2004
Annual Report

STOCKMANN

NORDIC ECOLABEL
441 046
Printed matter

Frenckellin Kirjapaino Oy, Espoo 2005

Contents

Review of operations

Report and accounts, December 31, 2004

Stockmann in brief

Stockmann is a Finnish listed company which was established in 1862 and is engaged in the retail trade. It has about 33 000 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, Stockmann Auto, Hobby Hall, which is specialized in distance retail, and Seppälä, a chain of fashion stores. Stockmann operates in Finland, Russia, Estonia, Latvia and Lithuania.

Cover pictures

Customers in the Delicatessen of the Stockmann department store in the Mega South Shopping Centre, Moscow. Stockmann opened two new department stores in the city in 2004.

The new 2005 Ford Focus in front of the Helsinki department store. Stockmann has operated a Ford dealership for 50 years.

In Tallinn. Hobby Hall is the market leader in distance retailing in Estonia too.

Seppälä began operations in Russia in 2004. This photo was taken in the store in the Marino Shopping Centre.

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.

Stockmann Group's growth strategy

The Group's strategic objective is to grow profitably. Over the next few years, growth will be achieved increasingly abroad, particularly in Russia. The objective is that by the end of 2008 about one third of sales and at least the same amount of earnings will come from the Baltic and Russian markets.

Growth abroad will be spearheaded by the department stores and Seppälä. The Group's long years of business in Russia and knowledge of the market have opened up franchising as a new opportunity, the first examples of which are the fast-growing Zara and Bestseller chains.

Long-term financial targets

	Target set in 2001	2001	2002	2003	2004
Return on capital employed	Minimum 15%	9.8%	12.6%	13.2%	14.3%
EBIT on turnover	Minimum 5%	3.6%	4.7%	4.7%	4.9%
Sales growth	Above industry average	Achieved	Achieved	Achieved	Achieved

The objective is to reach the long-term targets set by the Board of Directors in 2001 during 2005.

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.

Stockmann in 2004

Key figures

		2000	2001	2002	2003	2004
Sales	EUR mill.	1 467.9	1 537.6	1 582.3	1 698.6	**1 735.0**
Change in sales	%	-7.3	4.7	2.9	7.4	**2.1**
Net turnover	EUR mill.	1 220.5	1 281.9	1 315.3	1 412.7	**1 445.0**
Staff expenses	EUR mill.	164.8	179.0	184.9	194.9	**202.2**
Share of net turnover	%	13.5	14.0	14.1	13.8	**14.0**
Operating profit	EUR mill.	35.7	46.3	61.9	65.7	**71.4**
Share of net turnover	%	2.9	3.6	4.7	4.7	**4.9**
Profit before extraordinary items	EUR mill.	41.2	51.2	68.6	74.0	**79.1**
Investment in fixed assets	EUR mill.	45.1	31.1	25.8	40.9	**59.0**
Total assets	EUR mill.	746.8	728.2	752.7	800.8	**750.4**
Share capital	EUR mill.	102.8	102.8	102.8	105.3	**106.8**
Market capitalization at December 31	EUR mill.	559.0	696.0	710.1	955.6	**1 140.8**
Dividend paid	EUR mill.	30.6	30.6	45.9	123.3	**53.0** *
Dividend per share 1)	EUR	0.60	0.60	0.90	2.35	**1.00** *
Earnings per share 1)	EUR	0.55	0.68	0.97	1.01	**1.11**
Earnings per share, diluted 1)	EUR	0.55	0.68	0.97	1.00	**1.09**
Equity ratio	%	67.2	69.5	69.7	68.3	**65.5**
Return on equity	%	5.6	6.9	9.6	9.6	**11.2**
Return on capital employed	%	8.4	9.8	12.6	13.2	**14.3**

1) Adjusted for share issues.

*) Board proposal to the AGM. According to the proposal, a dividend of EUR 1,00 per share will be paid.

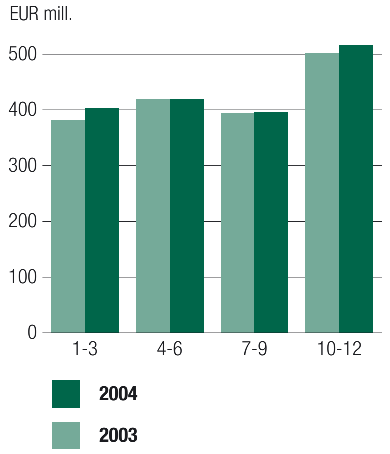
Sales by quarter 2003-2004, EUR mill.

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Department Store Division	184.0	198.6	192.4	276.2	199.6	212.4	216.6	310.2
Vehicle Division	113.2	137.2	115.1	114.9	117.9	126.4	95.5	97.3
Hobby Hall	57.8	53.5	54.4	70.1	56.6	47.0	46.2	64.6
Seppälä	26.2	30.6	32.5	41.0	28.6	33.5	38.1	43.5
Real Estate	5.2	4.9	4.7	5.0	5.0	5.4	5.2	5.2
Eliminations	-5.0	-4.7	-4.5	-4.7	-4.8	-5.1	-5.0	-5.0
Total	381.4	420.2	394.5	502.5	402.9	419.6	396.7	515.8

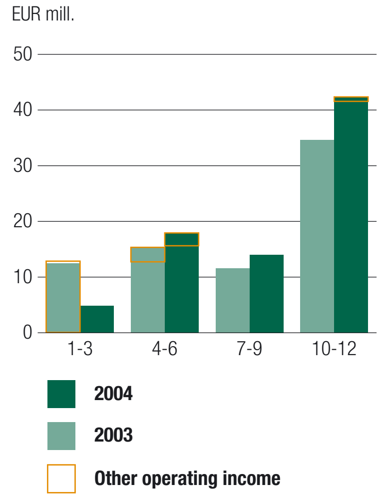
Operating profit by quarter 2003-2004, EUR mill.

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Department Store Division	-1.8	7.9	7.3	26.4	0.7	8.8	9.0	34.5
Vehicle Division	1.7	1.8	2.0	0.1	1.9	1.2	0.7	0.3
Hobby Hall	-0.7	-1.0	-2.6	0.9	-0.7	-1.0	-2.8	1.4
Seppälä	-1.9	2.7	2.6	6.7	-0.8	4.2	5.1	7.8
Real Estate	4.2	3.6	3.3	3.3	3.8	3.6	3.4	2.9
Other operating income	12.8	2.6	0.0	0.0	0.0	2.3	0.0	0.8
Eliminations	-3.9	-4.4	-2.5	-5.3	-3.3	-3.2	-2.8	-6.7
Total	10.5	13.1	10.0	32.1	1.6	15.9	12.7	41.1

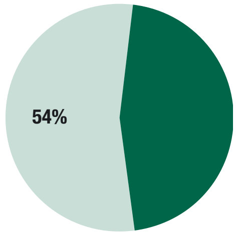
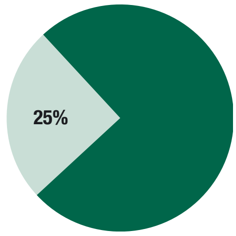
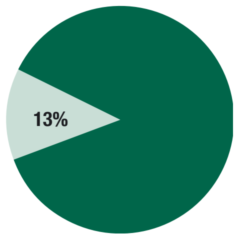
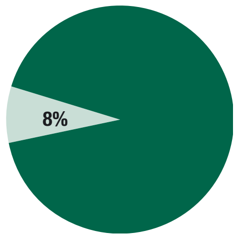
Sales by quarter 2003-2004



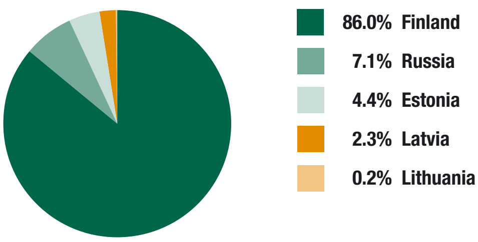
Profit before extraordinary items by quarter 2003-2004



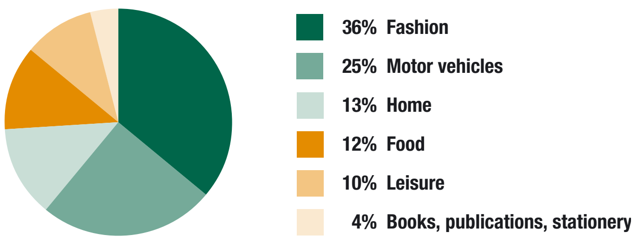
Divisions in short

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 8 Stockmann Beauty stores in Finland • 3 department stores, 3 Zara stores 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 938.8 mill.** 
Stockmann Auto Klaus Sundström	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.	• 9 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, a wide selection of trade-in vehicles as well as 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 • An outlet in Oulu: BMW and MINI dealership, a wide selection of trade-in vehicles as well as vehicle servicing and repair centre	**EUR 437.1 mill.** 
Hobby Hall Raija Saari	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	**EUR 214.4 mill.** 
Seppälä 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 • 123 stores in Finland • 14 stores in Estonia • 6 stores in Latvia • 3 stores in Russia	**EUR 143.7 mill.** 

Sales by market



Sales by sector



Major events in 2004

March

- Klaus Sundström, M.Sc. (Econ.), was appointed the new director of Stockmann's Vehicle Division and a member of the Group's Management Committee, effective April 2, 2004.
- Stockmann's Annual General Meeting, held on March 30, 2004, passed a resolution to pay a basic dividend for the previous financial year of EUR 0.90 and a bonus dividend of EUR 0.45, or a total of EUR 1.35 per share. The Annual General Meeting also resolved to amend the Articles of Association such that, in accordance with the new Corporate Governance recommendation, the members of the Board of Directors are elected for one year at a time.

April

- Stockmann's second department store in Moscow, with about 10 000 square metres of retail space, was opened in the Mega South Shopping Centre in premises leased from Ikea.
- Seppälä opened its first store in Russia at the Stockmann department store in Moscow's Mega South Shopping Centre. During 2004 Seppälä opened two more stores in Moscow.

May

- Subscription rights under Stockmann's Loyal Customer share option programme for the year 1999 were exercised by 21 114 Loyal Customers, who subscribed for a total of 600 269 of the company's Series B shares. The number of Stockmann's shareholders more than doubled as a result of these subscriptions. At the end of 2004 the company had 33 029 registered shareholders, compared with 15 591 a year earlier.

June

- Stockmann's Board of Directors confirmed the company's strategy, according to which the Group will grow energetically over the next few years, particularly in the Russian market. The objective is that by the end of 2008 about a third of sales and at least the same proportion of earnings will come from the markets in the Baltic countries and Russia.

July

- In Espoo's Suomenoja district Stockmann opened Finland's first Audi dealership in line with the manufacturer's international recommendations.
- Stockmann's Volkswagen-Audi car dealership business that was located in Helsinki's Herttoniemi district was transferred to Kesko Corporation's subsidiary VV-Auto Oy.
- The company's millionth Loyal Customer, Hanna Vasiljev of Helsinki, received a bouquet of flowers at Stockmann's Helsinki department store. Now there are over 830 000 holders of a Stockmann Loyal Customer card in Finland and a total of more than 270 000 in Russia, Estonia and Latvia, so the number of Stockmann's Loyal Customers totals more than 1 100 000 already.

August

- The results of the open S-Style garment design competition arranged by Seppälä were published at the Vateva Fashion Fair in Helsinki. The entry by Veera Lassila of Niinikoski was chosen as the best among the 92 entries in the competition. Seppälä arranged this competition to support Finnish design and to create top-calibre Finnish casual wear.

October

- Stockmann bought the Oulu car dealership Autotalo Jurvakainen, which operated as a BMW-MINI dealer. At all the department store localities in Finland, Stockmann now also serves its customers by operating a car dealership and servicing centre. BMW and MINI are new marques in Stockmann's range of vehicle brands.
- Bestseller A/S and Stockmann signed a cooperation agreement on establishing a chain of stores in Russia. The Bestseller brands include Jack & Jones, Only, Vero Moda, Exit and Selected. The first store specializing in Bestseller fashions was opened in Moscow's Mega North Shopping Centre in February 2005.
- Stockmann announced the spin-off of its Vehicle Division as an independent company. The spin-off was carried out as a transfer of business operations, on January 1, 2005, to Stockmann's wholly owned subsidiary Stockmann Auto Oy Ab, and Klaus Sundström, head of Stockmann's Vehicle Division, was appointed as its managing director. Stockmann Auto continues the Vehicle Division's operations with the same familiar staff.

November

- Raija Saari, M.Sc. (Econ.), was appointed as Hobby Hall's new managing director and a member of the Stockmann Group's Management Committee, effective November 15, 2004.
- Jukka Hienonen, the Group's executive vice president and head of the Department Store Division, was appointed the CEO's alternate, effective November 15, 2004.

December

- An extraordinary general meeting of Stockmann's shareholders passed a resolution on December 8, 2004, to distribute an extra dividend for the previous financial year of EUR 1.00 per share in addition to the EUR 1.35 dividend resolved by the Annual General Meeting.
- Stockmann's third department store in Moscow was opened at the Mega North Shopping Centre in premises leased from Ikea. The new department store has about 10 000 square metres of retail space. Seppälä's and Zara's third stores in Moscow were also opened in the same shopping centre.

Information for shareholders

Annual General Meeting
The 2005 Annual General Meeting of the shareholders of Stockmann plc will be held on Tuesday, March 29, 2005, 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 24, 2005, at 4.00 p.m., telephone *+358 9 121 4010* or the company's website *www.stockmann.fi*.

Those shareholders are entitled to participate in the Annual General Meeting, who have been entered, no later than on March 18, 2005, as shareholders in the Shareholder Register kept by Finnish Central Securities Depository Ltd.

Also a shareholder whose shares have not been transferred to the book-entry system has the right to participate in the Annual General Meeting if that shareholder has been registered in the company's Share Register before September 28, 1994. In this case the shareholder must present, at the Annual General Meeting, his share(s) or other documentation indicating that title to the shares has not been transferred to the book-entry system.

Payment of dividend
The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.00 per share be paid for the 2004 financial year. The dividend decided by the Annual General Meeting will be paid to a shareholder who on the record date for dividend payment, April 1, 2005, has been entered in the Shareholder Register kept by Finnish Central Securities Depository Ltd. The Board proposes to the Annual General Meeting that the dividend be paid on April 8, 2005, 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 2005:

- January-March Interim Report April 21, 2005
- January-June Interim Report August 11, 2005
- January-September Interim Report October 26, 2005

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 bulletins 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 147, FI-00381 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.

