gross margin on operations weakened by 1.0 percentage point owing to the strong growth in the Vehicle Division's sales and the weakening in the Hobby Hall Division's relative gross margin. Operating expenses grew by EUR 21.4 million and depreciation diminished by EUR 0.1 million.

Operating profit was up EUR 3.9 million to EUR 65.7 million. Operating profit was 4.7 per cent of net turnover, or on a par with the previous year.

Other operating income consisted mainly of capital gains on the sale of real estate and the goodwill compensation obtained from the disposal of the agency sales of magazine and newspaper subscriptions. Other operating income amounted to EUR 15.4 million, compared with EUR 8.8 million a year ago.

Net financial income grew by EUR 1.6 million from the previous year and was EUR 8.3 million.

Profit before extraordinary items grew by EUR 5.4 million and was EUR 74.0 million. Because there were no extraordinary items, pre-tax profit was the same in amount.

Direct taxes increased by EUR 3.4 million and were EUR 22.3 million.

Net profit for the financial year was EUR 51.7 million, compared with EUR 49.7 million a year earlier.

Earnings per share increased by EUR 0.04 and were EUR 1.01. The figure a year ago was EUR 0.97. Earnings per share, diluted for the effect of share options, were EUR 1.00 (EUR 0.97).

Capital employed grew and was EUR 611.9 million (EUR 577.5 million). Capital employed was increased, notably, by the share subscriptions made with the 1997 options at the end of the year. The return on capital employed rose to 13.2 per cent, as against 12.6 per cent a year ago. The return on equity was 9.6 per cent, as it was a year earlier. Equity per share was EUR 10.36, compared with EUR 10.17 a year earlier.

The company's market capitalization grew by 34.6 per cent, or by EUR 245.5 million from the previous year and was EUR 955.6 million.

NET TURNOVER	2003 EUR mill.	2002 EUR mill.	change EUR mill.	change %
Department Store Division, Finland	**602.2**	579.4	22.8	3.9
Department Store Division, international operations	**111.0**	99.9	11.1	11.1
Department Store Division, total	**713.2**	679.3	33.9	5.0
Vehicle Division	**394.5**	328.3	66.2	20.2
Hobby Hall Division, Finland	**158.5**	161.5	-3.0	-1.9
Hobby Hall Division, international operations	**38.8**	36.6	2.2	5.9
Hobby Hall, total	**197.3**	198.1	-0.8	-0.4
Seppälä Division, Finland	**98.8**	101.0	-2.2	-2.2
Seppälä Division, international operations	**8.5**	8.1	0.3	4.2
Seppälä, total	**107.3**	109.2	-1.9	-1.7
Real Estate + others	**21.0**	24.2	-3.2	-13.1
Eliminations	**-20.5**	-23.7	3.2	
Operations in Finland, total	**1 254.6**	1 170.7	83.8	7.2
International operations, total	**158.2**	144.6	13.6	9.4
Total	**1 412.7**	1 315.3	97.4	7.4

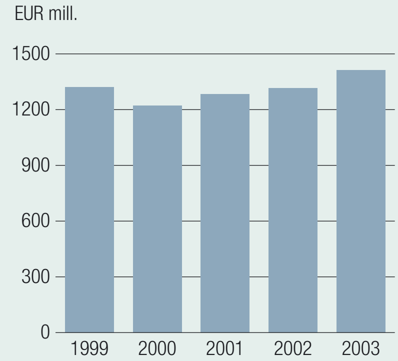
Sales and profitability trend of the divisions

The Department Store Division's sales grew by 5 per cent to EUR 851.3 million. Sales by the functions in Finland increased by 4 per cent. The Oulu department store reported a particularly strong increase in sales. Sales by International Operations grew by 10 per cent and its share of the division's sales rose to 15.8 per cent (15.1 per cent). The Department Store Division posted operating profit of EUR 39.7 million, the same figure as a year ago. Earnings were burdened by the pre-opening costs of the Riga department store, which was opened in mid-October, as well as by the pre-opening costs for the new Stockmann Beauty and Zara stores. In addition, the result of International Operations was burdened by the fall in the exchange rate of the US dollar, particularly in the last quarter. The return on capital employed was 21.1 per cent, on a par with the figure a year earlier (21.0 per cent).

The lowering in the car tax at the beginning of the year has led to soaring vehicle sales, which continued all year long. The Vehicle Division's sales grew by 20 per cent to EUR 480.4 million. Unit sales of new vehicles grew by 26.4 per cent on the previous year, rising from 9 965 to 11 333, and used vehicles were up 16.6 per cent, rising from 7 917 to 9 327. Stockmann's market share in the motor trade grew further in all the localities where it operates. The division's operating profit increased by EUR 0.2 million to EUR 5.6 million, an all-time high (EUR 5.4 million). At the beginning of October, the Vehicle Division wound up its last Mitsubishi dealership. Its territory as an Audi dealer in turn expanded from the start of October to eastern and western Uusimaa province in addition to the existing dealership in the Helsinki metropolitan area. The return on capital employed was 13.2 per cent, against 13.5 per cent a year earlier.

Sales by the Hobby Hall Division declined by 1 per cent to EUR 235.7 million. The volume of packages dispatched grew by 5.6 per cent. Towards the end of 2002, Hobby Hall launched a streamlining programme aiming at annual cost savings of EUR 6 million. The programme was carried out according to plan and had an impact on the trend in costs beginning in the second quarter. Because the relative gross margin and sales fell clearly short of targets, Hobby Hall's profitability was unsatisfactory. In addition, the costs of winding up stores cut into earnings. The Hobby Hall Division's operating result decreased by EUR 3.9 million and was a loss of EUR 3.4 million. In order to improve its profitability, the Hobby Hall Division decided in autumn 2003 to concentrate more closely on distance retailing and to step up its logistics and category management. The objective of the changes is to achieve an improvement in earnings of about EUR 7.5–8.5 million annually. The Herttoniemi store was closed in September, the stores in Espoo and in the centre of Tallinn at the end of 2003 and the Tampere store in February 2004. It was decided to change the role of the stores remaining in operation – in Helsinki's Hämeentie street, in the Tammisto district of Vantaa and at Rocca al Mare in Tallinn – so that they support distance retailing. During 2003 the Hobby Hall Division's staff was reduced by about 100 employees. ⇨

Net turnover 1999-2003



Operating profit 1999-2003

Profit before extraordinary items 1999-2003

OPERATING PROFIT AND RETURN ON CAPITAL EMPLOYED	2003 EUR mill.	2002 EUR mill.	change EUR mill.	2003 ROCE %	2002 ROCE %
Department Store Division	**39.7**	39.7	0.0	**21.1**	21.0
Vehicle Division	**5.6**	5.4	0.2	**13.2**	13.5
Hobby Hall	**-3.4**	0.5	-3.9	**-3.4**	0.5
Seppälä	**10.1**	10.4	-0.3	**58.5**	52.4
Real Estate	**14.5**	16.4	-1.9	**11.4**	11.2
Other operating income	**15.4**	8.8	6.6		
Eliminations + others	**-16.1**	-19.3	3.2		
Total	**65.7**	61.9	3.9	**13.2**	12.6

The divisions' profits are based on management accounting.

Board report on operations

The Seppälä Division's sales declined by 2 per cent on the same period a year ago and were EUR 130.3 million. Seppälä has been striving to improve its stock turn rate and gross margin, and results began to show up in the form of improved operating profit in the latter half of the year compared with the same period a year earlier. On the other hand, operating with a clearly lower level of stocks than in the previous year affected the sales trend to some extent. In addition, Seppälä's largest store in Estonia, which is located in Tallinn's Viru Centre, has been closed since April 2003 because of refurbishing work on the shopping centre that will take about a year. The number of stores in Finland was reduced by one: four stores were closed and three new stores were opened. Year-end sales were nevertheless lifted by the first four stores that were opened in Riga, Latvia, in the autumn.

Despite unsatisfactory earnings in the second quarter, full-year operating profit rose to nearly the previous year's level and was EUR 10.1 million (EUR 10.4 million). The return on capital employed increased by a hefty 58.5 per cent (52.4 per cent) thanks to a speed-up in capital turnover.

The trend in operating profit and return on capital employed by division are shown in the accompanying table.

Financing and invested capital

Liquid assets totalled EUR 121.3 million, compared with EUR 70.5 million at the end of 2002.

Loan repayments during the year amounted to EUR 1.0 million. In Latvia an LVL 9.0 million (EUR 13.6 million) loan for the department store construction project was drawn down. The amount of long-term loans at the end of December was EUR 48.6 million. Capital expenditures in 2003 came to EUR 40.9 million. Dividend payouts total EUR 45.8 million. The 1997 options were exercised to subscribe for a total of 1 239 700 shares in the last quarter, bringing a total increase in shareholders' equity of EUR 16.4 million. In addition, disposals of fixed assets generated EUR 36.6 million.

The equity ratio declined from 69.7 per cent in the comparison period to 68.3 per cent.

Total contingent liabilities diminished by EUR 7.6 million from the end of 2002 and were EUR 60.8 million. Lease agreements on business premises amounted to EUR 471.1 million, compared with EUR 363.0 million a year earlier. Lease liabilities were increased by the leases on the new department stores in Moscow and in the Jumbo Shopping Centre in Vantaa as well as by the sale and leaseback of the Tapiola department store property.

Dividends

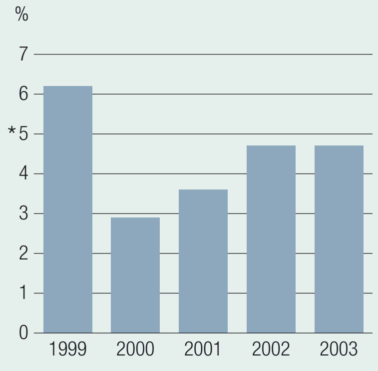
A dividend of EUR 0.70 per share was paid for the 2002 financial year and additionally a bonus dividend of EUR 0.20 per share in honour of the company's 140-year jubilee, or a total of EUR 45.8 million. In recent years the company has had a positive earnings trend, a strong balance sheet and a very high equity ratio, in addition to which the share option programmes that are maturing over the next few years will increase the company's shareholders' equity further. Accordingly, the Board of Directors is proposing to the Annual General Meeting the payment of an ordinary dividend for the 2003 financial year of EUR 0.90 and a bonus dividend of EUR 0.45, or a total of EUR 1.35 per share. The proposed dividend is 133.7 per cent of earnings per share.

Property and business transactions

In line with its strategy of freeing up capital, at the end of March Stockmann sold its department store property in Espoo's Tapiola district to a wholly-owned subsidiary of the Dutch real-estate investment company Wereldhave N.V. for just over EUR 36 million. At the same time, Stockmann leased the divested property from the new owner for the Tapiola department store's use under a long-term leaseback agreement.

Stockmann sold Academic Bookstore's agency sales of magazine and newspaper subscriptions to Suoma-

Operating profit, % of net turnover 1999-2003



* Long-term minimum target

Dividend for the financial years 1999-2003

* Board proposal to the AGM

Investments and depreciation 1999-2003

lainen Kirjakauppa Oy. The business was transferred to the new owner as from June 1, 2003. The arrangement fits in with the Stockmann Group's strategy, with its focus on the consumer trade. Academic Bookstore will continue acting as an agent for magazine and newspaper subscriptions ordered by Stockmann's Loyal Customers and will still handle order-based book sales to customers and public-sector organizations.