ABG Sundal Collier
Mattias Karlkjell
Biblioteksgatan 3
103 89 Stockholm
Tel. +46 8 5662 8627

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

CARNEGIE INVESTMENT BANK AB
Finland Branch
Eteläesplanadi 12
00130 Helsinki
Tel. +358 9 618 711

DEUTSCHE BANK GLOBAL EQUITIES
Kaivokatu 10 A
00100 Helsinki
Tel. +358 9 252 5250

eQ BANK LTD
Kalle Karppinen
Kaivokatu 12 A
00100 Helsinki
Tel. +358 9 6817 8654

ENSKILDA SECURITIES AB
Kari Paajanen
Eteläesplanadi 12
00130 Helsinki
Tel. +358 9 6162 8900

EVLI BANK PLC
Mika Karppinen
Aleksanterinkatu 19 A
00100 Helsinki
Tel. +358 9 476 690

FIM SECURITIES LTD
Kim Gorschelnik
Pohjoisesplanadi 33 A
00100 Helsinki
Tel. +358 9 613 4600

HANDELSBANKEN CAPITAL MARKETS
Tom Skogman
Aleksanterinkatu 11
00100 Helsinki
Tel. +358 10 444 2752

KAUPTHING BANK OYJ
Mika Metsälä
Pohjoisesplanadi 37 A
00100 Helsinki
Tel. +358 9 478 4000

MANDATUM STOCKBROKERS LTD
Noora Alestalo
Unioninkatu 22
00130 Helsinki
Tel. +358 10 236 4794

OPSTOCK SECURITIES
Jari Räisänen
Teollisuuskatu 1 B
00510 Helsinki
Tel. +358 10 252 012

STANDARD & POOR'S / Nordea
Daniel Schmidt
Box 1753
111 87 Stockholm
Tel. +46 8 440 5953

Profit on ordinary operations up by a third

Private consumption grew strongly in the Stockmann Group's main market areas in Finland, the Baltic countries and Russia in 2004. Disposable income increased and consumer confidence remained at a high level. In Russia and the Baltic countries, growth was again clearly faster than in Finland.

Consolidated profit on ordinary operations improved by 30 per cent thanks to the substantial earnings increase turned in by the Department Store Division and Seppälä. Hobby Hall improved too, and its result headed upwards, though it was still in the red. The Vehicle Division posted lower earnings, because it had to relinquish the very profitable dealership in Helsinki's Herttoniemi district midway through the year. Other operating income fell markedly short of the previous year's figure and consisted primarily of the compensation paid for the transfer of the Herttoniemi car dealership business. Consolidated profit before extraordinary items improved and was EUR 79.1 million, up 7 per cent on 2003. The return on capital employed rose to 14.3 per cent and the operating profit margin to 4.9 per cent, boosted by higher earnings and a lightened balance sheet. The objective is to reach the long-term targets set by the Board of Directors in 2001 – a 15 per cent return on capital employed and an operating profit margin of at least 5 per cent – during 2005.

The Group's sales last year totalled EUR 1.735 billion, representing an increase of EUR 31.3 million, or 2 per cent. The like-for-like sales growth was about 4 per cent. Sales grew by 1 per cent in Finland and by 29 per cent abroad. Sales by the units abroad rose to 14 per cent of the Group's aggregate sales.

Surging profits reported by the department stores and Seppälä

The Department Store Division improved its previously high earnings level with an incremental leap of one third. Earnings from department store operations in Finland again improved markedly. Profits in International Operations also improved, though in just over a year, three full-scale department stores have been opened abroad, resulting in store opening costs that burden the overall results significantly. This indicates a marked improvement in the earnings level of the department and other stores that have already gained an established position abroad. The Department Store Division's return on capital employed rose to 24 per cent thanks to the growth in earnings.

In relative improvement of earnings, Seppälä is in a class by itself. After a number of modest years, the company's sales swung sharply upwards in 2004. By simultaneously lifting the gross margin to the level of the best international competitors in the fashion trade whilst achieving peak efficiency in costs and stock management, Seppälä racked up a 62 per cent improvement in operating profit over its previously high level. The return on capital employed hit three digits, reaching 128 per cent. In the space of three years of determined work, Seppälä has been turned into a hugely profitable and credibly internationalizing chain of fashion stores that is playing an important role in realizing the Stockmann Group's growth strategy. Seppälä is also a good example of the fact that economies of scale are not after all the be-all and end-all factor in competition.

Hobby Hall's earnings curve headed upwards in the latter half of the year. The slowness of the turnaround was nevertheless a disappointment, and the company's result was still loss-making, as it was a year earlier. A process aiming at exploring different alternatives for developing Hobby Hall was started in the summer. One of the alternatives looked into was to sell the company to a new owner. The outcome of the assessment was nevertheless an alternative in which Hobby Hall will be developed further as a part of the Stockmann Group. Hobby Hall will redouble its focus on developing distance retailing in the Finnish, Estonian and Latvian markets. During just over a year, three stores were closed and at the beginning of 2005 the company withdrew from the distance retailing market in Lithuania, which had proved to be unsatisfactory. The positive earnings trend in the last part of 2004 indicates that, after the streamlining programme that has been carried out, Hobby Hall has everything it takes to restore its operations to profitability during 2005.

The Vehicle Division's earnings diminished because it had to give up the very profitable car dealership in Herttoniemi, Helsinki, at the beginning of July. The Volkswagen and Audi importer, who owns the dealership premises, decided to go into retail vehicle sales in Herttoniemi. This showed up immediately in the weaker profitability of sales of Volkswagen-Audi products in the Helsinki metropolitan area. The Vehicle Division's like-for-like sales improved. New marques that joined Stockmann's family of vehicles were BMW and MINI, following the purchase of a dealership in Oulu. With the abolishment of restrictions on the location of vehicle sales outlets in October 2005, the competitive situation in the motor trade will change. Consolidation in the field is continuing. As a strong player in the motor trade, Stockmann is taking an active part in this process.

A new kingpin of growth abroad

Following the opening of Stockmann's seventh department store in Finland in the extension to the Jumbo Shopping Centre in Vantaa in October 2005 and the completion of the extensive enlargement project at the Helsinki department store by about the end of 2009, the Group must seek organic growth largely abroad. The objective is that by the end of 2008 a third of sales and at least an equal proportion of profits will come from abroad. In 2004, sales at the units abroad accounted for 14 per cent of the Group's aggregate sales. The share for the Department Store Division was already 21 per cent and it will rise to around 30 per cent in 2005.

The Department Store Division and Seppälä will spearhead growth abroad. The Department Store Division now has more than 15 years of experience of operating in Russia's still difficult business environment. During this time, a well-functioning and competent local organization has been built in Russia, and this will enable the Group to expand its operations rapidly, at the same time opening up new business opportunities. A case in point is the international name-brand companies that would like to set up in the Russian market but who lack hands-on experience there or a reliable partner for carrying on business in Russia. Thanks to its long years of Russia savvy, Stockmann has been chosen to operate the Zara business in the entire area of the Russian Federation, and these operations will be expanded swiftly. A similar new partner is the Bestseller Group of Denmark, whose brands are Vero Moda, Jack & Jones, Only, Exit and Selected. The first store offering all the Bestseller brands will be opened in Moscow this spring. This business too will be built out rapidly.

For Seppälä, Russia and partly, for the time being, the Baltic countries as well, offer a natural avenue for expansion. Seppälä's network of stores will grow in Russia during 2005. A new market area is Lithuania, where the first stores will be opened. The store network in Latvia will be expanded further.

For Hobby Hall, Russia offers interesting possibilities in the future. New steps in this direction will not, however, be taken during 2005, but instead Hobby Hall will concentrate on improving the profitability of its operations in its existing market areas. The focus for the motor trade will also be on the home market, but the dropping of the Block Exemption Decree's clause restricting the siting of business locations may suggest a closer look at possibilities in the Baltic area.

A bumper year for dividends

Stockmann paid its owners record-high dividends for the 2003 financial year: a total of EUR 123.3 million, or EUR 2.35 per share. The positive trend in the company's operational result, its strong balance sheet and high equity ratio coupled with the fact that tax surpluses for previous years have now become worthless in the wake of the reform of corporate taxation that entered into force in 2005 were good grounds for paying out such high dividends.

The dividend payout had a positive effect on the company's capital structure. Despite the contraction in total assets, the equity ratio remained at a very high level of 65 per cent. The company has a good cash flow and an excellent ability to cope with capital expenditure needs in future years – and to still keep paying good dividends in the years ahead.

The company's market capitalization rose smartly. Over the past four years, the value of Stockmann's shares has more than doubled, in addition to which the dividends paid out have raised the share's total yield so that it now ranks as one of the best on the Helsinki Stock Exchange.

Share turnover increased and was in the moderate range, because about 23 per cent of the entire shares outstanding changed owners during the year. Foreign ownership grew and rose to 7 per cent of all the company's issued shares.

A streamlined Group structure; IFRS reporting to be adopted

In order to streamline the Group structure, the Vehicle Division's operations were spun off into the Stockmann Auto Oy Ab subsidiary from the beginning of 2005.

Like other Finnish listed companies, IFRS reporting was adopted on January 1, 2005. In the Interim Reports, the comparative figures for 2004 will be presented in accordance with IFRS. The changes resulting from the new accounting practice are discussed in the Board report on operations. The Group's equity ratio will weaken by about 3 percentage points due to changes in the recording of liabilities.

Targeting higher earnings again in 2005

The Group's profit on ordinary operations improved markedly in 2004, and total earnings were likewise higher than the figure a year ago.

The aim is again to achieve an improvement in profit on ordinary operations during 2005. The biggest growth potential lies in improving the result of the Department Store Division's International Operations and in turning Hobby Hall around. The Group is seeking to generate earnings in 2005 that are better than the previous year's figure.

My warm thanks go to our customers for the confidence they have shown in us and to our staff across the entire Group for a job well done in 2004.

Helsinki, February 15, 2005

Hannu Penttilä

Board of Directors and auditors

Lasse Koivu

Erkki Etola

Eva Liljeblom

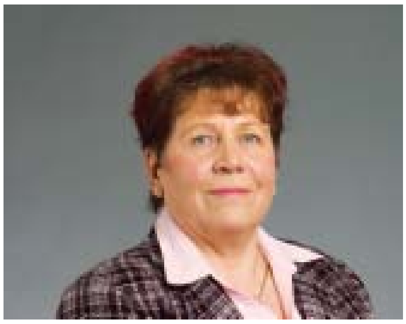
Kari Niemistö

Christoffer Taxell

Carola Teir-Lehtinen

Henry Wiklund

Janne Heiskanen



Tuula Grönvall

Board of Directors

CHAIRMAN
Lasse Koivu *
(b. 1943), B.Sc.(Econ.), managing director, Föreningen Konstsamfundet rf. Member of the Board since 1991.
SHARES: B 4 854

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 993 331

Eva Liljeblom **
(b. 1958), D.Sc.(Econ.), professor, Svenska Handelshögskolan. Member of the Board since 2000.
SHARES: A 243, B 2 264

Kari Niemistö *
(b. 1962), M.Sc.(Econ.), managing director, Selective Investor Oy Ab. Member of the Board since 1998.
SHARES: A 2 801 876, B 962 335

Christoffer Taxell *
(b. 1948), LL.M., ministeri[1]. Member of the Board since 1985.
SHARES: A 2 250, B 3 489

Carola Teir-Lehtinen **
(b. 1952), M.Sc., senior vice president, corporate communications, Fortum Corporation. Member of the Board since 2004.
SHARES: B 1 399

Henry Wiklund *
(b. 1948), kamarineuvos[1], managing director, Svenska litteratursällskapet i Finland rf. Member of the Board since 1993.
SHARES: A 720, B 3 364

Personnel representatives on the Board April 1, 2004 – March 31, 2005

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.

Janne Heiskanen
(b. 1970), sales manager, the department store in Turku. Personnel representative on the Board, elected by Stockmann's senior salaried employees.

Tuula Grönvall
(b. 1942), salesperson, chief shop steward, Seppälä. Personnel representative on the Board, elected by 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 the Board of Directors and their principal positions of trust is available on Stockmann's website at the address www.stockmann.fi.

Corporate management

Hannu Penttilä

Jukka Hienonen

Pekka Vähähyyppä

Klaus Sundström

Raija Saari

Heikki Väänänen

Jukka Naulapää

Management Committee

Hannu Penttilä
(b. 1953), LL.M., CEO. Joined Stockmann's 1978, at the present position since 2001.
SHARES: A 105, B 334
OPTIONS 2000: 150 000

Jukka Hienonen
(b. 1961), M.Sc.(Econ.), executive vice president with responsibility for the Department Store Division. Joined Stockmann's 1995, at the present position since 2001.
SHARES: A 1 600, B 4 500
OPTIONS 2000: 100 000

Pekka Vähähyyppä
(b. 1960), M.Sc.(Econ.), CFO. Joined Stockmann's 2000, at the present position since 2001.
SHARES: B 1 000
OPTIONS 2000: 80 000

Klaus Sundström
(b. 1950), B.Sc.(Econ.), managing director, Stockmann Auto. Joined Stockmann's and at the present position since 2004.
OPTIONS 2000: 40 000

Raija Saari
(b. 1961), M.Sc.(Econ.), managing director, Hobby Hall. At Stockmann's 1995-2001 and since 2004, at the present position since 2004.
OPTIONS 2000: 10 000

Heikki Väänänen
(b. 1958), B.Sc.(Econ.), managing director, Seppälä. Joined Stockmann's and at the present position since 2001.
SHARES: B 2 000
OPTIONS 2000: 80 000

Jukka Naulapää
(b. 1966), LL.M., company lawyer, secretary to the Management Committee. Joined Stockmann's 1998, at the present position since 2001.
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, 2004, are reported exclusive of the 1999 Loyal Customer options, a total number of 641 of which were in the ownership of the members of the Board and a total number of 212 in the ownership of the members of the Management Committee. Information on Stockmann plc shares and options on page 46 of the Annual Report.

Stockmann now has three department stores in Moscow. This photo was taken in the Mega South department store.

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 branded 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 Stockmann Beauty within cosmetics as well as Zara and Bestseller in the fashion segment.

The department stores turn in profitable growth

The Department Store Division's sales inclusive of VAT were EUR 938.9 million, up 10 per cent on the previous year. The division had net turnover of EUR 789.3 million and posted operating profit of EUR 53.0 million. Operating profit improved by 33.3 per cent on the figure a year earlier.

Sales by the department stores in Finland and the Academic Bookstores were EUR 725.1 million, an increase of EUR 24.5 million, or 4 per cent. The strongest growth in sales, 43 per cent, was reported by International Operations. During the year two new department stores were opened in Moscow, lifting sales in Russia by 40 per cent. International Operations' share of the division's sales rose to 21 per cent.

The cornerstone of the division's strategy is to seek profitable growth in Finland and the country's nearby areas. The department stores operating in the mature home market in Finland generate strong cash flow and rank in profitability among the top names in the industry in Europe. The primary economic objectives have been an improvement in the gross margin level, effective employment of capital and rigorous cost management. During the year the gross margin rose to 40.9 per cent (40.2 per cent) and the return on capital employed was 23.7 per cent (21.1 per cent). Owing mainly to the establishment of new units abroad, the division's total expenses increased by 9 per cent, while the gross margin rose by 13 per cent. The department stores in Finland registered a cost increase of one per cent, with the gross margin rising correspondingly by 5 per cent. The division's operating profit improved by EUR 13.2 million, even though opening expenses for new units of EUR 11.5 million were booked to the financial year. ⇨

Development of the Department Store Division's sales 2000-2004

Development of the Department Store Division's operating profit 2000-2004

Key figures

DEPARTMENT STORE DIVISION, EUR mill.	2004	2003	change %
Sales	**938.8**	851.3	10
Proportion of Group Sales, %	**54.1**	50.1	
Operating profit	**53.0**	39.7	33
Return on capital employed, %	**23.7**	21.1	
Capital employed	**223.3**	188.6	18
Investments	**39.6**	18.2	
Staff, December 31	**8 426**	6 894	22
Sales area, square metres	**149 763**	128 947	16

Muscovites have taken a shine to Zara. This photo was taken in the Mega South Shopping Centre.

Rome, the eternal city, was featured impressively in Stockmann's special autumn campaign.

A tiger's jump in service measurement

In the department stores, service has a crucial impact on the customer's shopping experience. Service sector employment in the retail trade is facing considerable cost pressures, and this is why it is important to direct personal service towards areas where the customer needs assistance and expert information in making a purchase. Service quality and the staff's professional skill must be developed continuously. To achieve this objective, since 1997 the Department Store Division has measured service quality by means of the so-called Mystery Shopping method. The measurements are made by an external assessment consultancy. Service activities can be managed and developed systematically on the basis of the assessment material gathered by professional test shoppers. During this measurement programme, 9 000 test shopping visits to Stockmann department stores have been made and written evaluations of them have been turned in. On the basis of them, a service level index has been worked out for each department store and its individual departments. This index is also part of the incentive system for the personnel and managers. In 2004 the figure measured for the service level index went over the 70 point mark for the first time. The 5-point rise from the previous year is an important achievement, and it didn't go up by accident. In developing service quality, the division employs a dozen or so different programmes, projects and reward systems. A comprehensive management system based on them has been created in the background of the service quality measurement. Above all, this is about people's motivation, the frontline sales staff's desire and ability to do good customer service work.

Forecasts point to an increasing difficulty in obtaining high-calibre service staff over the next few years. It is important for Stockmann to be a top-flight company in terms of its reputation as an employer, so that people seek jobs with us. According to the Universum Graduate Survey that is conducted amongst commercial studies students, Stockmann was again the most attractive employer in the retail field in Finland and ranked 8th among the 130 companies in the survey.

A good year in fashion sales

The trend in fashion sales in Finland was good, showing growth of about 4 per cent. For Stockmann, the fashion trade is a mainstay of the business: it makes up nearly half of the Department Store Division's aggregate sales. Stockmann racked up growth in fashion sales of 8 per cent, which can be considered a good achievement for a company defending a large market share in a tough competitive environment. The best same-store growth figures were registered in the footwear (11 per cent), cosmetics (10 per cent) and clothes (9 per cent) areas. Growth in cosmetics sales got an extra boost from the opening of two new Stockmann Beauty speciality shops in Kuopio and Pori, bringing the number of shops in the chain to eight. The growth in food sales was a modest 2 per cent. For the sector as a whole, growth was roughly the same, mainly due to the deflationary price trend. Growth in household products and electronics was 5 per cent and was in line with the general pace in the trade, but the growth in the book trade (2 per cent) and leisure products (3 per cent) did not suffice to maintain market shares.

Surging growth for International Operations

Stockmann has set itself the ambitious target of lifting the share of international operations within the Group to a third of sales and profits by the end of 2008. The Department Store Division is doing its part to realize this ahead of the target. Since October 2003, three new full-scale department stores have been opened abroad in just over a year, one in Riga and two in Moscow. In addition to these, the Zara chain already had three stores in Moscow at the end of 2004, and agreements on opening five new stores have been signed. Alongside the department stores, franchising operations have thus rapidly become a cornerstone of the division's operations.

Operating in the Russian market is a challenge for any retailer, at the level of both perceptions and everyday reality. The country's constantly changing legislation, the wide discretionary powers of the authorities and the undeveloped state of the administrative culture lead to surprises and difficulties. Most western companies have opted for the easiest way of entering the Russian market: by farming out their business concept to a local operator via a franchising agreement. A local partner is often necessary if the company does not want to obtain the requisite hands-on grasp of Russian conditions for its

Academic Bookstore always draws big turnouts at its events.

Adorable Falabella horses were a big hit at the pet show in the Helsinki department store's Argos Hall.

own organization. The upshot is that the know-how acquired in daily operations accumulates outside the company itself, and control of the business may slip away. For example, in the department store field, not a single western company in the industry, except for Stockmann, has embarked on setting up in Russia on its own. In the department store field, attempts to enter the Russian market by means of franchising agreements have ended up being of short duration either because of business difficulties or failure in the choice of partners. Nor has the word that has come from Russia about the lack of protection of property and good business practices as well as the unforeseeability of events in the operating environment been apt to increase the willingness of western companies to invest in Russia.

Stockmann's Russia savvy is in demand

A number of international retail chains and fashion brands have shown interest in the know-how Stockmann has acquired of the Russian market. Few of these companies have the willingness, or perhaps the ability either, to establish themselves in Russia through a self-operated and owned chain. In the speciality goods trade and particularly in the fashion trade, operations can be made profitable by means of a strong brand and well-functioning chain concept clearly more quickly than in the department store field. Stockmann has set out resolutely to build a franchising network consisting of strong fashion brands alongside its department store trade in Russia. The first partner in cooperation was Inditex of Spain, owner of the Zara chain, with whom franchising cooperation in Russia got started in 2003. In 2004, Stockmann signed a cooperation agreement with Bestseller, its long-time Danish partner, concerning implanting of Bestseller's Jack & Jones, ONLY, Vero Moda and Selected chains in Russia. Because it is possible to make use of experiences obtained in department store operations in carrying on franchising business, it is believed that franchising will quickly become a strong supporting leg for the Department Store Division's operations abroad. Thanks to department store operations, a franchising business can also tap into significant advantages of scale in, say, administration, logistics and the lease terms of business locations. For partners in cooperation, in turn, it offers a fast and safe channel for entering Russia's ever-growing consumer market together with a reliable and financially solid Stockmann.

On an international yardstick, the rental level for commercial sites in Russia is very high. The biggest bottleneck to expansion is the availability of high-quality and reasonably priced commercial sites. In seeking out locations for both the department store and franchising chains, Stockmann is aiming for profitable, long-term and sustainable contractual relationships that are duly registered by the authorities and whose payment transfers are transparent.

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 15 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 still no evident western players who are ready to tackle by themselves the task of learning how to operate in the Russian business environment.

New department stores are customarily able to reach the breakeven point in 2-3 years from their opening. The operating result for the first year is generally in the red, as customers gradually learn to shop at the new location and as the company gears its offerings to the target market. The losses in the first year are also generally the biggest in the department store's life cycle. After reaching the breakeven point, the growth in the department store's sales and earnings can continue uninterrupted for quite a long time – even for decades. Nearly all of Stockmann's new openings in recent years have adhered to this curve. Operations in 2004 were loss-making in Riga and at both of the new department stores in Moscow's Mega Shopping Centres.

Focus of growth in Finland on the Helsinki metropolitan area

In its strategy, Stockmann has decided to concentrate on operating with large department store units having over 10 000 square metres of retail space. International comparisons indicate that large units have better economic performance than small ones do. In the Finnish market, units in this size ⇨

There are already more than 1 100 000 Stockmann Loyal Customers, over 270 000 of them abroad. The millionth Loyal Customer was Hanna Vasiljev of Helsinki, whose gifts included a surprise 15-minute free shopping spree in Stockmann's Delicatessen.

class can only be established in agglomerations with a population of over 200 000 people. With the opening of a Stockmann department store in the Jumbo Shopping Centre in Vantaa in autumn 2005, a gap in the network has now been filled in the growth zone north of Metropolitan Helsinki. Henceforth, it is improbable that room can be found in Finland – in line with the present strategic choices – for a new full-scale Stockmann department store in the foreseeable future.

Yet we must see to the development of our existing department stores. Now that the local department stores have gone through a series of upgrading investments at the beginning of the 2000 decade, they are in very good shape. In the immediate future, resources will be channelled into refurbishing the chain's flagship, the department store in the centre of Helsinki. The modification works to the town plan that are required for the project are under deliberation in the decision-making bodies of the City of Helsinki. The final decisions, after which the construction works can be started, are expected during 2005. When completed, the project will bring to the Helsinki department store 10 000 square metres of new retail space, modern logistics solutions and new social facilities for the staff. For our customers, the most apparent manifestations of the remake will be a new car park with space for 600 vehicles, a Stockmann Delicatessen with more than 3 500 square metres of shopping space on one floor, new and more spacious sales areas and improved passageways. The first step in carrying out the project was the placing in operation in autumn 2004 of a renewed two-way escalator adjacent to the Aleksanterinkatu entrance. The integrated project aiming at extending the life cycle of the Helsinki department store has a cost estimate of EUR 115 million and it is expected to increase the Helsinki department store's annual sales by EUR 50 million.

The stellar success story of Crazy Days

Department stores everywhere are in danger of becoming labelled as companies in the narrow and pricy upper segment of the market: as shop windows for expensive brands. Especially in Finland and the Baltic countries, with their small populations, this would be a perilous equation for a department store's business idea and for financial performance based on high-volume sales. For years, Stockmann has worked hard to keep its department stores, with their good quality image at the top of the league in volume sales too. To do this, Stockmann has sought to offer its customers a wide price scale in all product groups and an assortment that matches the best speciality stores in each sector.

Stockmann has succeeded in making its Crazy Days campaign Finland's largest and best-known individual campaign in the retail field. Selling quality products at unbelievably crazy prices is a formula which has enabled the Stockmann department stores to rack up a new sales record twice a year without interruption for 36 times in succession. The department stores' sales nearly quintuple during the four days of each campaign in April and October, and these eight annual Crazy Days already account for 8 per cent of the Department Store Division's total annual sales. In 2004 the aggregate sales during the Crazy Days came to EUR 73 million, an increase on the corresponding Crazy Days a year earlier of 21 per cent in April and 19 per cent in October. What started out as a trial campaign has now reached such proportions that both customers and suppliers find it hard to miss out on the Crazy Days.

Stockmann has forged close ties with its Loyal Customers and offers them timely benefits each month. During 2004 the cohort of Loyal Customers topped the one million cardholder mark. In Finland there are nearly 830 000 Loyal Customers and a total of more than 270 000 in the Baltic countries and Russia. In Finland, Stockmann has pioneered loyal customer systems ever since 1986. For our best customers, we have developed the Exclusive group, whose emblem is their own platinum-coloured Stockmann card. Contacts with this group are maintained through the Stockmann Exclusive customer magazine. Premium Loyal Customers are invited personally to the department stores' themed Loyal Customer evenings, one of which was arranged to coincide with the opening ceremony of the Italy sales campaign. Over 20 000 people participated in these events in 2004.

Tracking product levels with a new cash register system

A new generation cash register system became operational in the department stores during 2004. The new equipment enables staff to track the Department Store Division's annual inventory of

Crazy Days turned in another smashing sales record both in the spring and the autumn.

Stockmann's familiar Delicatessen is now serving Muscovites in three department stores.

nearly a million articles right down to the level of the size and colour of products. This steps up both stock management and customer service. The new cash register system makes possible product turnover-based replenishment in all product areas and, depending on the supplier's capabilities, even topping up directly on the shelf.

In November 2004, Stockmann joined the international BSCI system (Business Social Compliance Initiative). The aim of this database of dozens of major retailers with its centralized auditing register is to supervise the compliance of suppliers with their social obligations. Companies who are part of the system give their commitment, among other things, to prevent the use of child labour, to observe the legality of working conditions, to prohibit employee discrimination and to promote political freedoms in countries where there are risks hindering the realization of these rights.

Department store situation and outlook for 2005

Stockmann's Department Store Division has been able to increase its sales by nearly 40 per cent over the past five years (EUR 672.5 million in 1999 and EUR 938.8 million in 2004). During the same period, operating profit has grown nearly $2^1/_2$-fold (EUR 21.4 million in 1999 and EUR 52.9 million in 2004). The division has succeeded in raising the operating profit margin from 3.8 per cent to 6.7 per cent in five years. During the five-year period, a total of EUR 101.6 million has been invested in building new department stores and developing existing units both in Finland and abroad. Despite the energetic pace of capital expenditures, the division's return on capital employed over the same period has risen from 13.0 per cent to 23.7 per cent.

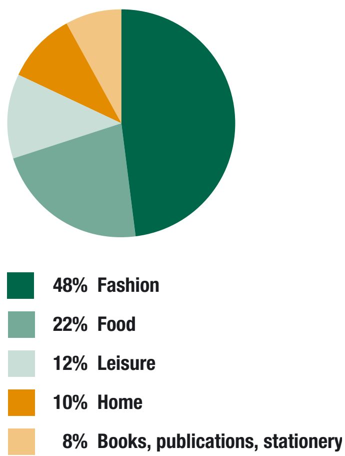
Gauged by profitability, Stockmann's department stores are top-ranking internationally. At the same time, Stockmann is one of the few department store companies that has been able to achieve growth – and which have any growth strategy at all in this mature industry. In 2004 the Department Store Division improved its operating profit by 33.3 per cent on the previous year, even though the year was marked by an exceptionally large number of openings, resulting in heavy expenses that burdened earnings for the year. In 2005 one department store will be opened, in the Jumbo Shopping Centre in Vantaa.

Consumer demand in Finland is forecast to continue growing at a moderate rate of 2-3 per cent. In the Baltic countries and Russia, growth is expected to slow down somewhat, but nonetheless its rate will be about double Finland's.

Operating profit, especially for International Operations, is expected to improve by a big margin. The operating profit of the entire Department Store Division is estimated to continue on an upward trend in 2005. □

Distribution of the Department Store Division's sales by unit 2004

Distribution of the Department Store Division's sales by sector 2004



The Audi Center Espoo that was opened by Stockmann Auto in summer 2004 is Finland's first car dealership in accordance with the international Audi concept. The Audi A3 Sportback and Audi A6 Sedan were new models introduced in 2004.

Stockmann Auto

Stockmann Auto caters for customers who wish to buy or service a vehicle in all the Group's department store localities in Finland. In the metropolitan Helsinki area, the marques sold by Stockmann Auto are Ford, Volkswagen and Audi; in Turku, Ford; in Tampere, Škoda; and in Oulu, BMW and MINI. The servicing centres cover an even larger range of makes. Stockmann Auto's strengths are a well-regarded brand, professional and service-minded staff, high-quality products and versatile services – all backed by customer loyalty that has been earned over the years.

Service in all Stockmann department store localities in Finland

The Stockmann Group's vehicle business and the premises serving it were spun off on January 1, 2005. The new company is Stockmann Auto Oy Ab, and the name Stockmann Auto is used in marketing.

A buoyant car market

New vehicle sales remained at a high level, with 142 642 car registrations and 15 679 for vans. The private consumer market was down 6 per cent, whereas the company car market grew by 3 per cent.

Prices of new vehicles did not rise mentionably. The price level of used vehicles declined in the first half of the year but evened out towards the end of the year.

The volume of servicing and spare part sales grew in step with an increase in motoring, and ever more demanding automotive technology is putting upward pressure on servicing prices.

A total of 32 724 used cars were imported. The importation of used vehicles boosts servicing sales because the number of Stockmann Auto-represented BMW, Audi and Volkswagen vehicles on the road grows and, due to their high average age, imported used vehicles have considerable repair needs.