Capital expenditures

Capital expenditures during the financial year totalled EUR 40.9 million (EUR 25.8 million).

The Department Store Division's capital expenditures came to EUR 18.2 million. The division's biggest capital expenditure was the Riga department store which was opened on October 17. During 2003 the outlay for the site's building and fixturings was a total of about EUR 14.7 million. All in all, Stockmann has invested EUR 19.7 million in the site.

Moscow's first Zara store was opened at the end of February in the Mega Shopping Centre. In April new Zara stores were opened in Finland in Helsinki's Itäkeskus Shopping Centre and in Turku's Hansa Block. New stores that are part of the Stockmann Beauty cosmetics chain were opened during the year in the Forum Shopping Centre in Helsinki and in Tampere's Koskikeskus Shopping Centre, as well as in Seinäjoki and Vaasa.

In April Stockmann and IKEA's Russian subsidiary LLC IKEA MOS entered into a lease agreement on a Stockmann department store with about 10 000 square metres of retail space that will be located in the Mega Shopping Centre on the south side of Moscow. The construction works on the site are proceeding according to plans and the department store will be opened in April 2004. Stockmann's investments in the site will come to about EUR 20 million, of which an outlay of EUR 2.7 million was made during 2003. Established by IKEA, Mega is a 200 000 square metre shopping centre where, among other retailers, the first Zara in Russia has been in operation since February.

Refurbishing and enlargement works are in progress in the Stockmann-owned building in the Suomenoja district of Espoo which is used by the Vehicle Division. An Audi dealership serving metropolitan Helsinki and its environs will be opened in the refurbished premises in spring 2004. The project has a cost estimate of about EUR 3.4 million.

The Hobby Hall Division's capital expenditures totalled EUR 1.7 million. They went for developing the information systems and starting up mail order sales in Lithuania.

Seppälä's capital expenditures came to EUR 1.2 million. They went primarily for the new stores in Latvia.

Investments in real-estate properties during the financial year amounted to EUR 16.8 million, of which EUR 9.6 million was for the Riga department store.

Other capital expenditures came to EUR 3.0 million.

Current projects

In the autumn IKEA decided to build a Mega North Shopping Centre with about 200 000 square metres of retail space on Moscow's north side. In October Stockmann made an agreement with IKEA on opening a department store with about 10 000 square metres of retail space in rented premises in the same shopping centre. The construction works got under way at the end of 2003. Stockmann's capital expenditure for the site will come to about EUR 20 million. According to plans, the department store will be opened at the end of 2004 and it will be Moscow's third full-sized Stockmann department store. ⇨

AVERAGE NUMBER OF EMPLOYEES CONVERTED TO FULL-TIME STAFF	1999	2000	2001	2002	2003
Department Store Division	3 959	4 092	4 263	4 459	4 782
Vehicle Division	703	768	790	741	776
Hobby Hall	532	592	688	755	704
Seppälä	659	748	749	705	709
Management and administration	144	95	91	92	97
Divested business	588				
Total	6 585	6 295	6 581	6 752	7 068

Board report on operations

The preliminary agreement that was signed with ZAO Znamenskaya concerning a department store in St Petersburg has lapsed because the owner of the property failed to arrange the financing required for implementing the shopping centre by the deadline specified in the agreement. Stockmann is looking for alternative department store sites in St Petersburg.

Stockmann has made an agreement with VV-Auto Oy, which is owned by Kesko Corporation, on termination of the lease agreement for the VW-Audi car dealership in Helsinki's Herttoniemi district by December 31, 2004 at the latest. The parties are negotiating on a possible sale of business operations by the end of August 2004.

In October Stockmann made an agreement on opening a department store with about 11 000 square metres of retail space in rented premises in the new section of the Jumbo Shopping Centre in Vantaa. According to plans, the department store will be completed in 2006 at the latest.

A large-scale project for enlargement and modification works on the department store in the centre of Helsinki is pending. According to the plan, the department store's commercial premises will be expanded by about 10 000 square metres by converting existing premises to commercial use and by building new retail space. In addition, completely new goods handling and maintenance areas will be built as well as access passages to the new customer car-park. After the enlargement the Helsinki department store will have about 50 000 square metres of retail sales space. The project has a total cost estimate of about EUR 115 million. The works are estimated to reach completion during 2008. Implementation of the project will call for modifying the town plan, a process that has already been started.

Preparations for IFRS financial statements

The IAS regulation which the European Union issued in 2002 stipulates that all listed companies prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the 2005 financial year at the latest.

Stockmann undertook preparations for IFRS financial statements in spring 2002, and the work has progressed according to the timetable set. Stockmann's IFRS working group has surveyed all the IFRS standards that affect the Group's operations and the changes in accounting practice they will entail. Basic training in the implementation of IFRS and the standards that are of most relevance to Stockmann has been arranged for the staff. The decisions required for the selection of the principles of valuing fixed assets, the classification and treatment of financial instruments and the format for presenting financial statement information were taken in autumn 2003. An information system that facilitates the preparation and documentation of IFRS financial statements was placed in use in October 2003.

Stockmann will go over to IFRS financial statements by drawing up, on the basis of the financial statements for 2003, an opening IFRS balance sheet for 2004 and making the IFRS-required adjustments to the financial statements for 2003. During 2004, IFRS financial statements will be prepared quarterly alongside the accounts according to Finnish financial statement practice in order to obtain comparison figures for the 2005 interim reports. The interim reports and financial statements for 2005 will be published in accordance with IFRS.

Effects on the financial statements of introducing IFRS

According to a preliminary analysis, the changeover to IFRS reporting can involve changes in Stockmann's accounting policies particularly in the following subareas: the method of depreciating revaluations, the treatment of deferred taxes, segmental reporting, the treatment of own shares, the treatment of defined benefit plans (the funded part of the disability pension cover based on the Employees´ Pension Act), the classification and valuation of financial assets as well as hedge accounting for derivative contracts.

In addition, the IFRS financial statements must present more extensive notes to the accounts than at present, explain the accounting policies in greater detail and present a new statement of shareholders' equity.

Since IFRS standards are still partially in the process of finalization, it has not yet been possible to take account of all the details of the changes compared with present reporting. According to a preliminary analysis, the effect of the change in accounting policies on the Group's profit and loss account and balance sheet will be minor. The estimate available at the present time indicates that the change in accounting policies will reduce the Group's total assets, thereby causing a slight decrease in the equity ratio. According to the estimate, the annual effects on the consolidated profit and loss account will not be material in amount.

Share capital and shares

At its meetings held on May 20, 2003, August 12, 2003, and February 12, 2004, Stockmann's Board of Directors approved shareholders' requests to convert a total of 293 000 of the company's shares from Series A into Series B shares in accordance with Article 3 of the Articles of Association.

A total of 5 580 Stockmann plc Series B shares with a par value of 2 euros were subscribed for with Stockmann Loyal Customer share options during the subscription period from May 2, 2003, to May 31, 2003. As a consequence of the subscriptions, the share capital was increased by EUR 11 160.

The 1997 share options were exercised to subscribe for a total of 1 239 700 Stockmann plc Series B shares with a par value of 2 euros in the fourth quarter. As a consequence of the subscriptions, the share capital was increased by EUR 2 479 400. During January 2004, the 1997 options were exercised to subscribe for a further 20 300 Series B shares, and consequently the options were exercised to subscribe for the maximum amount or 1 260 000 Series B shares. As a consequence of the subscriptions, the total increase in the share capital was EUR 2 520 000. The subscription period for the 1997 options ended on January 31, 2004.

At the end of the year, the total number of Series A shares was 24 738 893 and there were 27 890 448 Series B shares. Following the increases the share capital is EUR 105 258 682.

The company's market capitalization grew by 34.6 per cent during the year and was EUR 955.6 million at the end of December. At the end of 2002, the market capitalization was EUR 710.1 million.

Stockmann's shares outperformed both the HEX All-Share Index and the HEX Portfolio Index during the year. At the end of December the stock exchange price of the Series A share was EUR 18.00, compared with EUR 13.84 at the end of 2002, and the Series B share was selling at EUR 18.30, as against EUR 13.80 at the end of 2002. During the year more than 20 per cent of the company's shares changed owners.

At the end of December Stockmann held 163 000 of the company's own Series A shares and 250 000 of its own Series B shares. The par value of these shares is a total of EUR 826 000, and they represent 0.8 per cent of all the shares outstanding as well as 0.7 per cent of the total votes. The shares were purchased for a total price of EUR 6.2 million.

The company's Board of Directors does not have valid authorizations to increase the share capital or to float issues of convertible bonds or bonds with warrants or to buy back its own shares.

Personnel strength

Stockmann's payroll at the end of December 2003 was 9 542 employees, or 625 employees more than at the end of the previous year.

In 2003 Stockmann employed an average of 8 745 people, or 432 more than in the previous year, when the average payroll was 8 313 employees. Converted to full-time staff, the average number of employees rose by 316 and was 7 068. The number of employees grew primarily owing to the effect of the department store opened in Riga in October and the new Zara stores. In the parent company, the average number of employees converted to full-time staff increased by 24 and was 4 280.

At the end of 2003 the number of staff working at units abroad was 1 946 employees, or 20 per cent of the entire personnel. At the end of the previous year, 1 387 employees, or 16 per cent of the personnel, were employed at units abroad.

Outlook for 2004

Retail sales excluding the motor trade are estimated to increase by about 2 per cent in Finland in 2004. The volume of new vehicle sales is estimated to be at the previous year's level. It is estimated that the markets in Russia and the Baltic countries will continue to grow faster than the Finnish market. The growth in the Stockmann Group's sales is expected to be at least at the same level as it was in 2003. Sales in 2004 are estimated to top EUR 1.8 billion.

The operating profit generated by the Department Store Division and Seppälä is estimated to improve on the level reported for 2003 and the Vehicle Division's operating profit is set to remain at least at the same level. Hobby Hall's result is expected to improve significantly and to return to the black. Accordingly, profit on ordinary operations is estimated to improve markedly. Other operating income will depend on the decisions taken during the year. Stockmann's target is for the Group to post higher profit before extraordinary items in 2004 than it did in 2003.

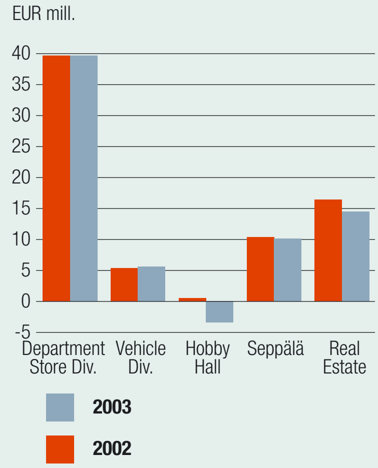
Board proposal for the distribution of profits

The Board of Directors' proposal for the parent company's dividend is on page 64 of the Annual Report.

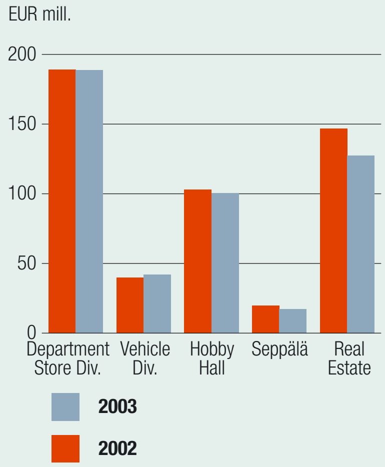
Operating profit according to management accounting
In calculating operating profit for management accounting purposes, the divisions are charged an internal rent for their own business premises in accordance with the prevailing market rent and they are also charged for centrally produced services. The divisions' operating profit includes the account servicing charges for the Stockmann account as well as the interest share of hire purchase and leasing income. Other operating income is not allocated to the divisions.

Capital employed
Capital employed has been calculated as a 12-month moving average.

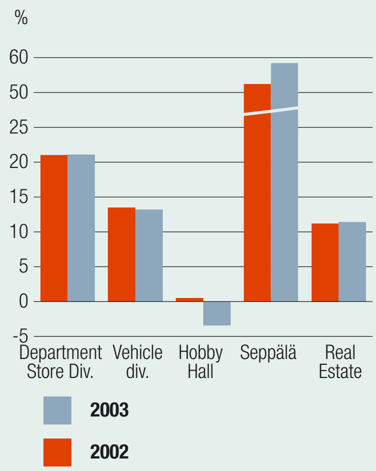
Operating profit according to management accounting 2002-2003



Capital employed 2002-2003



ROCE %* 2002-2003



* Operating profit according to management accounting as a ratio of capital employed

Shares and share capital

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 EUR 2.00 and the shares of both series entitle their holders to an equal dividend.

The company's shares are in the book-entry system. The number of registered shareholders at December 31, 2003, was 15 591 (13 999 shareholders at December 31, 2002) representing 99.9 per cent of the company's shares outstanding.

Shares

General price trend

Share prices rose on Helsinki Exchanges during the financial year by 4.4 per cent as measured by the HEX All-Share Index and by 16.2 per cent as measured by the HEX Portfolio Index. The retail industry index rose by 20.2 per cent.

Price trend of Stockmann's shares and share options

	Closing prices Dec. 31, 2003 EUR	Closing prices Dec. 31, 2002 EUR	Change %
Series A	18.00	13.84	30.1
Series B	18.30	13.80	32.6
1997 options	19.00	1.60	

Turnover of Stockmann's shares and share options

	Number of shares	% of total shares outstanding	EUR	Average price EUR
Series A	1 780 547	7.2	28 287 245	15.89
Series B	8 894 822	31.9	141 518 361	15.91
Total	10 675 369		169 805 606	
1997 options	355 700	1.3	1 892 885	5.32

The Stockmann shares that were traded accounted for 0.07 per cent of the share turnover on Helsinki Exchanges. The company's market capitalization at December 31, 2003 was EUR 956 million. The market capitalization at December 31, 2002 was EUR 710 million.

The trading lot for both Series A and Series B shares is 50 shares.

Share capital

Share capital of Stockmann plc, December 31, 2003

Series A	24 738 893	shares at EUR 2 each	49 477 786	EUR
Series B	27 890 448	shares at EUR 2 each	55 780 896	EUR
Total	52 629 341	shares at EUR 2 each	105 258 682	EUR

Key employee share options 1997

In 1997 a bond loan with share options was offered for subscription to key employees belonging to the senior or middle management of Stockmann or its subsidiaries. The attached options were quoted on the Main List of Helsinki Exchanges. There were a total of 360 000 share options. Each share option entitled its holder to subscribe for 3.5 Stockmann plc Series B shares. In the last quarter of the year by December 31, 2003, a total of 1 239 700 shares had been subscribed for with the share options and in January 2004 by the close of the subscription period on January 31, 2004, 20 300 shares had been subscribed for. Accordingly, the share options were exercised to subscribe for a total of 1 260 000 Series B shares. The subscription price of a share through the exercise of share options was EUR 13.21 per share.

Key employee share options 2000

In 2000, a total of 2 500 000 share options were granted to key employees belonging to the senior and middle management of Stockmann or its subsidiaries. Option A can be exercised to subscribe for 625 000 Stockmann Series B shares at a price of EUR 20 per share, option B to subscribe for 625 000 Series B shares at a price of EUR 21 per share and option C to subscribe for 1 250 000 Series B shares at a price of EUR 22 per share. The subscription price of the share will be reduced by the amount of the cash dividend payout per share after April 11, 2000, and before the share subscription as determined on the record date for each dividend payout. The subscription periods for the shares are as follows: A, April 1, 2003 - April 1, 2007; B, April 1, 2004 - April 1, 2007, and C, April 1, 2005 - April 1, 2007.

Loyal Customer share options

1 382 524 Loyal Customer share options were subscribed for. During the share subscription period in 2003, a total of 5 580 Series B shares at a price of EUR 12.16 per share were subscribed for on the basis of the subscribed options.

The future subscription periods for shares with the Loyal Customer share options are May 2-May 31, 2004 and May 2-May 31, 2005. The dividends payable annually are deducted from the subscription price. The subscription price after the dividend payout proposed by the Board of Directors for the 2003 financial year is EUR 10.81.

Own shares

The company holds 163 000 of its own Series A shares and 250 000 of its own Series B shares. The Series A shares owned by the company represent 0.3 per cent of the share capital and 0.6 per cent of all the voting rights. The Series B shares owned by the company represent 0.5 per cent of the share capital and 0.1 per cent of all the voting rights. The shares in the company's possession do not confer voting rights at the general meetings of shareholders.

Taxation values of shares

The taxation value of the Series A share in 2003 was EUR 12.67 and the taxation value of the Series B share was EUR 12.81.

Dividend policy

Stockmann's Board of Directors has set the dividend payout target at a minimum of half of the earnings derived from the company's ordinary operations. The financing required to grow operations is nevertheless taken into account in determining the dividend.

Changes in the share capital as from January 1, 1999

Subscribed	Entered in the Trade Register	Subscription price EUR	Number of new shares	Additional share capital EUR million	New total share capital EUR million
2000 Bonus issue, increasing of the par value	Sept. 1, 00			16.3	102.8
2002 With the 1999 Loyal Customer options	June 18, 02	13.06	1 084 B	0.0	102.8
2003 With the 1999 Loyal Customer options	June 30, 03	12.16	5 580 B	0.0	102.8
2003 With the 1997 share options	Oct. 3, 03	13.21	127 904 B	0.3	103.0
2003 With the 1997 share options	Nov. 14, 03	13.21	71 750 B	0.1	103.2
2003 With the 1997 share options	Nov. 28, 03	13.21	1 037 246 B	2.1	105.3
2003 With the 1997 share options	Dec. 30, 03	13.21	2 800 B	0.0	105.3
2004 With the 1997 share options	Feb. 20, 04	13.21	20 300 B	0.0	105.3

Coming subscriptions with share options*	Subscription period	Subscription price EUR	Number of new shares thousands	Additional share capital EUR million	New total share capital EUR million	Holding %	Proportion of votes %
2001- Subscr. with 1999 Loyal Customer options	May 2, 04-May 31, 05	15.70/1	1 376 B	2.8	108.1	2.7	0.5
2005		less dividends after April 1, 1999					
2003- Subscr. with 2000 key employee options	Apr. 1, 04-Apr.1, 07	20.00 A/2	625 B				
2007		21.00 B/3	625 B				
		22.00 C/4	1 250 B				
		less dividends after April 11, 2000					
				5.0	113.1	4.6	0.9

*If all options are exercised

1 Subscription price after 2003 dividend payout proposed by the Board of Directors: EUR 10.81

2 Subscription price after 2003 dividend payout proposed by the Board of Directors: EUR 15.95

3 Subscription price after 2003 dividend payout proposed by the Board of Directors: EUR 16.95

4 Subscription price after 2003 dividend payout proposed by the Board of Directors: EUR 17.95

Shareholders at December 31, 2003

Ownership structure

	Shareholders no.	%	Percentage of shares %	Percentage of votes %
Households	14 462	92.7	21.0	20.1
Private and public corporations	534	3.4	15.7	17.6
Banks and insurance companies	54	0.4	4.8	1.4
Foundations and others	434	2.8	52.3	58.0
Foreign shareholders (incl. nominee registrations)	106	0.7	5.3	2.9
Unregistered shares			0.1	0.0
Shares owned by the company	1	0.0	0.8	0.0
Total	15 591	100.0	100.0	100.0

Shares and share capital

Shareholders at December 31, 2003

Number of shares

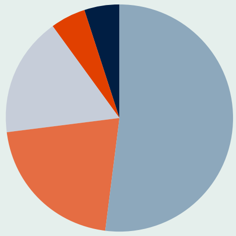
	Shareholders no.	Shareholders %	Percentage of shares %
1-100	4 112	26.4	0.5
101-1000	8 927	57.3	6.7
1001-10000	2 298	14.7	11.4
10001-100000	204	1.3	10.6
100001-	49	0.3	70.0
Shares owned by the company	1	0.0	0.8
Total	15 591	100.0	100.0

Major shareholders at December 31, 2003

	Percentage of shares %	Percentage of votes %
1 Föreningen Konstsamfundet grouping	11.4	15.1
2 Svenska litteratursällskapet i Finland	9.0	16.0
3 Niemistö grouping	7.4	10.7
4 Etola companies	5.4	7.1
5 Stiftelsen för Åbo Akademi	4.9	6.8
6 Samfundet Folkhälsan i svenska Finland	2.8	3.2
7 Tapiola Group	2.5	0.5
8 Jenny ja Antti Wihurin rahasto	2.4	2.4
9 Inez och Julius Polins fond	2.0	1.0
10 The Local Government Pensions Institution	2.0	0.4
11 Ilmarinen Mutual Pension Insurance Company	1.9	0.4
12 Wilhelm och Else Stockmanns Stiftelse	1.6	2.6
13 Stiftelsen Bensows Barnhem Granhyddan	1.2	1.6
14 Helene och Walter Grönqvists Stiftelse	1.1	1.7
15 The State Pension Fund	0.8	0.2
16 Stiftelsen Brita Maria Renlunds minne	0.8	1.0
17 Nordea Life Assurance Finland Ltd	0.7	0.4
18 Sigrid Jusélius Stiftelse	0.7	0.9
19 Sampo and Varma-Sampo	0.7	1.3
20 William Thurings stiftelse	0.7	0.9
Total	60.0	74.2

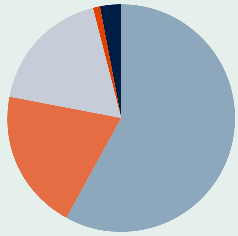
The holdings in the personal ownership of the members of the company's Board of Directors, CEO and the executive vice president who acts as the CEO's alternate, as well as the ownership of institutions under their control and persons under their guardianship at December 31, 2003 was a total of 6 430 594 shares, which represents a total of 12.2 per cent of the shares outstanding and 16.5 per cent of the voting rights (December 31, 2002: 6 526 534 shares, representing 12.7 per cent of the shares and 16.9 per cent of the voting rights) and 251 423 share options. The share options entitle their holders to subscribe for 251 423 Stockmann plc Series B shares, which would have been 0.5 per cent of the total shares outstanding and 0.1 per cent of all voting rights at December 31, 2003.