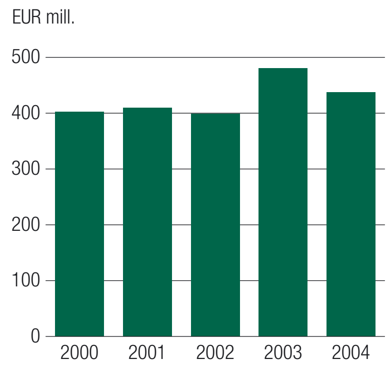
Operations scaled back in the Helsinki metropolitan area

The Vehicle Division's sales were EUR 437.1 million, down 9 per cent on the previous year. Net turnover was EUR 358.0 million. The growth in the vehicle market and the solid success of the marques for which the Vehicle Division – now Stockmann Auto – acts as a dealer spurred sales growth in the first half of the year. The Vehicle Division's position in the competitive line-up in the Helsinki metropolitan area changed markedly on ⇨

Key figures

VEHICLE DIVISION, EUR mill.	2004	2003	change %
Sales	**437.1**	480.4	-9
Proportion of Group Sales, %	**25.2**	28.3	
Operating profit	**4.2**	5.6	-25
Return on capital employed, %	**10.2**	13.2	
Capital employed	**40.9**	42.0	-3
Investments	**2.3**	1.2	
Staff, December 31	**704**	781	-10

Development of the Vehicle Division's sales 2000-2004



Development of the Vehicle Division's operating profit 2000-2004

The new Škoda Octavia has racked up a number of test wins in its class. Praise has been heaped on its interior, driveability and economy.

The Volkswagen Touran is a pacemaker in creating extra space through the use of progressive technology. Among the features it sports is a revolutionary DSG direct shift gearbox.

July 1, 2004. At that time Stockmann divested the Volkswagen-Audi dealership in Helsinki's Herttoniemi district in accordance with an agreement made with VV-Auto Oy, a subsidiary of Kesko Corporation. The divested dealership had annual sales of over 100 million euros and its operations were very profitable. A cooling market and the gap left by the Herttoniemi outlet led to a decline in sales in the second half of the year.

The Vehicle Division delivered a total of 9 417 new vehicles and 8 909 used ones. The volume of new vehicle sales was down 17 per cent and used vehicles fell by 4 per cent. The like-for-like trend in total deliveries was up one per cent. Deliveries of new cars came in at 8 219 (9 745 in 2003) and 1 198 new vans were delivered (1 590 in 2003).

The Vehicle Division was clearly the largest seller of new and used vehicles in the Helsinki metropolitan area up to July 1, 2004, after which it still ranks near the top, with a market share of about 15 per cent.

Of the marques Stockmann represents, Volkswagen was second in registrations of both cars and vans, and Ford was third in both categories. Of vehicle makes, Volkswagen Golf rose to second place in total registrations and Ford Focus placed fourth.

During the year a large number of new products were unveiled, of which the most important for the Vehicle Division were the Audi A3 Sportback, Audi A6 and Škoda Octavia.

Stockmann's Vehicle Division carried out over 200 000 servicing jobs during the year, including related sales of spare parts. The volume of servicing jobs was on a par with the previous year.

Sales to Stockmann's Loyal Customers accounts for about a third of sales to private customers. The Vehicle Division made ten special offers to Loyal Customers, two to Exclusive Loyal Customers and two during the Crazy Days. There were six after-sales offers to Loyal Customers. The division has close cooperation with Stockmann's Department Store Division and Hobby Hall.

Profitable sales through improved stock structure

The profitability of vehicle sales weakened, and sales of used vehicles were loss-making in the first half of the year in the wake of falling prices. In order to keep prices of original spare parts competitive, manufacturers have cut distributors' margins. The profitability of servicing and spare part sales have nevertheless been maintained at a good level thanks to growing sales and efficiency-boosting measures. The division's operating profit was EUR 4.2 million.

The amount of capital tied up in the Vehicle Division's operations has diminished, and the stock structure has improved. The Vehicle Division's average capital turnover was 34 days. Continuous enhancement of capital employed is a key target of operations.

The division succeeded well in gauging coming demand. Major shortages or overstocking situations were not encountered during the year.

A good deal of working capital is tied up in the stock of used vehicles, and it is therefore an essential factor for the return on capital employed. As the average price level falls, a fast stock turnover is an absolute must for achieving profitability in the used vehicle trade.

Due to the fall in relative operating profit, the return on capital employed did not reach the target set. It averaged 10.2 per cent (13.2 per cent in 2003).

Service extended to Oulu

In accordance with the confirmed strategy, the Vehicle Division expanded its operations to the Oulu economic area by acquiring the entire shares outstanding in the Autotalo Jurvakainen Oy dealership on November 1, 2004. Thanks to the deal, Stockmann gained the dealerships for BMW and MINI, which are new brands in its line. The central location and spacious facilities of the Oulu dealership will make possible a significant increase in operations.

Stockmann Auto is seeking to sell to Stockmann's more than 800 000 Loyal Customers. The geographical coverage of the network of dealerships is more than 50 per cent of Finland's car and van market.

Stockmann's competitiveness in the Helsinki metropolitan area strengthened significantly with the opening of the Audi Center Espoo in Espoo's Suomenoja district on July 1, 2004. At the same time, the Audi dealership in the nearby Stockmann outlet in the Merituuli Shopping Centre as well as in Stockmann's Pitäjänmäki outlet were discontinued. The Audi Center is the country's first dealership that has been built in accordance with the concept recommended by the manufacturer. The investment in modifying the premises was over 4 million euros.

Beefing up customer service and efficiency

Major resources are being devoted to service and product know-how. Under

Stockmann Auto expanded its range of marques. The new BMW and MINI dealership is located in Oulu.

the incentive system, employees are rewarded for their customer service achievements. Stockmann Auto measures continuously its success in car sales and servicing by monitoring customers' opinions. Manufacturers too measure customer satisfaction extensively, and good performance is rewarded.

Stockmann Auto's total service offerings include Servicing for Flyers, pick-up and return of a vehicle in for servicing, notification by a text message when the servicing is completed, an invitation for preventive maintenance, Stockmann servicing agreement, a Stockmann leasing agreement, courtesy car service, a waiting-period car or van, tyre service and tyre storage.

The Internet service is a fast-growing area of the vehicle business. The online service helps customers by speeding up the service process. The Vehicle Division's Internet pages had about 14 000 visitors each week in 2004. Queries about new and used vehicles totalled 6 000 during the year. The number of servicing time reservations made via the Internet increased drastically.

The Stockmann brand gives a competitive edge

The new Block Exemption decree that entered into force on October 1, 2003, as part of the EU's competition legislation, has made it possible to start up authorized service without restriction, providing that the manufacturer's quality requirements are fulfilled. A distributor will be able to establish a new vehicle sales outlet anywhere in the EU as from October 1, 2005, as the location-limiting clause will be dropped. This will bring a significant change in the competitive line-up in the motor trade.

In Finland, vehicle sales are already exceptionally centralized, compared with other European countries. The shakeout in the trade is nonetheless continuing. Single-site companies will disappear from the motor trade in the largest cities over the next few years. Stockmann Auto is taking an active part in the ongoing consolidation in the sector.

A distributor's brand is becoming an increasingly important competitive factor alongside the make of vehicle. The Stockmann name, being Finland's most highly respected service brand in the retail trade, will give considerable competitive edge.

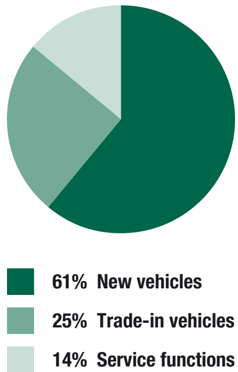
Stockmann Auto is starting servicing for Volvo-Renault in Helsinki's Lauttasaari district, BMW-MINI servicing in the Pitäjänmäki district and Ford servicing in Tampere. Henceforth, the company's servicing in the Helsinki metropolitan area will cover Ford, Volkswagen, Audi, Volvo, Renault, Škoda, BMW and MINI; servicing for Škoda, Mitsubishi and Ford in Tampere; Ford servicing in Turku; and BMW and MINI servicing in Oulu. Options for entering into new dealerships are being explored.

The most important new products in 2005 are Ford Focus, the BMW 3 series and Volkswagen Passat.

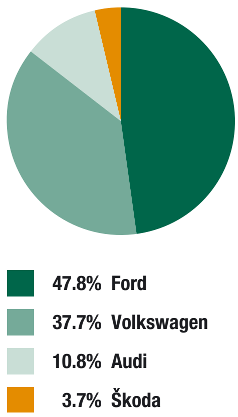
The vehicle market is expected to remain at a good level in 2005. The volume of new cars sold during the year is estimated at 136 000 and the volume of new vans at 14 000 which means a total decrease of just over 8 000 compared with 2004.

Stockmann Auto's sales and operating profit will decline somewhat in 2005, owing to the sale of the Volkswagen-Audi business in Herttoniemi on July 1, 2004. □

Distribution of the Vehicle Division's sales 2004



Distribution of the Vehicle Division's sales by make 2004



Fast and convenient online shopping keeps growing in popularity. Online purchases rose to a 23 per cent share of Hobby Hall's sales in Finland in 2004.

Hobby Hall

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 and Latvia offers its more than 1.3 million customers an easy, reliable and pleasant alternative for buying quality products at affordable prices.

Developing Hobby Hall goes on

Hobby Hall's sales were EUR 214.4 million, down 9 per cent on the figure a year earlier. Net turnover was EUR 177.9 million. The volume of packages dispatched to customers was 2.3 million, a decrease of 10 per cent on the previous year.

The division's operating result was a loss of EUR 3.1 million and fell markedly short of the target, though it improved on the previous year by EUR 0.3 million.

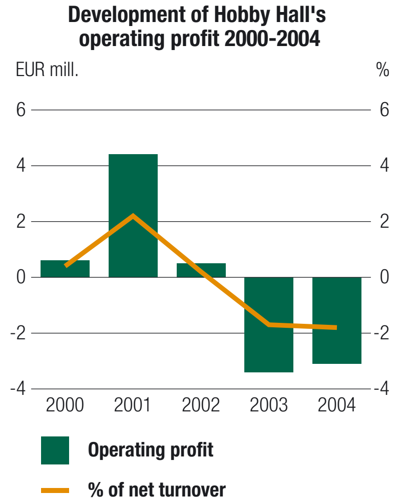
The drop in Hobby Hall's sales was attributable to the closing of three stores in Finland, the closing of one store in Tallinn and a weakening in sales by the units in Latvia and Lithuania.

The main reasons for the loss-making operating result were that sales fell clearly below budget, thus causing a decrease in the gross margin. Hobby Hall was not able to offset the loss of sales by the discontinued stores with its mail-order sales and through sales generated by the remaining three stores. In addition, the clearance sale of old stocks cut into the stores' relative gross margin.

Costs were 9 per cent smaller than a year earlier.

The market leader in Finland

Hobby Hall's sales in Finland were EUR 180.4 million, down 6 per cent on the figure a year earlier. Comparable sales were up 4 per cent on 2003. Hobby Hall is still the market leader in distance retailing in Finland. ⇨



Key figures

HOBBY HALL, EUR mill.	2004	2003	change %
Sales	**214.4**	235.7	-9
Proportion of Group Sales, %	**12.4**	13.9	
Operating profit	**-3.1**	-3.4	
Return on capital employed, %	**-3.5**	-3.4	
Capital employed	**87.7**	100.4	-13
Investments	**1.2**	1.7	
Staff, December 31	**708**	863	-18

Hobby Hall offers its customers an easy and pleasant way to shop in the peace of their own home. Purchases for the home can be made whenever one wants to – it's a no-stress, time-saving way.

Hobby Hall's Loyal Customers are offered a growing range of various benefits. In the summer, the best Loyal Customers were offered low-cost special lots of merchandise.

The best-selling product areas were interior decoration textiles and cameras. The biggest drop in sales was registered in clothing, children's products and furniture.

The volume of orders placed via the Internet showed further strong growth and was EUR 41.2 million, up 26 per cent on the previous year. The online store accounted for 23 per cent of Hobby Hall's sales in Finland and represented 27 per cent of Hobby Hall's distance retail volume in Finland. During the year the number of visitors to the online store grew by 22 per cent on the previous year. The marked increase in ADSL connections is supporting the growth in online shopping. Hobby Hall Online has gained a very strong position in the Finnish market. According to a research published in January 2005, readers of the Valitut Palat magazine chose Hobby Hall the most trusted online store brand in Finland.

Sales by Hobby Hall's stores in Finland totalled EUR 29.5 million, down 29 per cent on the figure a year earlier. The decrease in sales was due to the downsizing of the store network. In-store sales accounted for 16 per cent of Hobby Hall's sales in Finland. Sales by the two stores that continued to operate increased by 27 per cent.

Strong growth in online sales in Estonia

Hobby Hall's sales in Estonia totalled EUR 20.6 million, falling 11 per cent short of the previous year's sales. Online sales grew strongly and totalled EUR 1.9 million. Growth compared with 2003 was 55 per cent. The share of online sales in Hobby Hall's aggregate sales in Estonia rose from 5 per cent a year ago to 9 per cent.

In-store sales in Estonia were EUR 3.3 million, down 25 per cent on the figure a year earlier. The decrease was due to the closure of one of the stores in Tallinn.

The biggest volume increase came in sales of linens and interior decorator textiles as well as fitness and other leisure products. The biggest losses in sales came in children's products and home appliances.

Decline in sales in Latvia

Sales in Latvia dropped by 32 per cent compared with the previous year and were EUR 9.9 million. Sales were lost, notably, owing to gaps in the product assortment and merchandise availability problems. Sales in Latvia were furthermore weakened by the targeting of marketing actions on existing customers, with minor inputs into acquiring new customers.

The best sales growth was reported in fitness and other leisure products as well as cameras. The biggest decrease was reported in sales of household items, children's products, furniture and linens.

Decision to withdraw from Lithuania

Sales in Lithuania amounted to EUR 3.6 million, a decrease of 39 per cent on the figure a year ago.

The result of operations in Lithuania was clearly in the red. Overall offerings in the country's distance retail trade are still fairly modest. Putting the result into the black would mean a substantially greater input into the Lithuanian market than heretofore. For this reason, it was decided to withdraw from Lithuania by the end of March 2005 and to concentrate on raising sales in Estonia and Latvia.

System revamp moves ahead

The first phase of the information system revamp was placed in use during 2004. The design process for the second phase has now been set in motion. It will progress according to plan such that the upgraded system's second phase will be ready to go into operation in the course of spring 2006. The project will usher in necessary improvements, notably, in category management and billing practices, bringing cost savings and enhancing customer service.

The new customer management system will enable Hobby Hall to target its marketing more effectively and facilitate the analysis and development of customers' purchasing behaviour.

Investments in system upgrades in 2004 amounted to EUR 0.7 million.

Test marketing in Russia

Small-scale test marketing was carried out in Russia in the first part of 2004. The test marketing yielded information on the special features of the Russian distance retailing market. For the time being, Hobby Hall is not contemplating expanding to the Russian market.

Different kinds of catalogues: from Latvia, a catalogue that went out to every home; from Finland, two mailing-list catalogues, and from Estonia, a net price catalogue.

Hobby Hall celebrated the 25th anniversary of its own Loyal Customer programme – of course, with splendid special offers.

Streamlining operations

The streamlining programme that was launched in 2003 was continued according to plan. The store network has now been trimmed and store functions centralized within two stores in the Helsinki metropolitan area and one store in Tallinn.