Distribution of shares



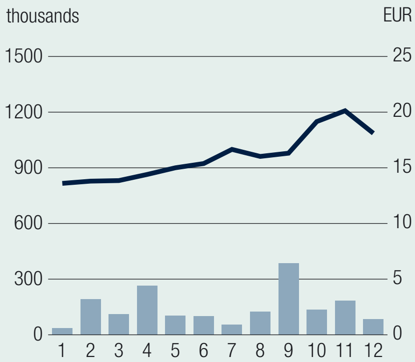
- 52% Foundations and others
- 21% Households
- 17% Private and public corporations
- 5% Banks and insurance companies
- 5% foreign shareholders (incl. nominee registrations)

Distribution of votes



- 58% Foundations and others
- 20% Households
- 18% Private and public corporations
- 1% Banks and insurance companies
- 3% Foreign shareholders (incl. nominee registrations)

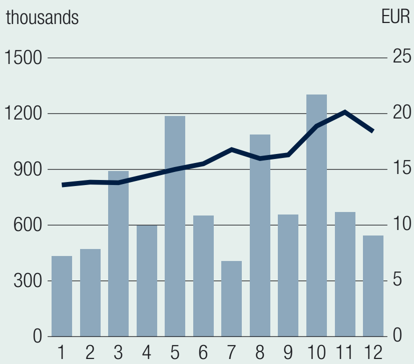
Turnover and price trend of Series A shares 2003



Number of shares traded

Monthly closing price

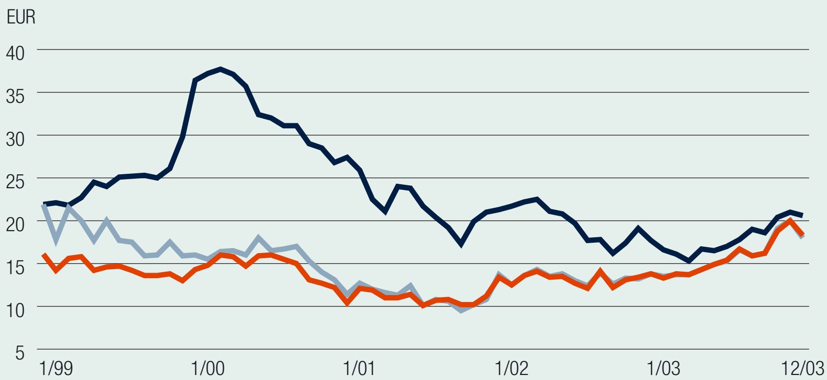
Turnover and price trend of Series B shares 2003



Number of shares traded

Monthly closing price

Price trend of Series A and Series B (share-issue adjusted) compared with HEX Portfolio Index 1999-2003



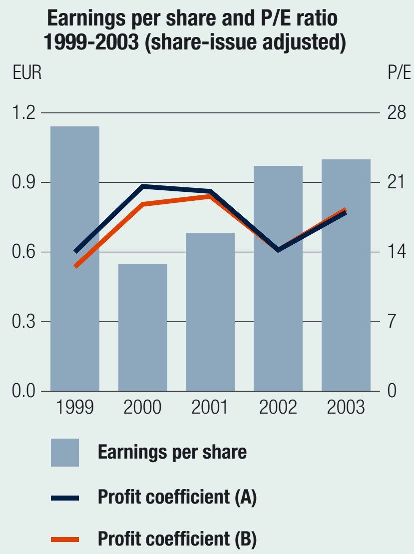
HEX Porfolio Index *

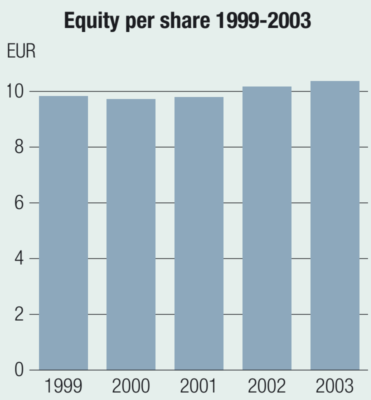
Stockmann A

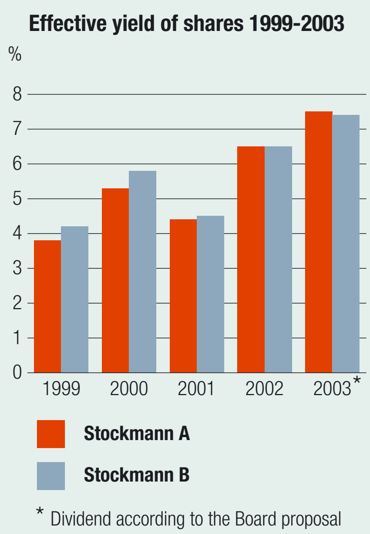
Stockmann B

* The weighting of each company in the index is limited to a maximum of 10 per cent.

Shares and share capital







Key figures

Key figures

		1999	2000	2001	2002	**2003**
Sales	EUR mill.	1 583.9	1 467.9	1 537.6	1 582.3	**1 698.6**
Change on the previous year	%	8.4	-7.3	4.7	2.9	**7.4**
Net turnover	EUR mill.	1 319.6	1 220.5	1 281.9	1 315.3	**1 412.7**
Change on the previous year	%	8.4	-7.5	5.0	2.6	**7.4**
Operating profit	EUR mill.	81.8	35.7	46.3	61.9	**65.7**
Change on the previous year	%	44.0	-56.3	29.6	33.6	**6.2**
Share of net turnover	%	6.2	2.9	3.6	4.7	**4.7**
Profit before extraordinary items	EUR mill.	86.7	41.2	51.2	68.6	**74.0**
Change on the previous year	%	41.6	-52.5	24.2	34.0	**7.9**
Share of net turnover	%	6.6	3.4	4.0	5.2	**5.2**
Profit before taxes	EUR mill.	86.7	40.6	51.2	68.6	**74.0**
Change on the previous year	%	47.5	-53.2	26.0	34.0	**7.9**
Share of net turnover	%	6.6	3.3	4.0	5.2	**5.2**
Share capital	EUR mill.	86.4	102.8	102.8	102.8	**105.3**
Series A	EUR mill.	41.8	49.7	49.7	49.7	**49.5**
Series B	EUR mill.	44.6	53.0	53.0	53.0	**55.8**
Dividends	EUR mill.	30.8	30.6	30.6	45.9	**70.5** *
Return on equity	%	11.8	5.6	6.9	9.6	**9.6**
Return on capital employed	%	15.8	8.4	9.8	12.6	**13.2**
Capital turnover rate		2.2	2.1	2.2	2.3	**2.4**
Equity ratio	%	65.3	67.2	69.5	69.7	**68.3**
Gearing	%	0.7	9.2	9.1	-3.4	**-10.4**
Investment in fixed assets	EUR mill.	64.1	45.1	31.1	25.8	**40.9**
Share of net turnover	%	4.9	3.7	2.4	2.0	**2.9**
Interest-bearing debtors	EUR mill.	117.6	123.2	109.5	110.3	**111.4**
Interest-bearing liabilities	EUR mill.	89.1	87.8	71.6	52.6	**64.7**
Interest-bearing net debt	EUR mill.	-114.0	-77.1	-63.4	-128.1	**-168.0**
Total assets	EUR mill.	773.6	746.8	728.2	752.7	**800.8**
Staff expenses	EUR mill.	166.9	164.8	179.0	184.9	**194.9**
Share of net turnover	%	12.6	13.5	14.0	14.1	**13.8**
Personnel, average	persons	8 041	7 626	8 084	8 313	**8 745**
Net turnover per person	EUR thousands	164.1	160.0	158.6	158.2	**161.5**
Operating profit per person	EUR thousands	10.2	4.7	5.7	7.4	**7.5**
Staff expenses per person	EUR thousands	20.8	21.6	22.1	22.2	**22.3**

*) Board proposal to the AGM. According to the proposal, a dividend of EUR 0.90+0.45 per share will be paid.

Definition of key indicators

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

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

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

Return on capital employed, % $= 100 \times \dfrac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Total assets less deferred tax liability and other non-interest-bearing liabilities (average over the year)}}$

Capital turnover rate $= \dfrac{\text{Net turnover}}{\text{Total assets less deferred tax liability and other non-interest-bearing liabilities (average over the year)}}$

Equity ratio, % $= 100 \times \dfrac{\text{Capital and reserves + minority interest}}{\text{Total assets less advance payments received}}$

Gearing, % $= 100 \times \dfrac{\text{Interest-bearing liabilities less cash in hand and at banks less securities held in current assets}}{\text{Capital and reserves + minority interest}}$

Interest-bearing net debt = Interest-bearing liabilities less cash in hand and at banks less securities held in current assets less interest-bearing debtors

Per-share data

Per-share data1)		1999	2000	2001	2002	2003	
Earnings per share	EUR	1.14	0.55	0.68	0.97	**1.01**	
Earnings per share, diluted	EUR	1.14	0.55	0.68	0.97	**1.00**	
Equity per share	EUR	9.82	9.72	9.80	10.17	**10.36**	
Dividend per share	EUR	0.60	0.60	0.60	0.90	**1.35**	*
Dividend per earnings	%	52.6	108.7	88.2	92.8	**133.7**	*
Cash flow per share	EUR	1.99	0.49	1.00	1.38	**1.41**	
Effective dividend yield	%						
Series A		3.8	5.3	4.4	6.5	**7.5**	
Series B		4.2	5.8	4.5	6.5	**7.4**	
P/E ratio of shares							
Series A		14.0	20.6	20.1	14.3	**18.0**	**
Series B		12.5	18.8	19.6	14.2	**18.3**	**
Share quotation at December 31	EUR						
Series A		16.00	11.39	13.70	13.84	**18.00**	
Series B		14.30	10.40	13.40	13.80	**18.30**	
Highest price during the period	EUR						
Series A		23.00	18.20	13.70	14.85	**20.50**	
Series B		17.95	16.50	13.70	15.00	**20.50**	
Lowest price during the period	EUR						
Series A		15.01	10.52	9.50	11.62	**12.80**	
Series B		12.50	9.80	10.00	11.80	**12.92**	
Average price during the period	EUR						
Series A		17.95	15.64	11.43	13.44	**15.89**	
Series B		14.00	14.35	11.07	13.45	**15.91**	
Share turnover	thousands						
Series A		2 479	1 756	3 032	379	**1 781**	
Series B		5 853	4 464	5 467	6 146	**8 895**	
Share turnover	%						
Series A		10.0	7.1	12.2	1.5	**7.2**	
Series B		22.1	16.8	20.6	23.2	**31.9**	
Market capitalization at December 31	EUR mill.	777.1	559.0	696.0	710.1	**955.6**	
Number of shares at December 31	thousands	51 383	51 383	51 383	51 384	**52 629**	
Series A		24 869	24 869	24 869	24 869	**24 739**	
Series B		26 514	26 514	26 514	26 515	**27 890**	
Weighted average number of shares	thousands	51 383	51 237	50 970	50 971	**51 111**	
Series A		24 869	24 829	24 706	24 706	**24 654**	
Series B		26 514	26 408	26 264	26 265	**26 458**	
The own shares owned by the company	thousands		413	413	413	**413**	
Series A			163	163	163	**163**	
Series B			250	250	250	**250**	
Total number of shareholders at December 31		12 893	12 664	13 399	13 999	**15 591**	

1) Adjusted for share issues.

*) Board proposal to the AGM. According to the proposal, a dividend of EUR 0.90+0.45 per share will be paid.