In accordance with the streamlining programme, the bulk of Hobby Hall's warehousing functions were consolidated at the Viinikkala Logistics Centre during the summer and autumn. Development of category management and a stepped-up inventory turnover rate spearheaded the centralization process. The aim of the centralization project is to achieve big savings through reduced costs of business premises and improved warehouse efficiency. In addition, the centralization will afford better possibilities for packaging multi-product orders in the same package, thereby lowering postal costs and improving customer satisfaction. The placing in use of an automatic package sorting system and trunk-line transports in deliveries in the Baltic countries has also brought clear cost savings and shortened delivery times.

The project for boosting the efficiency of warehousing functions that was carried out during 2004 contributed to the work of combining the warehouses. As a result of these actions, goods-handling efficiency at the warehouses improved significantly, right in 2004. Thanks to this project, Hobby Hall expects to realize substantial savings in the years ahead.

Among the objectives for 2004 was to achieve a lowering in inventory values and to improve the saleability of stocks. The value of stocks at the end of the year was EUR 21.8 million, or EUR 9.8 million smaller than in 2003, and the inventory turnover time improved.

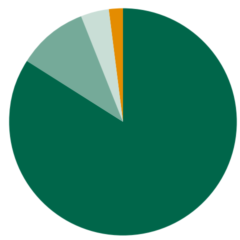
The objective of the programme of measures that was launched in autumn 2003 is to lift the result by EUR 7.5–8.5 million. The programme is still ongoing and, among other benefits, savings obtained from combining the warehouses will be realized for the most part during 2005. Hobby Hall's unsatisfactory profitability in 2004 was due principally to the lower-than-planned level of sales, merchandise-availability problems, the weighting of the product assortment, price reductions connected with stock clearance and a below-budget level of relative gross margins.

Outlook for 2005

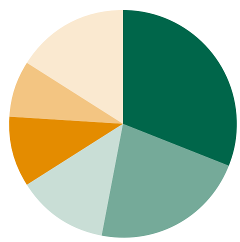
Hobby Hall's central objective in 2005 is to lift the operating result into the black and to improve the return on capital employed.

The profitability and cost-effectiveness of operations will be improved in accordance with the programme of measures that was launched in December 2004. Key initiatives are the revamp of the assortment and its structure, developing the availability of goods, improving the gross margin, stepping up logistics further, sharpening the focus of marketing actions and cost-effectiveness. □

Distribution of Hobby Hall's sales by market 2004



Distribution of Hobby Hall's sales by merchandise sector 2004



Seppälä's growing international presence took on new dimensions with the opening in 2004 of three stores in Moscow. This photo was taken in the store in the Mega South Shopping Centre.

Seppälä

Seppälä is Finland's most extensive chain of fashion stores. In addition to the 123 stores in Finland, Seppälä operates in Estonia, Latvia and Russia. The stores are sited in prime commercial locations. Seppälä offers clothes and accessories for women, men and children as well as footwear and cosmetics. Centralized chain-store operations guarantee affordable prices together with reliable quality. Seppälä's collection is based on own design.

Best-ever result

Seppälä reported sales in 2004 of EUR 143.7 million, an increase of 10 per cent on the figure a year earlier. Net turnover was EUR 118.4 million. Women's apparel continued to account for a growing share of aggregate sales. Both children's and men's clothes accounted for a relatively smaller share of sales. The number of store visitors and customers making purchases increased compared with the previous year. Seppälä's profitability is now at the level of highly profitable international chains. The division posted operating profit in 2004 of EUR 16.4 million, or 13.8 per cent of net turnover.

The principal factors driving sales and profitability are the company's own development efforts, the competitive situation in the market and changes in the store network.

Seppälä's revamped operational model, which has been developed purposefully over the past years, is now showing up in the chain's figures. More and more people who stop by the stores make purchases, though at the same time the competitive situation in the Finnish market has become tighter as new hypermarkets spring up and foreign chains open new stores. The number of Seppälä stores remained on average at the previous year's level.

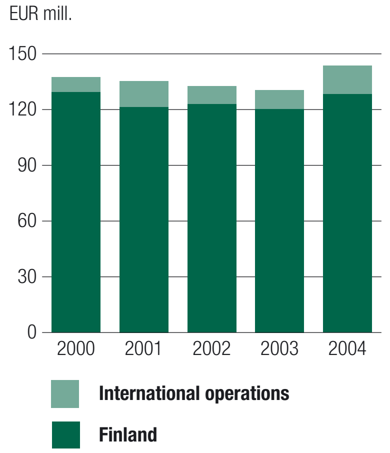
Being nimble, being quick

For Seppälä and the garment trade in general, the most important thing is always to bear in mind what kinds of fashion customers want to buy and the predominating trends in the garment market. This is a challenging task ⇨

Key figures

SEPPÄLÄ, EUR mill.	2004	2003	change %
Sales	**143.7**	130.3	10
Proportion of Group Sales, %	**8.3**	7.7	
Operating profit	**16.4**	10.1	62
Return on capital employed, %	**127.7**	58.5	
Capital employed	**12.8**	17.2	-25
Investments	**1.2**	1.2	
Staff, December 31	**978**	901	9

Development of Seppälä's sales 2000-2004



Development of Seppälä's operating profit 2000-2004

The women's assortment was expanded by adding the Bay Sport collection, designed for fitness enthusiasts.

Seppälä presented awards to six young clothes designers in the S-Style competition. Veera Lassila (left) came in first with her Girlish outfit, worn by the mannequin beside her.

because more and more factors have a bearing on the operating environment and on consumers' readiness to buy clothes. Ideally, customers always find something to buy in Seppälä's extensive collections, whether they are interested in the latest new fashions or in good utility clothing. Today's customer buys an article of clothing for use right away. This is why we need an ever-improving ability to respond quickly to changes in fashion, the competitive situation and the weather.

Seppälä's responsiveness has been stepped up continuously and this process remains in full swing. The annual flow of goods is some 16 million individual products. Seppälä's good logistics system and expertise are key in making sure that products are in the right place at the right time. This allows the stores to operate without stocks of their own. 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. Both new products and supplementary articles are delivered to the stores five days a week. This operational model creates a basis for chain operations that take into account stores of different sizes in different-sized localities.

Success hinges on continuously developing the Seppälä collection

The sources of fashion are found in life about us: in the street, in media and films and in youth culture. One of the main underpinnings of Seppälä's operations is its own collection, which enables Seppälä to stand out from other fashion stores. Some fifty people are continuously engaged in designing and buying the collection. Seppälä's fashions come to life at textile and fashion fairs and by keeping a close eye on garment industry trends and the society around us.

Seppälä must create fashion for its customers' needs: never lose touch with currents in the fashion world and be aware of the kind of people who visit its stores. In order to promote Finnish design, in 2004 Seppälä organized an open garment design competition, which achieved wide popularity amongst fashion design students and professionals as well as consumers.

Trends in customer behaviour point the way

A fashion chain must be able to revitalize its collection structurally too. Including new products in the assortment whilst expanding old product groups broadens and refreshes Seppälä's assortment. Seppälä began selling ladies' shoes in 2002. This has proved to be a good new product group, and in 2004 shoe sales were extended to a number of stores. By tracking customers' attitudes and how these affect behaviour, new customers and product groups can be identified. Pampering oneself and attending to one's personal well-being have been an ascendant trend for several years now. This trend led to the birth of a new collection, Bay Sport, that was designed for fitness-minded women. Efficient chain operations made it possible to offer stylish and high-quality fitness products at affordable prices.

Close to the customer

Seppälä's main strength is a comprehensive network of 123 stores in Finland. In Finland the focus is no longer on establishing new stores; rather, Seppälä will concentrate in seeing to it that its stores are in step with the times and are sited in prime commercial locations, where people are on the move. Opening hours and the service concept support shopping convenience. 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. The task is to highlight the many dimensions of Seppälä's assortments in an attractive and clearly-stated way. The use of the store as a tool for creating a distinctive cachet and building a closer customer relationship is a concept that has also won recognition in competitions that evaluate marketing performance: Seppälä placed first in the Effie and AdProfit competitions.

It is important to pay unfailing attention to keeping a large network of stores modern and attractive. In 2004, seven stores moved into new premises in Finland and additionally seven stores were refurbished in accordance with Seppälä's modern light-toned and fresh look. In addition, four stores in Finland were closed. Seppälä's objective is to operate with a chain of 120-130 stores in Finland.

Shoes are an essential part of Seppälä's fashion statement at a growing number of stores in Finland and abroad.

Small shower gel bottles are one of the most popular articles at the new Cosmetics Department of the store in Tallinn's Viru Center.

First store in Lithuania

A major element of Seppälä's strategy is to operate in all the Baltic countries. It is Estonia's largest chain of clothing stores, where it had 14 stores in operation at the turn of the year. Because Seppälä 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.

The first stores were opened in Riga in autumn 2003. The city's economic area is home to nearly a million people. In 2004, one new store was opened in Riga. Seppälä's stores are located in the four largest shopping centres in the city and as part of the Stockmann department store. In November 2004, Seppälä also opened its first store outside the capital city – in a shopping centre that was completed in Liepaja. Operations in Latvia have been in line with expectations and Seppälä has achieved a good foothold in the country's clothing market.

After Latvia, the next step is to move into the Lithuanian market. Lithuania is the most populous Baltic country and has the largest disposable income. The first Seppälä store will be opened in the centre of Vilnius, the country's capital, in spring 2005. The aim is to build out operations in Lithuania the same way as in the other Baltic countries: gain a firm foothold in the capital city and then establish stores in other big towns.

Russia: a growing market area for Seppälä

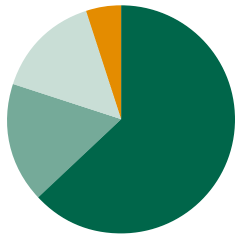
In 2004 Seppälä opened three stores in Moscow, one in the spring and two in November-December. Two of the stores operate in the Stockmann department store and one in a large shopping centre. The aim is to open additional Seppälä stores as new and fairly large shopping centres are completed. Seppälä intends to open its first store in St Petersburg in autumn 2005. Moscow, with its population of over 10 million, and St Petersburg, with 5 million people, offer good growth potential for Seppälä in the years ahead.

Growth on the radar in 2005

Seppälä's operational model provides a good foundation for growth and earnings. Work on developing the clothes collection is an ongoing process. Refurbishment of the store network in Finland is continuing, and at the same time the search is on for new commercial locations in the Baltic countries and Russia. Seppälä's growth outside Finland is linked strongly to the building of new shopping centres and to the rise of an affluent middle class. Both processes are unfolding, and resources dedicated to the markets in the Baltic area and Russia are expected to bring a further significant increase in Seppälä's sales and euro-denominated earnings. Establishing future new stores will call for initial outlays and, naturally, it will take some time before each new store operates as profitably as an existing, well-rooted store.

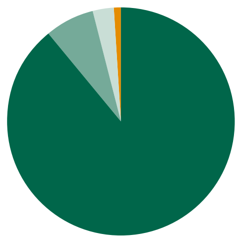
The objective for 2005 is at least to maintain the excellent level of operating profit reported in 2004. □

Seppälä's sales by merchandise sector 2004



- 63% Ladies' fashion
- 17% Children's fashion
- 15% Men's fashion
- 5% Cosmetics

Distribution of Seppälä's sales by market 2004



- 89% Finland
- 7% Estonia
- 3% Latvia
- 1% Russia

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 46 – 49 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. They are 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 president, 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.

The Board of Directors has 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 2004. The average attendance was 99 per cent.

The Board of Directors has set up an Appointments and Compensation Committee which 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 president 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 2004 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 president, the chief financial officer and the directors of the divisions. Jukka Hienonen, director of the Department Store Division, has also acted as the company's executive vice president since January 1, 2003 and as the CEO's alternate since November 15, 2004.

Corporate Administration oversees the entire Stockmann Group. Commercial operations are organized into four divisions, which are the Department Store Division, Stockmann Auto, Hobby Hall and Seppälä. 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 president 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 and risk management

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. On June 16, 2004, the Board confirmed the company's risk management principles which are discussed in more detail on pages 33-34 of the Annual Report.

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 2004 financial period totalled EUR 165 693 for the audit of the parent company and a total of EUR 368 897 for the audit of the Group. In addition, KPMG was paid EUR 129 575 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 30, 2004, the fixed emoluments paid for the 2004 financial year were EUR 60 000 to the chairman of the Board of Directors, EUR 40 000 to the vice chairman and EUR 30 000 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 2004 financial year, the members of the Board of Directors were paid cash emoluments totalling EUR 154 667 and share emoluments of 6 061 of the company's Series B shares. The value of the emoluments paid was a total of EUR 266 250. 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 2004 was EUR 385 169, of which fringe benefits accounted for EUR 10 340. 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 compensation 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. In 2005, a total of 5 767 Stockmann Series B shares and EUR 208 823.07 will be paid to the members of the Management Committee on the basis of the attained aggregate targets in 2003-2004. The maximum incentive payable in 2006 on the basis of the attained aggregate targets for 2004-2005 to all the members of the Management Committee in the form of Stockmann Series B shares is a total not to exceed 16 712 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 the 2000 share options is given on page 46 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, the executive vice president 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, whereas Stockmann has found it appropriate not to define a period preceding the publishing date of financial results during which the company does not comment the development of its sales or earnings.

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 came into force on July 1, 2004. Stockmann complies with the recommendation. □

Risk management

The aim of risk management is to safeguard the Group's earnings trend and ensure disturbance-free business operations by implementing risk management cost-effectively and systematically in the divisions. The achievement of risk management goals at Stockmann is organized such that

- risk management is part of normal business operations and management
- risk management is a process of identifying, assessing and managing business risks that can prevent or jeopardize the achievement of business goals.
- risk management is supported by internal control systems (guidelines, routines and procedures). Risk management principles are defined separately for specific areas, including the following: IT and data security, financial operations, environmental affairs, security, insurance policies and the Internal Audit.

Risk classification

All factors that may jeopardize or prevent the Group or its divisions from achieving the strategic goals they have set constitute business risks.

Stockmann's business risks are classified into three risk areas:

- business environment risks, meaning risk factors that are external to the company and may significantly affect the company's latitude of operations and profitability if they materialize. These kinds of risk factors encompass fundamental and unforeseen changes in market trends, disasters and catastrophes, and country risk for Russia.
- operating risks, meaning internal risks associated with operations which may, if they materialize, lead to interruption of business, inefficiency and unprofitability. These risk factors include risks related, for example, to personnel, fraud and abuse, IT and data security risks as well as risks associated with information used in decision-making.
- financial risks, whose influence will be reflected in the Group's profits, balance sheet and liquidity if they materialize.

Allocating responsibilities within risk management

Risk management is part of the Stockmann Group's normal business operations.

Under the Finnish Companies Act, the Board of Directors must see to the due and comprehensive supervision of accounting and financial management. The Board also confirms the company's long-term strategies and financial goals. In accordance with the new recommendation on the Corporate Governance of listed companies, the Board confirmed the company's risk management principles in June 2004.

According to the Finnish Companies Act, the chief executive officer must make sure that the company's accounts are kept according to law and that the management of funds is arranged in a reliable manner.