**) The dilution effect of options has been taken into account in the 2003 figures.

Definition of key indicators

Earnings per share	=	Profit before extraordinary items less income taxes / Average number of shares, adjusted for share issues
Equity per share	=	Capital and reserves - fund for own shares / Number of shares on the balance sheet date, adjusted for share issues 2)
Dividend per share	=	Dividend per share, adjusted for share issues
Dividend per earnings, %	= 100 x	Dividend per share / Earnings per share
Cash flow per share	=	Cash flow from operations / Average number of shares, adjusted for share issues
Effective dividend yield, %	= 100 x	Dividend per share, adjusted for share issues / Share quotation at December 31, adjusted for share issues
P/E ratio of shares	=	Share quotation at December 31, adjusted for share issues / Earnings per share
Share quotation at Dec. 31	=	Share quotation on the balance sheet date, adjusted for share issues
Highest share price during the period	=	Highest price of the company's shares during the period, adjusted for share issues
Lowest share price during the period	=	Lowest price of the company's shares during the period, adjusted for share issues
Average share price over the period	=	Share turnover in euro terms divided by the number of shares traded during the period, adjusted for share
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 series on the balance sheet date

2) Without the own shares owned by the company

Profit and loss account

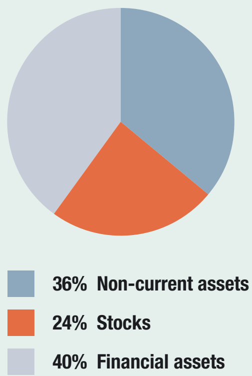
PROFIT AND LOSS ACCOUNT		STOCKMANN GROUP				STOCKMANN plc			
	Ref.	**Jan.1- Dec. 31, 2003 EUR mill.**	% of net turnover	Jan.1- Dec. 31, 2002 EUR mill.	% of net turnover	**Jan.1- Dec. 31, 2003 EUR mill.**	% of net turnover	Jan.1- Dec. 31, 2002 EUR mill.	% of net turnover
NET TURNOVER	1	**1 412.7**	100.0	1 315.3	100.0	**987.7**	100.0	903.8	100.0
Other operating income	2	**15.4**	1.1	8.8	0.7	**24.0**	2.4	16.7	1.8
Raw materials and services									
Raw materials and consumables:	3								
Purchases during the financial year		**957.6**		899.7		**694.5**		644.1	
Variation in stocks, increase (-), decrease (+)		**-2.4**		-23.3		**-0.8**		-17.7	
Raw materials and services, total		**955.3**	67.6	876.4	66.6	**693.7**	70.2	626.5	69.3
Staff expenses	4	**194.9**	13.8	184.9	14.1	**146.0**	14.8	138.6	15.3
Depreciation and reduction in value	5	**28.8**	2.0	28.9	2.2	**16.1**	1.6	18.6	2.1
Other operating expenses	6	**183.4**	13.0	172.0	13.1	**93.9**	9.5	87.5	9.7
		1 362.4	96.4	1 262.2	96.0	**949.8**	96.2	871.2	96.4
OPERATING PROFIT		**65.7**	4.7	61.9	4.7	**62.0**	6.3	49.3	5.5
Financial income and expenses:									
Income from Group undertakings	7					**69.8**		29.6	
Income from other investments held as non-current assets		**0.5**		0.3		**0.4**		0.3	
Interest and financial income from Group undertakings						**2.4**		2.3	
Interest and financial income from outside the Group		**11.5**		10.8		**11.1**		10.2	
Reduction in value of securities held in current assets		**0.6**				**0.6**			
Reduction in value of non-current investments	8					**0.0**		-1.6	
Interest and other financial expenses for Group undertakings						**0.0**		-5.3	
Interest and other financial expenses outside the Group	9	**-4.4**		-4.5		**-5.5**		-3.4	
Financial income and expenses, total		**8.3**	0.6	6.7	0.5	**78.9**	8.0	32.1	3.6
PROFIT BEFORE EXTRAORDINARY ITEMS		**74.0**	5.2	68.6	5.2	**140.9**	14.3	81.4	9.0
Extraordinary items	10								
Extraordinary income						**9.0**		10.0	
Extraordinary expenses						**-4.7**		-3.1	
Extraordinary items, total						**4.3**	0.4	6.9	0.8
PROFIT BEFORE TAXES/		**74.0**	5.2	68.6	5.2				
PROFIT BEFORE APPROPRIATIONS AND TAXES						**145.2**	14.7	88.3	9.8
Appropriations	11					**-8.3**	-0.8	5.7	0.6
Income taxes	12.13								
For the financial year		**20.5**		21.7		**39.7**		27.3	
For previous financial years		**-0.1**		-0.1		**-0.2**		0.0	
Change in deferred tax liability /-asset		**1.9**		-2.7					
Income taxes, total		**22.3**	1.6	18.9	1.4	**39.5**	4.0	27.3	3.0
Minority interest		**0.0**		0.0					
PROFIT FOR THE FINANCIAL YEAR		**51.7**	3.7	49.7	3.8	**97.4**	9.9	66.7	7.4

Balance sheet

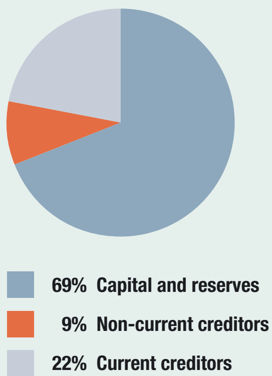
BALANCE SHEET		STOCKMANN GROUP		STOCKMANN plc	
ASSETS	Ref.	**Dec. 31, 2003 EUR mill.**	Dec. 31, 2002 EUR mill.	**Dec. 31, 2003 EUR mill.**	Dec. 31, 2002 EUR mill.
NON-CURRENT ASSETS					
Intangible assets	14				
Intangible rights		**10.3**	9.8	**5.7**	5.2
Goodwill arising on consolidation			0.0		
Goodwill		**0.0**	0.1	**0.0**	0.0
Other capitalized long-term expenses		**24.6**	24.8	**10.8**	11.5
Advance payments and projects in progress		**5.4**	1.6	**2.1**	1.4
Intangible assets, total		**40.4**	36.3	**18.6**	18.1
Tangible assets	15				
Land and water		**17.8**	20.2	**11.5**	13.8
Buildings and constructions		**133.0**	146.9	**111.3**	133.8
Machinery and equipment		**59.8**	63.1	**26.8**	34.4
Other tangible assets		**0.1**	0.1	**0.1**	0.1
Advance payments and construction in progress		**9.5**	6.1	**4.0**	1.0
Tangible assets, total		**220.2**	236.4	**153.7**	183.2
Investments	16				
Holdings in Group undertakings				**49.8**	45.1
Receivables from Group undertakings					3.7
Own shares		**6.2**	6.2	**6.2**	6.2
Other shares and participations		**22.4**	22.5	**18.3**	18.3
Investments, total		**28.7**	28.7	**74.3**	73.3
NON-CURRENT ASSETS, TOTAL		**289.2**	301.4	**246.6**	274.6
CURRENT ASSETS					
Stocks					
Raw materials and consumables		**191.3**	188.9	**124.7**	123.9
Stocks, total		**191.3**	188.9	**124.7**	123.9
Non-current debtors	17				
Trade debtors		**0.2**	0.5	**0.2**	0.5
Amounts owed by Group undertakings				**4.5**	
Loan receivables		**0.1**	0.2	**0.1**	0.2
Other debtors		**0.5**			
Non-current debtors, total		**0.9**	0.7	**4.8**	0.7
Deferred tax asset		**0.8**			
Current debtors	18				
Trade debtors		**177.7**	169.1	**108.4**	99.8
Amounts owed by Group undertakings				**146.7**	94.7
Other debtors		**6.5**	11.7	**2.1**	5.9
Prepayments and accrued income	19	**13.1**	10.3	**7.4**	5.7
Current debtors, total		**197.3**	191.2	**264.6**	206.1
Debtors, total		**199.0**	191.8	**269.4**	206.8
Securities held in current assets	20	**101.8**	56.6	**101.6**	56.1
Cash in hand and at banks		**19.5**	13.9	**6.7**	6.6
CURRENT ASSETS, TOTAL		**511.6**	451.2	**502.4**	393.3
TOTAL		**800.8**	752.7	**749.0**	667.9

BALANCE SHEET		STOCKMANN GROUP		STOCKMANN plc	
LIABILITIES	Ref.	**Dec. 31, 2003 EUR mill.**	Dec. 31, 2002 EUR mill.	**Dec. 31, 2003 EUR mill.**	Dec. 31, 2002 EUR mill.
CAPITAL AND RESERVES	21-22				
Share capital		**105.3**	102.8	**105.3**	102.8
Premium fund		**147.1**	133.1	**147.1**	133.1
Fund for own shares		**6.2**	6.2	**6.2**	6.2
Reserve fund		**0.2**	0.1		
Other funds		**43.7**	43.7	**43.7**	43.7
Retained earnings		**192.9**	189.2	**80.2**	59.5
Net profit for the financial year		**51.7**	49.7	**97.4**	66.7
CAPITAL AND RESERVES, TOTAL		**547.1**	524.8	**479.9**	412.0
MINORITY INTEREST		**0.0**	0.0		
ACCUMULATED APPROPRIATIONS	23			**79.0**	70.7
CREDITORS	24-26				
Deferred tax liability		**26.0**	23.3		
Non-current creditors					
Loans from credit institutions		**48.6**	35.0	**35.0**	35.0
Pension loans			0.8		0.8
Non-current creditors, total		**48.6**	35.8	**35.0**	35.8
Current creditors					
Pension loans			0.3		0.3
Trade creditors		**92.2**	81.7	**75.2**	69.8
Amounts owed to Group undertakings				**10.0**	7.7
Other creditors		**40.5**	41.3	**36.3**	38.6
Accruals and prepaid income		**46.4**	45.5	**33.5**	33.1
Current creditors, total		**179.0**	168.7	**155.1**	149.4
CREDITORS, TOTAL		**253.7**	227.8	**190.1**	185.2
TOTAL		**800.8**	752.7	**749.0**	667.9
Distributable funds		**227.1**	227.5	**221.4**	169.8

Assets 2003



Financing 2003



Funds statement

FUNDS STATEMENT	STOCKMANN GROUP		STOCKMANN plc	
	2003	2002	**2003**	2002
	EUR millions	EUR millions	**EUR millions**	EUR millions
CASH FLOW FROM OPERATIONS				
Payments from sales	**1 416.9**	1 315.1	**982.6**	901.3
Payments from other operating income	**2.3**		**10.9**	9.3
Payments for operating expenses	**-1 333.2**	-1 234.9	**-922.9**	-845.5
Cash flow from operations before financial items and taxes	**85.9**	80.1	**70.6**	65.2
Paid interest and payments for other operating financial expenses	**-3.8**	-4.7	**-4.9**	-4.4
Interest received from operations	**11.0**	11.4	**13.0**	13.1
Direct taxes paid	**-20.9**	-16.6	**-18.6**	-10.3
Cash flow before extraordinary items	**72.2**	70.2	**60.1**	63.6
Cash flow from operational extraordinary items (net)			**6.9**	
CASH FLOW FROM OPERATIONS (A)	**72.2**	70.2	**67.0**	63.6
CASH FLOW INTO AND FROM INVESTMENTS				
Capital expenditures on tangible and intangible assets	**-41.0**	-27.0	**-13.2**	-5.9
Cash from tangible and intangible assets	**36.6**	35.3	**36.2**	27.1
Capital expenditures on other investments	**0.0**	0.0	**0.0**	-0.3
Cash from other investments	**0.4**	14.2	**0.4**	14.3
Investments in Group companies			**-4.7**	
Group companies divested		0.8		0.8
Dividends from investments	**0.3**	0.2	**49.9**	21.2
CASH FLOW INTO AND FROM INVESTMENTS (B)	**-3.8**	23.5	**68.6**	57.1
FINANCIAL CASH FLOW				
Change in loans granted, increase (-), decrease (+)	**0.1**	0.5	**-57.5**	-12.5
Subscriptions with options	**16.4**	0.0	**16.4**	0.0
Change in short-term loans, increase (+), decrease (-)	**-0.9**	-10.8	**-1.2**	-23.4
Long-term loans drawn down	**13.6**			
Repayments of long-term loans	**-1.0**	-7.9	**-1.0**	-7.9
Dividend paid and other distribution of profits	**-45.8**	-30.6	**-45.8**	-30.6
FINANCIAL CASH FLOW (C)	**-17.6**	-48.9	**-89.0**	-74.5
Change in cash funds (A+B+C) increase (+), decrease (-)	**50.8**	44.8	**46.5**	46.2
Cash funds at start of the financial year	**70.5**	25.6	**62.6**	16.4
Cash funds at end of the financial year	**121.3**	70.5	**109.2**	62.6

Notes to the accounts

ACCOUNTING POLICY

General principles
Stockmann's annual accounts have been prepared in accordance with the regulations of the Finnish Accounting Act which came into force on December 31, 1997.

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 real estate companies in which the parent company controls, either directly or indirectly, at least 80 per cent of the voting rights conferred by the shares. The consolidated accounts cover also 63 percent of the accounts of the partly owned real estate company SIA Stockmann Centrs in Latvia in proportion to the Group's interest in the company. The companies acquired during the year have been included in the consolidation from the time of acquisition.

Real estate companies in which the Group has an interest of more than 20 per cent have not been treated as associated undertakings, nor do other associated undertakings belong to the Group.

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 deferred tax liability 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
In the consolidated accounts all items in profit and loss accounts of foreign subsidiaries have been translated into euros at the average exchange rates for the year. The balance sheets have been translated into euros at the rate prevailing 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 euros using the monetary-non-monetary method according to which fixed assets, stocks and equity are translated into euros at the rates prevailing at the time of acquisition and the other balance sheet items at the rates prevailing on the balance sheet date and, furthermore, the profit and loss account is translated at the average monthly rate on a month-by-month basis.

Transactions in foreign currencies
At the end of accounting period foreign currency debtors and creditors in the balance sheet are translated at the rates prevailing 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 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. The deferred tax liability has not, however, been calculated for revaluations nor in the Russian subsidiaries for the differences in non-current assets between the consolidated annual accounts and local taxation. Deferred tax liabilities and tax assets are included entirely 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 long-term expenses: 5-20 years
- Buildings: 20-50 years
- Machinery and equipment: 4-12 years
- Lightweight store furnishings, motor vehicles and data processing equipment: 4-5 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.

Obligatory provisions
Expenditure to which the company has committed but which has not yet been realized, for example restructuring cost, is shown as obligatory provisions in the balance sheet. Expenses corresponding to the obligatory provisions are included in the income statement in a relevant group of expenses.

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

Exchange rates		Closing rates		Average yearly rate	
Country	Currency	Dec.31, 2003	Dec.31, 2002	2003	2002
Russia	RUB	36.9360	33.5060	34.6801	29.6867
Estonia	EEK	15.6466	15.6466	15.6466	15.6466
Latvia	LVL	0.6725	0.6140	0.6407	0.5810
Sweden	SEK	9.0800	9.1528	9.1242	9.1611
Lithuania	LTL	3.4524	3.4525	3.4527	3.4594

Notes to the accounts

NOTES TO THE PROFIT AND LOSS ACCOUNT	STOCKMANN GROUP 2003	STOCKMANN GROUP 2002	STOCKMANN plc 2003	STOCKMANN plc 2002
1. Net turnover				
Breakdown of net turnover by market area				
EUR mill.				
Finland	**1 254.9**	1 171.5	**987.7**	903.8
Russia	**70.5**	62.4		
Estonia	**63.3**	65.7		
Latvia	**19.1**	15.3		
Lithuania	**4.9**	0.1		
Sweden		0.3		
Total	**1 412.7**	1 315.3	**987.7**	903.8
2. Other operating income				
EUR mill.				
Capital gains on divestments	**15.4**	8.8	**15.4**	7.4
Rental income from subsidiaries			**4.1**	4.5
Compensation for services to Group companies			**4.5**	4.8
Total	**15.4**	8.8	**24.0**	16.7
3. Gross margin				
EUR mill.				
Net turnover	**1 412.7**	1 315.3	**987.7**	903.8
Raw materials and consumables	**957.6**	899.7	**694.5**	644.1
Variation in stocks	**-2.4**	-23.3	**-0.8**	-17.7
Gross profit	**457.5**	438.9	**294.0**	277.3
Gross profit/net turnover (%)	**32.4**	33.4	**29.8**	30.7
4. Staff expenses				
EUR mill.				
Salaries and emoluments paid to the CEO and his alternate	**1.1**	1.1	**0.7**	0.5
Salaries and emoluments paid to the Board of Directors	**0.2**	0.2	**0.2**	0.2
Other wages and salaries	**155.0**	144.8	**116.1**	108.6
Wages during sick leave	**3.8**	3.8	**3.0**	2.7
Pension expenses	**22.4**	22.1	**16.9**	16.8
Other staff costs	**12.4**	12.9	**9.1**	9.7
Total	**194.9**	184.9	**146.0**	138.6
Group and parent company staff, average				
Finland	**7 139**	7 058	**5 416**	5 362
Russia	**810**	643	**3**	2
Estonia	**586**	590	**1**	1
Latvia	**196**	19	**3**	
Lithuania	**14**			
Sweden		3		
Total	**8 745**	8 313	**5 423**	5 365
Age breakdown of staff				
%				
Under 24 years old	**27.3**	19.5	**20.9**	16.4
25 - 34 years old	**32.4**	33.2	**32.1**	33.6
35 - 44 years old	**19.7**	21.2	**20.7**	21.2
45 - 54 years old	**11.7**	13.9	**13.9**	14.6
55 - 65 years old	**8.9**	12.2	**12.4**	14.2
Total	**100.0**	100.0	**100.0**	100.0

Loans to persons closely associated with the company

EUR mill.	
Loans granted to the managing directors and members of the Board of Directors	0.0

The loans had been granted for a 5-year period. The interest rate on the loans was tied to the market interest 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 CEO is 60 years. Annual payments are made to provide for these commitments.

NOTES TO THE PROFIT AND LOSS ACCOUNT	STOCKMANN GROUP 2003	2002	STOCKMANN plc 2003	2002
5. Depreciation and reduction in value				
EUR mill.				
Intangible rights	**3.4**	3.2	**2.1**	2.1
Goodwill arising on consolidation	**0.0**	0.2		
Goodwill	**0.1**	0.1	**0.0**	0.0
Other capitalized long-term expenses	**4.3**	3.9	**1.9**	1.9
Buildings and constructions	**4.6**	5.4	**3.6**	4.4
Machinery and equipment	**16.4**	16.2	**8.5**	10.3
Total	**28.8**	28.9	**16.1**	18.6
6. Other operating expenses				
EUR mill.				
Site expenses	**79.5**	73.8	**50.9**	45.7
Marketing expenses	**37.8**	38.8	**12.9**	12.4
Goods handling expenses	**16.6**	15.6	**4.9**	4.8
Credit losses	**3.5**	4.3	**1.2**	0.3
Voluntary indirect employee costs	**3.4**	3.1	**2.1**	2.0
Other costs	**42.6**	36.5	**21.9**	22.3
Total	**183.4**	172.0	**93.9**	87.5
7. Financial income				
EUR mill.				
Income from holdings in Group undertakings				
Dividend from Oy Hobby Hall Ab			**66.8**	
Dividend from Seppälä Oy			**2.3**	29.6
Dividend from Oy Suomen Pääomarahoitus-Finlands Kapitalfinans Ab			**0.7**	
Total			**69.8**	29.6
Interest and financial income from outside the Group				
From interest-bearing trade debtors	**9.7**	9.6	**9.7**	9.6
Other	**1.8**	1.2	**1.4**	0.6
Total	**11.5**	10.8	**11.1**	10.2
8. Reduction in value of non-current investments				
EUR mill.				
Write-down on receivables of SPL Seppälä AB			**0.0**	1.6
Total			**0.0**	1.6
9. Interest and other financial expenses outside the Group				
EUR mill.				
Foreign exchange losses and gains (net)	**2.3**	1.4	**3.8**	1.4
Other interest and financial expenses paid to parties outside the Group	**2.1**	3.1	**1.7**	2.0
Total	**4.4**	4.5	**5.5**	3.4
10. Extraordinary items				
EUR mill.				
Contributions from Group companies			**9.0**	10.0
Contributions to Group companies			**-4.7**	-3.1
Total			**4.3**	6.9
11. Appropriations				
EUR mill.				
Change in depreciation reserve				
Intangible rights			**0.0**	0.0
Other capitalized long-term expenses			**0.4**	0.4
Buildings and constructions			**8.6**	2.1
Machinery and equipment			**2.9**	3.2
Replacement reserve			**-20.1**	
Total			**-8.3**	5.7
12. Income taxes				
EUR mill.				
Income taxes on ordinary operations for the financial year	**20.5**	21.7	**20.6**	15.1
Income taxes on dividends received from subsidiaries			**20.2**	8.6
Income taxes on extraordinary items			**1.2**	2.0
Income taxes on ordinary operations from previous financial years	**-0.1**	-0.1	**-0.2**	0.0
Change in deferred tax liability /-asset	**1.9**	-2.7		
Tax payable on appropriations			**-2.4**	1.6
Total	**22.3**	18.9	**39.5**	27.3
13. Surplus taxes*				
EUR mill.				
Unused surplus taxes	**55.5**	52.3	**53.8**	33.8

* Aggregate of assessed corporate taxes in excess of tax payable on distribution of dividends, which can be used to set off the tax liability based on future distribution of dividends.