During the strategy process, the Group's Management Committee makes an estimate of business risks that may jeopardize or prevent the achievement of strategic goals. At the same time it evaluates the adequacy of risk management measures. The management committees of the divisions are responsible for drawing up strategic and financial plans for their own divisions. Formulating a strategy involves analysing business risks and assessing the risk management procedures. Business risks are also analysed outside the strategy process, in particular in connection with important projects and investments.

The Group has a Risk Management Steering Group whose task is to support the divisions in identifying and managing risks that may jeopardize or prevent the achievement of Stockmann's strategic goals. The Steering Group, comprising the head of the Group's Internal Audit, the company lawyer and the Group Controller, meets several times a year and reports on its observations and recommendations to the company's Management Committee and Board of Directors.

Risk management reporting

The divisions report on business risks and their management

- annually in connection with Stockmann's strategy process and
- as part of decision-making on important projects and investments to the Group's Management Committee, which reports on business risks to the Board of Directors.

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 and Swedish krona and the most important sales currencies are the Russian rouble, Estonian kroon and Latvian lat. In 2004, purchases made in foreign currencies account for 14 per cent of the Group's purchases, ⇨

and sales denominated in foreign currencies make up 14 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 Stockmann Group's number of employees saw strong growth in 2004 due to the setting up of department stores abroad. Two full-scale department stores were established in Moscow, along with Seppälä stores next to them. The Zara chain also opened new stores in Moscow. At year's end, the Group had 10 919 employees, of whom 3 391 worked abroad. The payroll rose by 1 377 people. The number of employees decreased by 74 people in Finland and rose by 1 449 people abroad. Fifty-four per cent of the employees were full-time, while 46 per cent were part-timers. Women accounted for 73 per cent of the Group's personnel, and men for 27 per cent. The proportions were roughly similar among senior salaried employees: 72 per cent women and 28 per cent men. Of all those working as executives in the Group, 43 per cent were women and 57 per cent were men. The average age of employees was 33 years. Staff turnover among permanent employees in the Group's units in Finland was on average 14 per cent. Staff turnover abroad is greater, owing to the fact that the labour markets are undergoing drastic change.

Further information on the numbers of personnel is given in the Board Report on Operations under the section "Personnel strenght" on page 45 of the Annual Report and in the table on page 43. Information on personnel is also given in Note 4 to the Annual Accounts on page 58.

Human Resources Development

In order to ensure quality in customer service, the Group seeks to employ people who are willing to commit themselves to the corporate core values and who authentically wish to do their best to provide excellent customer service. In addition to the right attitude, the Group emphasizes induction and on-the-job training, multi-skills, the continuous monitoring of customer feedback, the regular assessment of service quality and rewards for good customer service.

In the assessment of customer service at the department stores in Finland, the service index rose significantly for the second year running. The index of the entire chain was 71, whereas it was 66 per cent in the previous year and 59 the year before that. A large share of the department store teams either achieved or surpassed the long-term objective of 80. The service index compares success against the maximum figure for performance, 100. All the Stockmann Beauty shops participated in the assessment for the first time and immediately achieved an index rating of 85. All in all, over 1 200 survey visits were made to the department stores and Stockmann Beauty shops during autumn 2004.

Sustained efforts have been made to hone service quality. Feedback on individual customer service situations continued and this has had a significantly positive effect, particularly when it comes to catering to the customer. A new type of training entitled "Using the best resources" was started up in the autumn. Experienced salespeople from both the department stores and Seppälä participated in the coaching. It aims to enhance the full-scale harnessing of the professional skills and expertise of salespeople in customer service situations.

A training event for inductors was held for the first time at Hobby Hall in autumn 2004. The course lasted four days and 11 employees took part in it. They were provided with the capabilities to guide and coach new staff as well as plan induction programmes.

The training of managers continued. Eighty-one managers in sales, procurements, marketing, logistics and administration have completed the Department Store Division's coaching programme. Project work to mobilize the strategy has been included in the programme. A manager coaching programme for the other divisions and Corporate Administration was started up in September. An Industrial Relations Seminar and an Accounting and Finance Seminar were also held for the Group's managers by in-house specialists.

During the whole year, Stockmann's and Seppälä's own groups studied for retail supervisors' specialized vocational degrees over and above their work. The studies included classroom teaching sessions on various subareas of retail theory. The supervisors got to apply the theory in practice during various assignments that were related to their own jobs and in a development project lasting the entire duration of the degree programme.

In spring 2004, an IT training event was held for the first time by Stockmann's own experts. The event was specially designed to meet the Group's own needs. Help desk staffers who are well-versed in the most problematic situations that crop up in everyday work participated in the planning of the course content. The course aimed to upgrade the participants' software skills. Training is rounded out by extensive written guides, which are also available in Estonian.

All the employees working at the Seppälä chain's stores participated in its Spirit programme. In 2004, it focused on upholding the calibre of customer service through the scheduling of working hours. A good level of customer service during peak business hours is ensured by scheduling tasks related to store goods handling and administration for the quieter hours of the day.

The monitoring of customer satisfaction in Stockmann Auto is ensured by systematically and rapidly contacting, either in writing or by phone, the purchaser of a new private car or service customer after his or her visit. The share of satisfied customers has been on the rise. The training standards of importers and Stockmann's operations involve continuous outlays on both customer service and technical product knowledge. Sales staff were also provided with training on the services offered by financial and insurance companies and how to take care of such transactions electronically. All the product lines of the Vehicle Division took part in these training programmes.

Large-scale hiring in Moscow

Two full-scale department stores, three Seppälä stores and two new Zara stores were opened in Moscow in 2004. In association with the managers, local personnel administration took a long-term approach to preparing the hiring campaign – these preparations were already kicked off in 2003, as it was known in advance that it would be a particular challenge to acquire department store personnel. Moscow is a sprawling city with long distances – the company knew that it would be difficult to acquire labour in the vicinity of the department stores, because many new stores have been opened in these areas and are competing for employees.

In the first months of 2004, a large-scale drive to hire sales staff was started up in Moscow for the Mega South department store, which was opened in April. Many communications channels were used to announce the job vacancies – the Internet site, flyers and the hiring information point at the Mega Shopping Centre. About 1 500 applications were received. The core group of the new store's staff comprised applicants from the Group's other units – they facilitated the mobilization of Stockmann culture at the new department store. However, hundreds of new employees were also required. The mass assessment and interview technique ⇨

that had proved its worth during the hiring of employees for the Riga department store was used in the selection of the new employees. Using this method, over 300 employees were screened in a short time. They all completed the Stockmann Group's corporate induction programme before the department store was opened.

In December, another large department store, Mega North, was opened in Moscow. It is located far from Mega South in an area where it is very challenging to secure labour. An even larger hiring drive was initiated for this project than for the opening of Mega South. Personnel administration set up its own hiring office in the area to make it easier for job applicants to submit their applications, and used many kinds of communications channels to let people know that the department store is an attractive employer. Due to the opening of Mega South in the spring, the department store had fewer applicants – supervisors and salespeople alike – from the Group's other units. It was thus more challenging to provide induction for the employees of the new department store. Nevertheless, when the department store opened, all 370 of its employees served customers in line with Stockmann's customer service strategy.

Incentive systems

Most of the Group's staff is covered by an incentive system. The incentive systems of managerial staff and experts are based on financial benchmarks and criteria for the evaluation of personal job performance.

Other positions are primarily covered by group incentive systems. However, personal sales-based incentives are being tried out at some pilot units.

The Group paid a total of over 5 million euros in various incentive bonuses in 2004.

Management incentive systems and the share option arrangements for key employees are discussed in the section "Corporate Governance" of the Annual Report on pages 31-32. Detailed information on the share option scheme for key employees is presented in the section "Share Capital and Shares" on page 46.

Codetermination

The roots of Stockmann's internal codetermination activities go back a long way – the first organized Employees' Council started up in 1924. In other words, codetermination at Stockmann had its 80th anniversary in 2004.

In Finland, each division and larger business unit has its own Employees' Council that deals with issues related to the Act on Co-operation within Undertakings in its own business area. Representatives of these local councils make up the Group Council in Finland, which convenes twice a year to deal with matters concerning the entire Group. During these sessions, Stockmann's CEO gives a comprehensive presentation on the Group's financial situation and plans for the future.

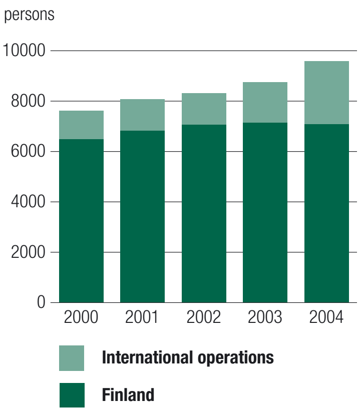
This operating model was expanded to Estonia in 2004. There, the first Employees' Council was appointed in the spring. It held its first meeting in the autumn. It is intended that these activities will be expanded to Latvia and Russia as well in the near future. In every country, the staff representatives are told, in their own language, about not only local affairs, but also the Group's financial situation and plans for the future in its other business countries.

Codetermination negotiations on the integration of the Viinikkala and Tammisto warehouses continued at Hobby Hall. As a result of the negotiations, 45 employees became redundant.

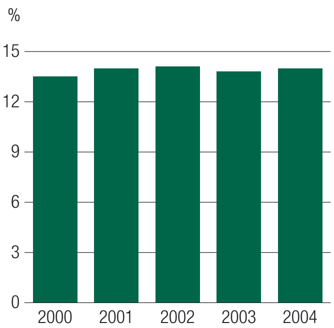
Personnel abroad

The number of the Group's employees abroad was 3 391 people, of whom 2 401 had full-time jobs and 990 were part-timers. The Group has had local employees abroad for 15 years now, that is, ever since operations began. Badges for long-standing service for 10 years of employment have already been awarded to a total of 69 people abroad. The company has been reasonably successful at committing its foreign managers and supervisors to its employ, as the turnover of key employees has been slight. Of the 3 391 people working abroad, only 11 are Finnish. Two of the three department stores in Moscow are headed by a local director – both of them are women and have been in the Group's employ for over 10 years. The turnover of sales staff is higher, as the Group's business locations are in vigorously evolving commercial centres, where competition for trained and professionally skilled labour is a daily problem. □

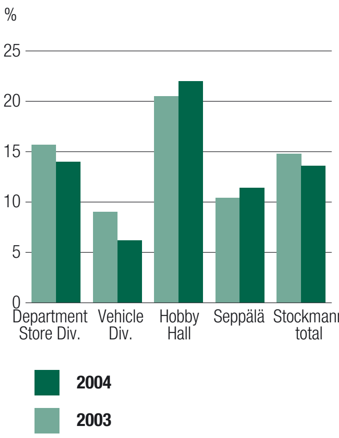
Average number of staff 2000-2004



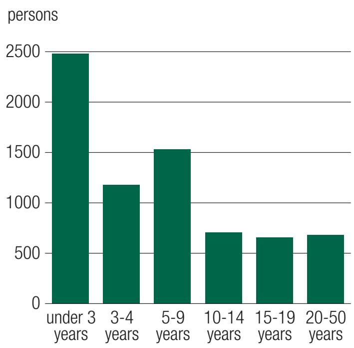
Staff costs 2000-2004, % of net turnover



Turnover of permanent personnel in Finland 2003-2004



Years of service, permanent personnel in Finland 2004



Corporate social responsibility

Since 2002 Stockmann has worked systematically to make corporate social responsibility a part of the Group's normal day-to-day operations. The Group has carried out a social responsibility project that has brought a significant increase in its commitment in the area of social responsibility.

To highlight the importance of social responsibility, a sixth core value was added to the Stockmann Group's corporate creed in early 2004: Social responsibility – our way of operating is ethical, just and shows respect for environmental values.

Corporate social responsibility has become an increasingly important theme in recent years.

The development of functions connected with social responsibility has been organized across all Group units to form a part of business operations. Group-wide development work is directed by the Environmental and Social Responsibility Management Committee.

The overhaul of Stockmann's website in summer 2004 involved adding to the site a social responsibility section dealing with Stockmann's work to promote environmental well-being and social responsibility in importing. Communications on social responsibility issues will be expanded on the Internet during 2005.

In 2004 Stockmann engaged in cooperation with a number of writers of theses dealing with environmental and social responsibility.

Financial responsibility

Profit orientation is the first of Stockmann's core values. Good financial performance lays the foundation for responsible operations, enabling the company to invest in developing the well-being of its personnel as well as social well-being. Good results in the area of environmental and social responsibility strengthen financial performance.

The good trend in Stockmann's business operations continued in 2004. Sales rose to EUR 1 735.0 million (1 698.6). Profit before extraordinary items was EUR 79.1 million (74.0). In 2004, Stockmann paid its shareholders dividends of EUR 123.3 million (45.8). The company paid direct taxes of EUR 20.9 million (22.3). During the year Stockmann employed an average of 9 589 people (8 745), of whom 4 420 were part-time staff. The company paid salaries, wages and emoluments of EUR 166.6 million (160.1), an increase of 4 per cent. Pension expenses came to EUR 24.1 million (22.4), and expenditure on staff training in Finland, excluding direct salary and wage costs, amounted to EUR 0.8 million.

Environmental responsibility

The environmental work of Stockmann's divisions is based on the Group's environmental policy as approved by Stockmann's Board of Directors. The goal of environmental policy is to promote and support implementation of the principles of sustainable development in the Group's business operations.

As part of its work for a better environment, Stockmann undertook in autumn 2004 preparations for recording, calculating and presenting environmental expenditure in its financial statement information. The environmental expenditures presented in the Annual Report have been collected and reported in accordance with the general guidelines which the Finnish Accounting Standards Board (KILA) has issued concerning the presentation of environmental compliance information in financial statements. The uniform presentation of environmental expenditures facilitates comparison and gives a comprehensive picture of how environmental affairs are handled across the Group.

Department Store Division

All Stockmann's department stores in Finland have environmental systems that have been certified according to the ISO 14001 standard. The systems were built and certified in 2002-2003, when the principal benchmarks for tracking environmental impacts were also formulated. Accordingly, comparable full-year information on all the department stores in Finland will be available for the first time in 2004.

A certification carried out by Bureau Veritas Quality International covers the functions of Stockmann's department stores and Academic Bookstores in Finland as well as the Department Store Division's joint purchasing and warehousing functions in Helsinki's Pitäjänmäki district. Just over 4 400 people work in jobs falling within the scope of the certified functions.

The objective of environmental systems is overall management of environmental affairs. 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. The main objective is to develop the department stores' operations so that they are increasingly in line with sound environmental principles, and to prevent environmental impacts resulting from operations.

Environmental work is carried out with the aim of reducing environmental loading, notably by tracking and boosting the efficiency of energy consumption, recycling wastes and directing attention to preventing wastes from arising as well as by taking environmental factors into account in purchasing and assortment decisions. The personnel are in a key position in making environmental systems effective, and this is why training the staff has been a major focus over the past two years.

An Environmental Affairs Steering Group was set up for the Department Store Division in 2003 and given the task of supervising and promoting the integration of environmental systems as part of efficient chain operations.

In October, the Stockmann department stores took part in a Europe-wide campaign to make the EU environmental emblem well-known for textile products. Towards the end of 2004, Stockmann started pilot use of bio-degradable serving boxes in the Delicatessen and other departments that sell ready-to-eat meals in the Helsinki department store.