Notes to the accounts

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2003	2002	STOCKMANN plc 2003	2002
Non-current assets				
14. Intangible assets				
EUR mill.				
Intangible rights				
Acquisition cost Jan. 1	**19.2**	18.4	**11.7**	11.9
Increases Jan. 1-Dec. 31	**4.0**	2.2	**2.8**	1.1
Decreases Jan. 1-Dec. 31	**-0.1**	-1.5	**0.0**	-1.3
Acquisition cost Dec. 31	**23.1**	19.2	**14.4**	11.7
Accumulated depreciation Jan. 1	**9.4**	7.5	**6.6**	5.7
Depreciation on reductions	**0.0**	-1.3	**0.0**	-1.3
Depreciation for the financial year	**3.4**	3.2	**2.1**	2.1
Accumulated depreciation Dec. 31	**12.8**	9.4	**8.7**	6.6
Book value Dec. 31	**10.3**	9.8	**5.7**	5.2
Goodwill arising on consolidation				
Acquisition cost Jan. 1 and Dec. 31	**2.4**	2.4		
Accumulated depreciation Jan. 1	**2.3**	2.1		
Depreciation for the financial year	**0.0**	0.2		
Accumulated depreciation Dec. 31	**2.4**	2.3		
Book value Dec. 31	**0.0**	0.0		
Goodwill				
Acquisition cost Jan. 1 and Dec. 31	**0.3**	0.3	**1.1**	1.1
Accumulated depreciation Jan. 1	**0.2**	0.2	**1.1**	1.1
Depreciation for the financial year	**0.1**	0.1	**0.0**	0.0
Accumulated depreciation Dec. 31	**0.3**	0.2	**1.1**	1.1
Book value Dec. 31	**0.0**	0.1	**0.0**	0.0
Other capitalized long-term expenses				
Acquisition cost Jan. 1	**42.3**	37.7	**20.7**	20.2
Increases Jan. 1-Dec. 31	**5.2**	5.8	**1.8**	1.4
Decreases Jan. 1-Dec. 31	**-3.0**	-1.2	**-1.6**	-0.9
Acquisition cost Dec. 31	**44.4**	42.3	**20.8**	20.7
Accumulated depreciation Jan. 1	**17.5**	14.8	**9.2**	8.2
Depreciation on reductions	**-2.0**	-1.2	**-1.0**	-0.9
Depreciation for the financial year	**4.3**	3.9	**1.9**	1.9
Accumulated depreciation Dec. 31	**19.8**	17.5	**10.0**	9.2
Book value Dec. 31	**24.6**	24.8	**10.8**	11.5
Advance payments and projects in progress				
Acquisition cost Jan. 1	**1.6**	1.8	**1.4**	1.2
Increases Jan. 1-Dec. 31	**5.9**	1.6	**2.1**	1.4
Transfers between items	**-2.2**	-1.8	**-1.4**	-1.2
Book value Dec. 31	**5.4**	1.6	**2.1**	1.4
Intangible assets, total	**40.4**	36.3	**18.6**	18.1
15. Tangible assets				
EUR mill.				
Land and water				
Acquisition cost Jan. 1	**14.3**	19.0	**7.9**	9.8
Increases Jan. 1-Dec. 31	**0.0**	0.1	**0.0**	
Decreases Jan. 1-Dec. 31	**-2.4**	-4.8	**-2.4**	-1.9
Acquisition cost Dec. 31	**11.9**	14.3	**5.6**	7.9
Revaluations Jan. 1 and Dec. 31	**5.9**	5.9	**5.9**	5.9
Book value Dec. 31	**17.8**	20.2	**11.5**	13.8
Buildings and constructions				
Acquisition cost Jan. 1	**168.3**	187.2	**145.6**	158.4
Increases Jan. 1-Dec. 31	**10.9**	5.1	**1.4**	2.7
Decreases Jan. 1-Dec. 31	**-31.8**	-23.9	**-27.6**	-15.5
Acquisition cost Dec. 31	**147.5**	168.3	**119.4**	145.6
Accumulated depreciation Jan. 1	**48.0**	44.1	**38.3**	35.4
Accumulated depreciation on divestments	**-11.5**	-1.3	**-7.3**	-1.3
Depreciation on reductions		-0.3		-0.3
Depreciation for the financial year	**4.6**	5.4	**3.6**	4.4
Accumulated depreciation Dec. 31	**41.0**	48.0	**34.6**	38.3

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2003	2002	STOCKMANN plc 2003	2002
			38.3	
Machinery and equipment				
EUR mill.				
Acquisition cost Jan. 1	**127.6**	128.7	**74.4**	82.6
Increases Jan. 1-Dec. 31	**13.0**	10.7	**1.0**	3.9
Decreases Jan. 1-Dec. 31	**-5.6**	-11.8	**-4.6**	-12.1
Acquisition cost Dec. 31	**135.0**	127.6	**70.8**	74.4
Accumulated depreciation Jan. 1	**64.5**	56.2	**40.0**	33.7
Depreciation on reductions	**-5.6**	-7.9	**-4.6**	-3.9
Depreciation for the financial year	**16.4**	16.2	**8.5**	10.3
Accumulated depreciation Dec. 31	**75.3**	64.5	**43.9**	40.0
Book value Dec. 31	**59.8**	63.1	**26.8**	34.4
Other tangible assets				
Acquisition cost Jan. 1	**0.1**	0.1	**0.1**	0.1
Book value Dec. 31	**0.1**	0.1	**0.1**	0.1
Advance payments and construction in progress				
Acquisition cost Jan. 1	**6.1**	0.7	**1.0**	0.4
Translation difference	**-0.4**			
Increases Jan. 1-Dec. 31	**5.0**	6.1	**4.0**	1.0
Transfers between items	**-1.2**	-0.7	**-1.0**	-0.4
Acquisition cost Dec. 31	**9.5**	6.1	**4.0**	1.0
Book value Dec. 31	**9.5**	6.1	**4.0**	1.0
Tangible assets, total	**220.2**	236.4	**153.7**	183.2
Revaluations included in balance sheet values				
EUR mill.				
Land and water	**5.9**	5.9	**5.9**	5.9
Buildings	**26.5**	26.5	**26.5**	26.5
Total	**32.4**	32.4	**32.4**	32.4

Revaluations of real-estate properties have been made during the period from 1950 to 1984 and are based on then estimates of real-estate values.

Taxation and fire insurance values				
EUR mill.	**2002**	2001	**2002**	2001
Taxation values				
Land and water	**76.0**	78.5	**72.3**	72.3
Holdings in Group undertakings			**85.6**	105.1
Other shares	**18.7**	21.3	**16.5**	18.2
Buildings				
Taxation values	**28.8**	30.1	**24.8**	25.7
Fire insurance values	**230.0**	277.2	**229.3**	261.9

If the taxation value has not been available, the book value has been given.

16. Investments				
EUR mill.				
Holdings in Group undertakings				
Acquisition cost Jan. 1			**45.1**	45.6
Increases Jan. 1-Dec. 31			**4.7**	0.3
Decreases Jan. 1-Dec. 31				-0.7
Book value Dec. 31			**49.8**	45.1
Receivables from Group undertakings				
Book value Jan. 1			**3.7**	3.7
Decreases Jan. 1-Dec. 31			**-3.7**	
Book value Dec. 31			**0.0**	3.7
Own shares				
Acquisition cost Jan. 1 and Dec.31	**6.2**	6.2	**6.2**	6.2

Notes to the accounts

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2003	2002	STOCKMANN plc 2003	2002
Other shares and participations				
EUR mill.				
Acquisition cost Jan. 1	**22.5**	35.6	**18.3**	31.0
Increases Jan. 1-Dec. 31	**0.0**	0.0	**0.0**	0.0
Decreases Jan. 1-Dec. 31	**0.0**	-13.2	**0.0**	-12.8
Book value Dec. 31	**22.4**	22.5	**18.3**	18.3
Investments, total	**28.7**	28.7	**74.3**	73.3

Shares and participations

Group undertakings

Parent company holdings	Number	Shareholding %	Voting rights %	Currency	Par value in given currency thousands	Book value, EUR thousands	Shareholders' equity EUR thousands
ZAO Kalinka-Stockmann, Moscow	583 450	100	100	RUB	58 345	3 561	5 929
ZAO Stockmann-Krasnoselskaya, Moscow	100	100	100	RUB	55	8	540
ZAO Stockmann, Moscow	2 000	100	100	RUB	20 000	587	314
Auto-Oriketo Oy, Turku	40 000	100	100	EUR	673	771	739
Espoon Autotalo Oy, Espoo	400	100	100	EUR	11	463	35
Tikkurilan Autocenter Oy, Helsinki	4 000	100	100	EUR	673	796	653
Kambrium Oy, Helsinki	50	100	100	EUR	9	222	10
Kiinteistö Oy Friisinkeskus II, Espoo	1 948	97	97	EUR	9	612	734
Kiinteistö Oy Hgin Valurinkatu 1, Helsinki	100	100	100	EUR	17	17	18
Kiinteistö Oy Luistelijanvuori, Vantaa	72	100	100	EUR	13	1 218	181
Kiinteistö Oy Länsi-Kaisla, Espoo	20	100	100	EUR	9	1 544	26
Kiinteistö Oy Muuntajankatu 4, Helsinki	50	100	100	EUR	9	3 272	2 190
Kiinteistö Oy Stävö, Helsinki	50	100	100	EUR	9	9	9
Kiinteistö Oy Vantaan Kiitoradantie 2, Vantaa	100	100	100	EUR	17	17	18
Kiinteistö Oy Vantaan Rasti, Vantaa	388	100	100	EUR	505	4 922	4 461
Oy Hobby Hall Ab, Helsinki	120 000	100	100	EUR	10 092	18 802	14 776
Oy Hullut Päivät-Galna Dagarna Ab, Helsinki	40	100	100	EUR	11	11	11
Oy Suomen Pääomarahoitus-Finlands Kapitalfinans Ab, Helsinki	1 000	100	100	EUR	1 682	1 682	1 858
Seppälä Oy, Helsinki	30 000	100	100	EUR	5 046	5 046	10 709
Z-Fashion Finland Oy, Helsinki	50	100	100	EUR	9	8	8
SIA Stockmann, Riga	975 000	100	100	LVL	1 950	3 008	-456
SIA Stockmann Centrs, Riga	31 500	63	63	LVL	63	116	132
UAB Stockmann, Vilnius	52 000	100	100	LTL	5 200	1 510	60
Stockmann AS, Tallinn	1 800	100	100	EEK	18 000	1 136	6 674
TF-Autokeskus Oy, Vantaa	600	100	100	EUR	11	455	294
Spikkotten AB, Stockholm	1 000	100	100	SEK	100	12	30
Parent company holdings, total						49 805	49 952

Holdings of subsidiaries	Number	Shareholding %	Voting rights %	Currency	Par value in given currency thousands	Book value, EUR thousands	Shareholders' equity EUR thousands
Bullworker Myynti Oy, Helsinki	100	100	100	EUR	8	8	350
Oy Concert Hall Society Ab, Helsinki	10	100	100	EUR	0	0	0
Hobby Hall AB, Stockholm	1 000	100	100	SEK	100	11	8
ZAO Kalinka-Stockmann STP, St Petersburg	100	100	100	RUB	30 000	5	1 603
Group undertakings owned by subsidiaries, total						24	1 962
Group undertakings, total						49 830	51 914

Other undertakings

Parent company holdings	Number	Shareholding %	Currency	Par value in given currency thousands	Book value, EUR thousands
Oy Kamppiparkki Ab, Helsinki	50	6.1	EUR	168	1 556
Kiinteistö Oy Raitinkartano, Espoo	1 029	15.6	EUR	87	5 533
Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab, Espoo	3 125	37.8	EUR	258	6 242
Tuko Logistics Oy, Kerava	540	9.0	EUR	908	3 553
Others				2 164	1 373
Parent company holdings, total					18 256

NOTES TO THE BALANCE SHEET

Holdings of subsidiaries	Number	Shareholding %	Currency	Par value in given currency thousands	Book value, EUR thousands
Arabian Kiinteistö Oy, Helsinki	5 174	51.3	EUR	17	2 061
Arabian Pienteollisuustalo Oy, Helsinki	1 590	12.0	EUR	1	995
Others					1 134
Other undertakings owned by subsidiaries, total					4 190
Other Group-owned undertakings, total					22 446

The market value of the other publicly traded shares owned by parent company and subsidiaries exceeded the book value by EUR 0.4 million on December 31, 2003.
The market value of the Stockmann own shares held by the parent company exceeded the book value on December 31, 2003, by EUR 1.3 million.