Stockmann Auto

Stockmann Auto participates in the environmental programme of the Finnish Central Organization for Motor Trade and Repairs (AKL), and the programme is part of the quality systems in use at the division's outlets. 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 Stockmann Auto's units. AKL's environmental programme is structured along the lines of the ISO 14001 environmental standard.

Stockmann Auto is seeking to minimize environmental loading in all its functions, whilst adapting the operations of the motor trade and vehicle repairs to the demands of environmental protection and respect for environmental values. Apart from the dealership in Oulu that was acquired in November 2004, all Stockmann Auto's outlets also have quality systems that have been certified according to the ISO 9001 standard. Environmental protection at the Oulu dealership ⇨

will be developed during 2005. Achievement of the quality targets along with more detailed environmental targets was monitored in prescribed audits that were carried out at each outlet during the year.

Today, about 75 per cent of a vehicle's weight is recycled and used again. In line with tightened up recycling requirements, the bulk of the waste arising in repair shop operations is also utilized. Noteworthy examples are metals, plastics, batteries, filters, fluids for cooling and air conditioning equipment as well as oil.

The long-term environmental work was continued by launching a pilot project according to the ISO 14001 environmental system at the Lauttasaari unit in autumn 2004. Stockmann Auto too makes environmental compliance an integral part of its operations.

Hobby Hall

During 2004 Hobby Hall carried out a waste management survey that has enabled the division to reduce the amount of its wastes by increasing the recycling rate. The number of sortable waste fractions has been increased both at warehouses and in the stores. In addition, from 2003 on Hobby Hall has succeeded in reducing the amount of packaging material used at its warehouses by dispatching a greater volume of products in supplier-used packages and by employing combined packaging in orders for multiple products. Boosting the combined packaging rate is a way of achieving greater efficiency in transporting and handling products across the transport chain, and it helps to reduce environmental impacts.

The consolidation of Hobby Hall's warehousing functions has moved ahead according to plans. At the beginning of 2005, warehousing will be centralized primarily within the Viinikkala Logistics Centre, cutting down significantly the need for warehousing space. This in turn lessens the consumption of energy. In addition, internal transports between the warehouses and stores will decrease markedly thanks to centralized warehousing. Within deliveries in the Baltic countries, October saw the introduction of a new transport model in which trunk-line transports are used to gain greater transport efficiency.

Hobby Hall's Internet sales grew and rose to 20 per cent of aggregate sales in 2004. The Internet is an environmentally friendly marketing tool. Online shopping is set for a further spurt in growth.

All distance retailing catalogues and packaging are made from environmentally friendly materials that are recyclable.

Since 2000, Stockmann has been a founding member of Serty ry, an association whose task is to coordinate in Finland, on behalf of its member companies, the recycling and waste management of electrical and electronic equipment in accordance with the principles of the EU's WEEE directive on producer responsibility. As part of these activities, Hobby Hall offers its customers in the Helsinki metropolitan area the possibility to recycle an old home appliance when a new one is delivered. Measures have been started to expand the service to cover the entire country. A similar recycling service is also in use in the Stockmann department stores in Finland. Most of the equipment to be recycled consists of large and small home appliances, televisions and consumer electronics, monitors and various telephones.

Seppälä

Seppälä has stepped up efforts to reduce the load it exerts on the environment 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.

Seppälä monitors regularly the sorting and recycling possibilities of all its stores in Finland and has drawn up operating instructions for the stores. Most of Seppälä's stores are located in shopping centres, where environmental and waste management matters have been well taken into account.

For its suppliers, Seppälä has prepared detailed cooperation 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 instructions for partners also set out the principles of responsible importing.

Waste management

One of the primary concerns of the divisions' different environmental management systems is the sorting of wastes and ways of making it more efficient. The Stockmann Group has therefore striven, for two years now, to harmonize various waste management practices. The differing practices which the divisions use to manage wastes somewhat limit uniform reporting on waste management. Furthermore, the municipalities' waste management regulations may be divergent, posing another set of challenges for stepping up waste management.

During 2004 a uniform reporting model has been elaborated, partly in conjunction with partners in the waste management process. Stockmann has devoted efforts to raising the effectiveness of its waste management over the past couple of years, notably by drawing up waste management agreements which all the divisions utilize as far as possible.

The measurement methods and results have gained in precision as the reporting of environmental indicators has become standardized, and Stockmann can begin publishing information on waste management costs and volumes.

Annual targets have been set for waste management activities, and the results are monitored regularly. Waste management is based largely on source separation, and the staff's participation plays a major part in it. There are rigorous guidelines for waste management, and extensive orientation has been arranged for the personnel as well as tenants and partners operating in company premises. Bio and energy wastes that are to be sorted, along with paper and cardboard, are delivered to recycling stations, for further utilization and to waste processing plants.

Energy

The consumption of electricity, heat and water is monitored across the Group. Comprehensive information is not yet available on all aspects of energy use Group-wide. For 2004, energy consumption is reported in terms of the aggregate consumption of electricity.

Electricity consumption stems mainly from the lighting and cooling of store, repair shop, warehouse and office premises, from the electrical equipment used in these areas and from automation and equipment in buildings.

Social responsibility

Stockmann's social responsibility extends beyond the company's own personnel to encompass the working conditions of employees all along the supply chain. The main dimensions of a company's social responsibility are employee satisfaction, mental and physical well-being, the realization of equality as well as training and career advancement. Personnel matters are discussed in greater detail on pages 35-36 of this Annual Report.

Since 2001, Stockmann has been a member of the Network to Advance Social Responsibility in Importing, which is coordinated by the Central Chamber of Commerce. Stockmann has given its commitment to promoting application of the ethical principles within importing activities as defined by the network. In addition, Stockmann has 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.

Stockmann's divisions adopted the "Commitment to Social Responsibility in Importing" in their operations in 2003, and during 2004 securing the commitment of suppliers became an established practice. The commitment is based on UN declarations and International Labour Organization agreements. Accordingly, 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.

The purchasing organizations of Stockmann's divisions sent 24 representatives to participate in the Social Responsibility in Importing seminar day that was organized by the eponymous network in May 2004. The subjects included social responsibility in the buyer's work as well as the experiences of Finnish and European companies in monitoring the social quality of suppliers.

In autumn 2004, Stockmann decided to join the Business Social Compliance Initiative (BSCI). BSCI is a cooperation organization that has been developed by European companies, trade unions and organizations. BSCI is a joint system for auditing suppliers and it is administered by the Brussels-based Foreign Trade Association (FTA). The purpose of BSCI is to improve the working conditions of suppliers and to clarify as well as harmonize the monitoring of suppliers. Thanks to this cooperation, the number of audited factories will increase manyfold, the improvement of working conditions will be speeded up, and all the parties will be spared a great deal of work and costs as overlapping functions are eliminated. The phase of cooperation among companies will be followed by the audit proper, which covers working conditions and terms of employment, and is carried out by an auditor authorized to perform a social standards (SA 8000) inspection. An audit conducted by an external professional guarantees the system's transparency and reliability. At the turn of the year, BSCI had 31 member companies from six different European countries. In addition to Stockmann, there are two other member companies from Finland.

Stockmann is a founding member in the national chapter of Transparency International, an organization that promotes activities aimed at combating international bribery, which began its operations in Finland in 2003. □

Waste management statistics, year 2004 (tons)

	Department stores, Finland	Department stores, Baltic countries	Vehicle Division	Hobby Hall	Seppälä*
Recyclable waste					
Energy waste	1 086.9	0.5	33.9	39.6	29.0
Cardboard	1 541.5	143.7	33.2	317.7	292.0
Recyclable paper	126.3	-	15.0	37.6	16.2
Plastic film	-	15.5	-	4.4	-
Metal	35.1	-	150.4	12.0	-
Glass	10.7	-	-	-	-
Bio waste	1 515.6	144.3	-	6.0	7.8
Restwaste					
Mixed waste	384.5	732.6	187.3	63.6	5.7
Hazardous waste + others	60.1	4.5	194.6	6.3	6.1
Total	4 760.7	1 041.0	614.3	487.3	356.8
Waste utilization %	91.0	25.0	38.0	86.0	97.0

Some of the amounts have been estimated on the basis of best available information.

* Head office and Goods Handling Centre

Electricity consumption, year 2004 (MWh)

Department Store Division, Finland	Department Store Division, abroad	Vehicle Division	Hobby Hall	Seppälä*	Others	Total
58 562.0	30 409.1	6 753.0	3 346.0	1 188.0	1 381.0	101 639.1

* Head office and Goods Handling Centre

Board report on operations

The Stockmann Group's sales grew by 2.1 per cent to EUR 1 735.0 million (EUR 1 698.6 million in 2003). Profit on ordinary operations improved by EUR 17.4 million on the previous year. Both the Department Store Division and Seppälä improved their operating profit substantially and turned in their best-ever earnings. The Vehicle Division reported a decrease in operating profit. Hobby Hall improved its operating result, though it was still in the red. Profit before extraordinary items increased by EUR 5.1 million and was EUR 79.1 million. The corresponding figure a year earlier, EUR 74.0 million, included EUR 15.4 million of other operating income. Other operating income in 2004 amounted to EUR 3.1 million. Earnings per share increased to EUR 1.11, as against EUR 1.01 a year ago. The Board of Directors will propose the payment of a dividend of EUR 1.00 per share.

Sales up 2.1 per cent

The Stockmann Group's sales grew by 2.1 per cent, or EUR 36.3 million, to EUR 1 735.0 million. International operations accounted for an increased share of consolidated sales, rising from 11 per cent to 14 per cent. Net turnover was up 2.3 per cent to EUR 1 445.0 million. The net turnover figures by division are shown in the accompanying table.

A big improvement in earnings

The Group's operating gross margin increased by EUR 36.1 million to EUR 493.5 million. The relative gross margin improved and was 34.2 per cent (32.4 per cent). The relative gross margin improved across all the divisions. Operating costs increased by EUR 16.7 million. Depreciation rose by EUR 1.4 million. Profit on ordinary operations improved by EUR 18.0 million. Net financial income decreased by EUR 0.5 million. These factors improved the Group's profit on ordinary operations before extraordinary items by EUR 17.4 million.

Other operating income came from the consideration received from the sale of the Volkswagen-Audi car dealership in Helsinki's Herttoniemi district as well as gains on the sale of securities and totalled EUR 3.1 million, a decrease of EUR 12.3 million on the figure a year earlier. Consolidated operating profit increased by EUR 5.7 million on the comparison period, to EUR 71.4 million.

Net financial income decreased by EUR 0.5 million from the previous year and was EUR 7.8 million.

Profit before extraordinary items grew by EUR 5.1 million and was EUR 79.1 million.

Direct taxes were EUR 20.9 million, decreasing by EUR 1.4 million on the figure a year earlier. Taxes on earnings amounted to EUR 25.3 million (EUR 20.4 million) and the change in the deferred tax liability was a decrease of EUR 4.4 million. The change in the deferred tax liability takes into account the lowering of Finland's corporate tax rate from 29 per cent to 26 per cent as from the beginning of 2005.

Net profit for the financial year was EUR 58.2 million, compared with EUR 51.7 million a year earlier.

Earnings per share increased by EUR 0.10 and were EUR 1.11 (2003: EUR 1.01). Earnings per share adjusted for the effect of share options were EUR 1.09 (EUR 1.00).

Capital employed diminished and was at the end of the year EUR 557.5 million (EUR 611.8 million). The trend in capital employed was attributable to the decrease in cash assets according to plan. The return on capital employed rose to 14.3 per cent, as against 13.2 per cent a year ago. The return on equity rose to 11.2 per cent, as against 9.6 per cent a year earlier. Equity per share was EUR 9.16, compared with EUR 10.36 a year earlier.

Sales and profitability trend of the divisions

The Department Store Division's sales grew by 10 per cent to EUR 938.9 million. Sales grew by 4 per cent in Finland and by 43 per cent abroad. Sales growth in Finland was reduced by the divestment of the Academic Bookstore magazine business in June 2003. International Operations registered sales growth ahead of the market in all the

NET TURNOVER	2004 EUR mill.	2003 EUR mill.	change EUR mill.	change %
Department Store Division, Finland	**624.5**	602.2	22.3	3.7
Department Store Division, international operations	**164.8**	111.0	53.8	48.5
Department Store Division, total	**789.3**	713.2	76.1	10.7
Vehicle Division	**358.0**	394.5	-36.5	-9.3
Hobby Hall, Finland	**148.6**	158.5	-9.9	-6.2
Hobby Hall, international operations	**29.3**	38.8	-9.5	-24.4
Hobby Hall, total	**177.9**	197.3	-19.3	-9.8
Seppälä, Finland	**105.3**	98.8	6.5	6.6
Seppälä, international operations	**13.0**	8.5	4.6	54.0
Seppälä, total	**118.4**	107.3	11.1	10.4
Real Estate + others	**21.7**	21.0	0.7	3.2
Eliminations	**-20.2**	-20.5	0.3	
Operations in Finland, total	**1 237.9**	1 254.6	-16.6	-1.3
International operations, total	**207.1**	158.2	48.9	30.9
Total	**1 445.0**	1 412.7	32.3	2.3

countries where it operates. In Russia, the Mega South department store was opened in Moscow in April, a Zara store in the Marina Roscha Shopping Centre in June and a department store and Zara store in the Mega North Shopping Centre in December. These new locations, together with the Riga department store that was opened in October 2003 boosted International Operations' sales growth. International Operations accounted for 21 per cent of the division's sales (16 per cent). The Department Store Division's operating profit increased by EUR 13.3 million compared with the same period a year ago, rising to EUR 53.0 million (EUR 39.7 million). Earnings were burdened by the costs of starting up the new department stores in Moscow and the department store in Riga. The return on capital employed was 23.7 per cent, as against 21.1 per cent a year earlier.

Vehicle sales in Finland tailed off following the spurt in sales in the wake of the lowered car tax. The Vehicle Division's sales were down 9 per cent to EUR 437.1 million. All in all, the decrease in sales was attributable to the transfer of the Volkswagen-Audi dealership in Helsinki's Herttoniemi district to a Kesko Corporation subsidiary as from July 1, 2004. The transferred car dealership had sales in 2003 accounting for about 22 per cent of the Stockmann Vehicle Division's entire sales. Unit sales of new vehicles fell by 17 per cent and those of used vehicles declined by 4 per cent. The division's operating profit diminished by EUR 1.4 million, mainly due to the sale of the Volkswagen-Audi dealership in Herttoniemi, and was EUR 4.2 million (EUR 5.6 million). The return on capital employed was 10.2 per cent, as against 13.2 per cent a year earlier. Stockmann is pushing ahead energetically with inputs into developing the vehicle trade and servicing operations in localities where it has a department store. Finland's first car dealership in line with the Audi car plant's recommendations was opened in Espoo's Suomenoja district at the beginning of July and will serve the Helsinki metropolitan area and its environs. The BMW-MINI Autotalo Jurvakainen Oy dealership was purchased in Oulu towards the end of October.