CHANGES IN GROUP STRUCTURE

ZAO Stockmann was founded in Russia in the autumn 2003. The company will carry on the business operations of the new Mega South and Mega North department stores and, as from spring 2004, those of Seppälä.
Since June 2003 the company ZAO Stockmann-Krasnoselskaya has carried on Zara business operations in Russia.
Since spring 2002 the company Z-Fashion Finland Oy has carried on Zara business operations in Finland. UAB Stockmann was founded in Lithuania at the beginning of 2002. The company has carried on Hobby Hall's mail order sales operations since the beginning of 2003.
In July 2002, the Kiinteistö Oy Vantaan Valimotie 11 shares were sold to Nordea Life Assurance Finland Ltd as part of the sale of Hobby Hall's operations.

Debtors

17. Non-current debtors	STOCKMANN GROUP		STOCKMANN plc	
EUR mill.	**2003**	2002	**2003**	2002
Interest-bearing trade debtors	**0.2**	0.5	**0.2**	0.5
Amounts owed by Group undertakings			**4.5**	
Interest-bearing loan receivables	**0.1**	0.2	**0.1**	0.2
Other debtors	**0.5**			
Non-current debtors, total	**0.9**	0.7	**4.8**	0.7

18. Current debtors
EUR mill.

Interest-bearing trade debtors	**110.4**	109.3	**43.8**	41.9
Non-interest bearing trade debtors	**67.4**	59.8	**64.5**	57.9
Trade debtors, total	**177.7**	169.1	**108.4**	99.8
Amounts owed by Group undertakings			**146.7**	94.7
Other debtors	**6.5**	11.7	**2.1**	5.9
Prepayments and accrued income	**13.1**	10.3	**7.4**	5.7
Current debtors, total	**197.3**	191.2	**264.6**	206.1

The Group's interest-bearing trade debtors include one-time credits on mail order sales of EUR 66.5 million in 2003 and EUR 67.5 million in 2002. The interest income on these debtors is entered in net turnover instead of in interest income because it is included in the sales price. Other interest-bearing trade debtors are Stockmann Account, hire purchase and leasing payment debtors for which interest income is entered in interest income.

19. Essential items in prepayments and accrued income
EUR mill.

Deferred annual discounts	**1.1**	0.8	**1.1**	0.8
Periodized financial income and expenses	**1.0**	0.5	**1.0**	0.5
Deferred indirect employee costs	**1.5**	1.4	**1.2**	1.2
Tax receivables	**2.9**			
Other	**6.7**	7.6	**4.2**	3.3
Total	**13.1**	10.3	**7.4**	5.7

20. Difference between cost and market value of securities held in current assets
Securities held in current assets consist primarily of publicly traded bonds and notes.
EUR mill.

Market value Dec. 31	**101.8**	56.6	**101.6**	56.1
Book value Dec. 31	**101.8**	56.6	**101.6**	56.1
Difference	**0.0**	0.0	**0.0**	0.0

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2003	2002	STOCKMANN plc 2003	2002
21. Changes in capital and reserves				
EUR mill.				
Share capital				
Series A shares Jan. 1	**49.7**	49.7	**49.7**	49.7
Conversion from Series A to Series B	**-0.3**		**-0.3**	
Series A shares Dec. 31	**49.5**	49.7	**49.5**	49.7
Series B shares Jan. 1	**53.0**	53.0	**53.0**	53.0
Conversion from Series A to Series B	**0.3**		**0.3**	
Subscriptions with options	**2.5**	0.0	**2.5**	0.0
Series B shares Dec. 31	**55.8**	53.0	**55.8**	53.0
Share capital, total	**105.3**	102.8	**105.3**	102.8
Premium fund Jan. 1	**133.1**	133.1	**133.1**	133.1
Subscriptions with options	**14.0**	0.0	**14.0**	0.0
Premium fund Dec. 31	**147.1**	133.1	**147.1**	133.1
Fund for own shares Jan. 1 and Dec. 31	**6.2**	6.2	**6.2**	6.2
Reserve fund Jan. 1	**0.1**	0.1		
Translation difference	**0.0**			
Transfer from retained earnings	**0.1**			
Reserve fund Dec. 31	**0.2**	0.1		
Other funds Jan. 1 and Dec. 31	**43.7**	43.7	**43.7**	43.7
Retained earnings Jan. 1	**238.9**	219.9	**126.1**	90.1
Distribution of profit	**-45.9**	-30.7	**-45.9**	-30.7
Transfer to reserve fund	**-0.1**			
Total	**192.9**	189.2	**80.2**	59.5
Net profit for the financial year	**51.7**	49.7	**97.4**	66.7
Capital and reserves, total	**547.1**	524.8	**479.9**	412.0

Breakdown of distributable funds Dec. 31				
EUR mill.				
Other funds	**43.7**	43.7	**43.7**	43.7
Retained earnings	**192.9**	189.2	**80.2**	59.5
Depreciation difference entered in capital and reserves	**-61.2**	-55.1		
Net profit for the financial year	**51.7**	49.7	**97.4**	66.7
Total	**227.1**	227.5	**221.4**	169.8

22. Stockmann plc shares

Par value euro 2,00	**Number of shares**	Number of shares
Series A shares (10 votes each)	**24 738 893**	24 868 893
Series B shares (1 vote each)	**27 890 448**	26 515 168
Total	**52 629 341**	51 384 061

23. Accumulated appropriations

Depreciation difference	**58.9**	70.7
Voluntary provisions	**20.1**	
Total	**79.0**	70.7

24. Deferred taxes liability

EUR mill.		
From depreciation reserve	**19.2**	22.5
From voluntary provisions	**5.8**	
From periodization differences	**1.0**	0.8
Total	**26.0**	23.3

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2003	STOCKMANN GROUP 2002	STOCKMANN plc 2003	STOCKMANN plc 2002
25. Essential items in accruals and prepaid income				
EUR mill.				
Accrued staff expenses	**30.3**	25.1	**22.6**	17.9
Accrued interest expenses	**0.4**	0.4	**0.4**	0.4
Periodization of mail-order returns	**1.6**	1.6		
Accrued taxes	**9.7**	10.3	**8.9**	8.3
Other accruals	**4.4**	8.1	**1.6**	6.4
Total	**46.4**	45.5	**33.5**	33.1
26. Creditors				
EUR mill.				
Deferred tax liability	**26.0**	23.3		
Non-current interest-bearing liabilities	**48.6**	35.8	**35.0**	35.8
Current interest-bearing liabilities	**16.0**	16.9	**16.0**	16.9
Current non-interest-bearing liabilities	**163.0**	151.9	**139.0**	132.6
Total	**253.7**	227.8	**190.1**	185.2
27. Security pledged, contingent liabilities and other commitments				
EUR mill.				
Security pledged				
Liabilities for which mortgages on real-estate have been pledged as security				
Pension loans Dec. 31		1.0		1.0
Mortgages given		1.8		1.8
Mortgages pledged as security, total		1.8		1.8
Other security pledged on behalf of the company				
Mortgages given	**1.7**	1.7	**1.7**	1.7
Security pledged	**0.1**	0.1	**0.1**	0.1
Total	**1.7**	1.8	**1.7**	1.8
Security pledged on behalf of Group undertakings				
Rent guarantees			**16.4**	
Other guarantees			**17.4**	1.4
Total			**33.8**	1.4
Leasing commitments				
Payable during the 2004 financial year	**2.9**	0.6	**4.8**	1.7
Payable at a later date	**0.9**	0.8	**11.9**	8.6
Total	**3.8**	1.4	**16.7**	10.3
Other own commitments				
Repurchase commitments for transferred leasing and hire purchase agreements	**55.3**	63.5	**55.3**	63.5
Total	**55.3**	63.5	**55.3**	63.5
Commitments, total				
Mortgages	**1.7**	3.4	**1.7**	3.4
Pledges	**0.1**	0.1	**0.1**	0.1
Guarantees			**33.8**	1.4
Other commitments	**59.1**	64.9	**72.0**	73.8
Total	**60.8**	68.4	**107.5**	78.8

Lease agreements on business premises

EUR mill.	**2003**	2002
Minimum rents payable on the basis of binding lease agreements on business premises		
Within one year	**54.1**	46.6
Falling due in more than one year and a maximum of five years	**197.5**	134.5
After five years	**219.5**	182.0
Total	**471.1**	363.0

28. Pension liabilities

The pension liabilities of Group companies are insured with outside pension insurance companies.
The foreign subsidiaries have taken care of the employee pension arrangements in accordance with local legislation.
The pension liabilities are fully covered.

Notes to the accounts

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2003	2002

29. Derivative instruments of the Group

EUR mill.	December 31, 2003	December 31, 2002
Nominal value		
Foreign exchange derivatives	11.7	11.4
Interest rate derivatives	35.0	45.0
Fair value		
Foreign exchange derivatives	-0.1	0.0
Interest rate derivatives	-0.9	-0.8

Derivatives have been made for hedging purposes.

Proposal for the distribution of parent company profit

According to the Consolidated Balance Sheet, the distributable funds at December 31, 2003, were EUR 227.1 million. The parent company's distributable funds according to the balance sheet at December 31, 2003, were EUR 221.4 million. According to the Parent Company Balance Sheet at December 31, 2003, the following amounts are at the disposal of the Annual General Meeting:

• retained earnings, including the Contingency fund	123 969 228.37
• net profit for the financial year	97 388 841.33
	221 358 069.70

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

on the 52 216 341 shares owned by external parties be paid	
• a dividend of EUR 0.90 per share for the 2003 financial year	46 994 706.90
• a bonus dividend of EUR 0.45 per share	23 497 353.45
• to be carried forward to the Contingency fund and Retained earnings	150 866 009.35
	221 358 069.70

Helsinki, February 12, 2004

Board of Directors

Lasse Koivu

Erik Anderson *Erkki Etola* *Eva Liljeblom*
Kari Niemistö *Christoffer Taxell* *Henry Wiklund*

CEO

Hannu Penttilä

Auditors' report

To the shareholders of Stockmann plc

We have audited the accounting and the financial statements, as well as the administration by the Board of Directors and the CEO of Stockmann plc for the year ended 31 December 2003. 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 CEO. Based on our audit we express an opinion on these financial statements and on the company's administration.

We have conducted the audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we 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 members of the Board of Directors and the CEO have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements, showing a profit of EUR 51,658,635.82 in the consolidated income statement and a profit of EUR 97,388,841.33 in the parent company income statement, 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 Finnish Accounting Act, of both the consolidated and parent company's result of operations, as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors on how to deal with the distributable funds is in compliance with the Finnish Companies Act.

Helsinki, 26 February 2004

Henrik Holmbom
Authorized Public Accountant

Wilhelm Holmberg
Authorized Public Accountant

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Executive Vice President *Jukka Hienonen,* responsible for the Department Store Division

Accounting Manager *Eva Mansikka-Mikkola*
Chief Financial Officer *Pekka Vähähyyppä*
Company Lawyer *Jukka Naulapää*
Corporate Communications, Manager *Juhana Häme*
Financial Manager *Jutta Tuominen*
Group Controller *Eija Herttuainen*
Information Technology, Director *Päivi Hokkanen*
Internal Audit, Manager *Tapio Helle*
Personnel Director *Merja Lönnroth-Laaksonen*
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Karl Stockmann, Helsinki Department Store and Department Stores in Finland
Jussi Kuutsa, International Operations
Maaret Kuisma, Marketing
Leena Lassila, Purchasing: Fashion
Lars Eklundh, Purchasing: Non-fashion Goods, International Operations
Risto Penttilä, Administration

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Wear, Cosmetics
Anja Rissanen, Ladies' Wear

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Haapsalu, Kohtla-Järve, Narva, Pärnu, Tallinn (6), Tartu (2), Viljandi

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