Sales by Hobby Hall diminished by 9 per cent on the previous year, to EUR 214.4 million. Sales in Finland were down 6 per cent on the previous year. The lower sales in Finland were due mainly to the effect of the stores closed at the end of 2003 and the start of 2004. Online shopping continued to enjoy strong growth and already accounted for 27 per cent of Hobby Hall's distance retailing in Finland. The division's sales abroad were down 22 per cent on the same period of 2003. This was attributable to tightened-up credit policy as well as the closing of one store in Estonia in autumn 2003. Hobby Hall stepped up its inventory management, and the level of stocks fell by 31 per cent during 2004. Hobby Hall's headcount decreased by 155 employees during 2004. Although sales fell short of the target, the improvement in the relative gross margin and cost savings lifted the division's operating result by EUR 0.3 million, ending in a loss of EUR 3.1 million. It was decided to wind up loss-making operations in Lithuania by the end of March 2005.

Seppälä's sales grew by 10 per cent on the previous year and were EUR 143.7 million. Sales grew both in Finland and abroad. Sales in the Baltic countries were increased by the four stores opened in Latvia towards the end of 2003 and the two stores opened there in 2004 as well as by the store that opened after a pause of one year in the refurbished Viru Centre in Tallinn, Estonia, in May. In addition, Seppälä opened its first store in Russia in Moscow in April 2004, with the next two store openings coming in November and December. Thanks to higher sales and an improved relative gross margin, Seppälä's operating profit increased by a hefty EUR 6.3 million and was EUR 16.4 million (EUR 10.1 million). The return on capital employed was 127.7 per cent, as against 58.5 per cent a year earlier. ⇨

Net turnover 2000-2004

Operating profit 2000-2004

Profit before extraordinary items 2000-2004

OPERATING PROFIT AND RETURN ON CAPITAL EMPLOYED	2004 EUR mill.	2003 EUR mill.	change EUR mill.	2004 ROCE %	2003 ROCE %
Department Store Division	**53.0**	39.7	13.2	**23.7**	21.1
Vehicle Division	**4.2**	5.6	-1.4	**10.2**	13.2
Hobby Hall	**-3.1**	-3.4	0.3	**-3.5**	-3.4
Seppälä	**16.4**	10.1	6.3	**127.7**	58.5
Real Estate	**13.8**	14.5	-0.8	**10.4**	11.4
Other operating income	**3.1**	15.4	-12.3		
Eliminations + others	**-15.9**	-16.1	0.2		
Total	**71.4**	65.7	5.7	**14.3**	13.2

The divisions' profits are based on management accounting.

Financing

Liquid assets at the end of 2004 totalled EUR 41.4 million, compared with EUR 121.3 million a year earlier.

Loan repayments were not made during the year, nor have new long-term loans been drawn down. The amount of long-term loans at the end of December was EUR 13.1 million. Capital expenditures came to a total of EUR 59.0 million. Dividend payouts totalled EUR 123.3 million. EUR 3.0 million was added to shareholders' equity through share subscriptions made on the basis of the 1997 and 2000 share options and EUR 6.5 million was added through the exercise of Loyal Customer share options. In addition, disposals of fixed assets generated a total of EUR 1.7 million.

The equity ratio was 65.5 per cent. The equity ratio at the end of 2003 was 68.3 per cent.

Contingent liabilities diminished by EUR 19.7 million from the end of 2003 and were EUR 41.1 million. Liabilities for lease agreements on business premises amounted to EUR 456.8 million, compared with EUR 471.1 million a year earlier.

Dividends

In accordance with the resolution passed by the Annual General Meeting, in April Stockmann paid a basic dividend of EUR 0.90 per share and a bonus dividend of EUR 0.45 per share, or a total dividend payout of EUR 70.5 million for the 2003 financial year. An extraordinary general meeting held on December 8, 2004, resolved to pay an extra dividend of EUR 1.00 per share on top of the EUR 1.35 dividend that was decided at the Annual General Meeting. The extra dividend totalling EUR 52.8 million was paid out in December. The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 1.00 per share be paid for the 2004 financial year. The proposed dividend is 90 per cent of earnings per share.

Fine-tuning strategy

In its discussion of strategy in June 2004, the Stockmann Group's Board of Directors confirmed the company's strategy, according to which the Group will grow energetically over the next few years, particularly in the Russian market. The objective is that by the end of 2008 about a third of sales and at least the same proportion of earnings will come from the markets in the Baltic countries and Russia.

Growth abroad will be spearheaded by the department stores, Seppälä and expansion of the franchising-based Zara chain in Russia. A new possibility that has been identified for augmenting business operations is to expand franchising activities also for international brands that have expressed interest in utilizing Stockmann's acquired knowledge of trading in Russia. As part of the implementation of this strategy, in October Stockmann signed a cooperation agreement with the Bestseller group of Denmark, on the basis of which Stockmann received exclusive rights to retail Bestseller's brands in Russia. The Bestseller brands include Vero Moda, Only, Jack & Jones, Exit and Selected. The first store selling Bestseller brands will be opened in the Mega North Shopping Centre in spring 2005.

Alternatives for developing Hobby Hall were examined during the autumn of 2004. As a result of this exploratory work, it was decided to continue improving Hobby Hall's performance as part of the Stockmann Group.

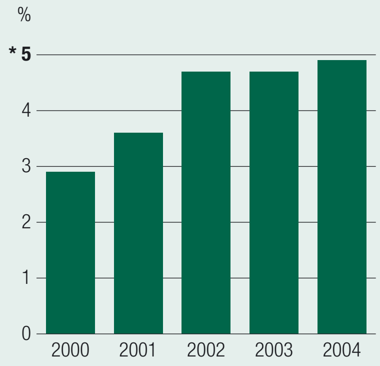
The vehicle business will be developed as part of Stockmann, with a special emphasis on exploiting the synergies arising via Loyal Customer marketing in concert with department store operations as well as the possibilities for business development offered by the amendment of the Block Exemption regulation. In accordance with the strategic policy adopted, in October Stockmann purchased the entire shares outstanding in Autotalo Jurvakainen Oy, a BMW-MINI dealership in Oulu. The business was transferred to Stockmann's ownership on November 1, 2004. Thanks to this deal, Stockmann will be able to serve its customers, in car sales too, in all its department store localities in Finland.

Organizational changes

Klaus Sundström, B.Sc. (Econ.), was appointed as the Vehicle Division's new director and a member of the Stockmann Group's Management Committee, effective April 2, 2004. The division's previous director, Esa Mäkinen, joined another company.

Raija Saari, M.Sc. (Econ.), was appointed as Hobby Hall's new managing director and a member of the Stockmann Group's Management Committee, effective November 15, 2004. As from the same date, Hobby Hall's previous managing director, Henri Bucht, a Stockmann Group executive vice president and the CEO's alternate, was assigned to special duties and will resign from the company's employ on June 30, 2005. Group Executive Vice President Jukka Hienonen, director of the Department Store Division, was appointed the CEO's alternate, effective November 15, 2004.

Operating profit, % of net turnover 2000-2004



* Long-term minimum target

Dividend for the financial years 2000-2004

* Board proposal to the AGM

Investments and depreciation 2000-2004

Developing the Group structure

With a view to streamlining Stockmann's Group structure and increasing operational transparency, the Board of Directors decided in October to spin off Stockmann's Vehicle Division through a transfer of operations to the parent company's wholly-owned subsidiary Stockmann Auto Oy Ab. The director of Stockmann's Vehicle Division, Klaus Sundström, was appointed as the new company's managing director. The spin-off went into effect as from January 1, 2005.

The Board of Directors furthermore decided to transfer the subsidiaries operating in Russia to the parent company's wholly-owned Finnish holding company Oy Stockmann Russia Holding Ab. Transfer of the shares to the new holding company was carried out in October. In addition, the Board of Directors decided to establish a Finnish finance company named Oy Stockmann Russia Finance Ab, which will be wholly-owned by the parent company and finance, among other things, purchases of fixed assets by Stockmann's subsidiaries in Russia. The company went into operation in December 2004.

Capital expenditures

Capital expenditures during 2004 totalled EUR 59.0 million (EUR 40.9 million).

The Department Store Division's capital expenditures came to EUR 39.6 million. The division's biggest investment items were the new Mega South and Mega North department stores in Moscow, which operate in premises leased from Ikea. The Mega South department store was opened in April and required an outlay during 2004 of EUR 12.3 million. The Mega North department store was opened in December and had an investment price tag during 2004 of EUR 16.2 million. Both department stores have about 10 000 square metres of retail space. Stockmann's total investments in these department stores amounted to EUR 31.2 million. Two Zara stores were also opened in Moscow: in the Marina Roscha Shopping Centre at the beginning of June and in the Mega North Shopping Centre in December. In Finland, two new stores belonging to the Stockmann Beauty cosmetics chain were opened in 2004, bringing the total number of stores to eight.

The Vehicle Division's capital expenditures amounted to EUR 2.3 million. They went mainly for expanding operations.

Hobby Hall's capital expenditures totalled EUR 1.2 million. They went mainly for the development of information systems.

Seppälä invested a total of EUR 1.2 million. Seppälä opened its first store in Russia at the Stockmann department store in Moscow's Mega South Shopping Centre in April. Seppälä opened its second store in Russia in the Marino Shopping Centre on the southeast side of Moscow in November 2004, and a third store at the Stockmann department store in Moscow's Mega North Shopping Centre in December. In addition, Seppälä opened a new store in Liepaja, Latvia, in November.

Property investments totalled EUR 13.6 million, of which EUR 1.7 million was for the Audi car dealership in Espoo's Suomenoja district and EUR 7.6 million for the preparatory works for the enlargement of the Helsinki department store as well as for upgrading escalators and lifts.

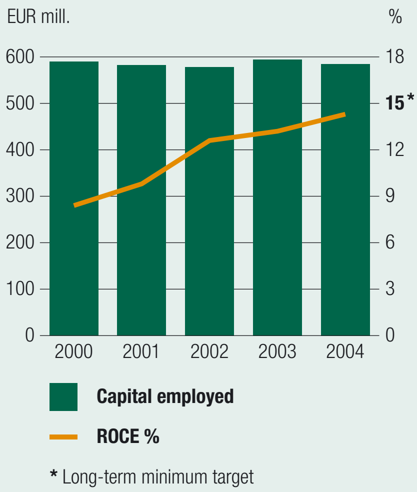
Other capital expenditures came to EUR 1.1 million.

Current projects

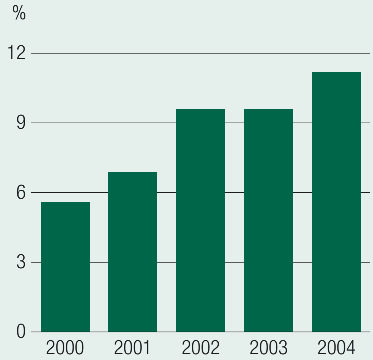
Stockmann will open a department store with about 11 000 square metres of retail space in leased premises in the newly built section of the Jumbo Shopping Centre in Vantaa in autumn 2005. Stockmann's share of the cost estimate for the project is about EUR 10 million.

A large-scale project for enlargement and modification works on the department store in the centre of Helsinki is pending. Implementation of the project will call for modifying the town plan, which has already been initiated. 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 for the department store as well as access passages to the new customer car park. After the enlargement the Helsinki department ⇨

Capital employed and ROCE % 2000-2004



Return on equity 2000-2004



Equity ratio 2000-2004

AVERAGE NUMBER OF EMPLOYEES CONVERTED TO FULL-TIME STAFF	2000	2001	2002	2003	2004
Department Store Division	4 092	4 263	4 459	4 782	5 601
Vehicle Division	768	790	741	776	740
Hobby Hall	592	688	755	704	608
Seppälä	748	749	705	709	759
Management and administration	95	91	92	97	104
Total	6 295	6 581	6 752	7 068	7 812

store will have a total of 50 000 square metres of retail space. The cost estimate for the project is a total of about EUR 115 million. The works are estimated to be completed phase by phase by the end of 2009.

A lease agreement on opening, in spring 2005, a flagship Zara store in a centrally located business site right in the heart of Moscow was signed in October. Furthermore, agreements have been signed on opening three new Zara stores in Moscow in 2005. In addition, 2-3 Bestseller stores will be opened in Moscow, the first of which will be in the Mega North Shopping Centre in spring 2005.

Seppälä is aiming to open new stores in Moscow and to expand its operations to St Petersburg. Furthermore, Seppälä will begin operations in Lithuania in spring 2005.

Transition to IFRS

As from the beginning of 2005, Stockmann changed over from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) in its consolidated reporting. The company has drafted an opening balance sheet for the time of transition to IFRS, January 1, 2004. The first IFRS Interim Report will be published on April 21, 2005. The major effects of Stockmann's transition to IFRS are related to the depreciation of revaluations of fixed assets, the treatment of own shares, the treatment of certain leasing and hire purchase agreements in the motor trade, the recording of financial instruments and segmental reporting.

The enclosed table presents the changes to some of the Group's key figures under IFRS.

In 2004, the balance sheet total was virtually the same under IFRS as in the FAS balance sheet. The equity ratio in the IFRS reporting was 62.3 per cent, or 3.2 percentage points lower than the equity ratio in the FAS annual accounts. This is mainly due to the recording of accumulated depreciation of revaluations in shareholders' equity and the deferred tax liabilities related to IFRS adjustments. The growth in net profit for the period and earnings per share in the IFRS annual accounts is primarily due to the reduction in deferred tax liabilities. The transition to IFRS in the annual accounts has no effect on the Group's cash flow.

Upon the transition to IFRS, the segmental division used in current reporting was changed such that the property unit, whose income primarily comprised intra-Group rental income, was eliminated. Under IFRS, the properties owned by the Group have been divided between business segments such that they are included in the assets of the segments.

In the segments' profit and loss accounts, the previously used internal rent will be replaced by depreciation on buildings and other expenses. Under IFRS, other operating income has been allocated to the segments, whereas they were previously reported only at the Group level.

The segmental division is based on the Group's organization and internal reporting. The primary segments are the Department Store Division, Stockmann Auto, Hobby Hall and Seppälä. The secondary segments are Finland, the Baltic countries and Russia.

Share capital and shares

The company's market capitalization grew by 19 per cent, or by EUR 185.2 million from the previous year and was EUR 1 140.8 million at the end of December.

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 21.10, compared with EUR 18.00 at the end of 2003, and the Series B share was selling at EUR 21.70, as against EUR 18.30 at the end of 2003.

The 1997 Stockmann share options were exercised to subscribe for a total of 20 300 Stockmann plc Series B shares with a par value of 2 euros in January 2004. As a consequence of the subscriptions the share capital was increased by EUR 40 600. The shares were entered in the Trade Register on February 20, 2004, and they became available for public trading, together with the existing shares, on the Helsinki Stock Exchange on April 5, 2004.

At its meetings held on February 12, 2004 and November 15, 2004, Stockmann plc's Board of Directors approved shareholders' requests to convert 174 650 of the company's shares from Series A into Series B shares in accordance with Article 3 of Stockmann's Articles of Association. Share conversions of 163 000 shares were entered in the Trade Register on February 20, 2004, and conversions of 11 650 shares on December 21, 2004.

A total of 600 269 Stockmann plc Series B shares with a par value of 2 euros were subscribed for with Stockmann Loyal Customer share options in May. As a consequence of the subscriptions the share capital was increased by EUR 1 200 538. Of the shares, 597 118 were entered in the Trade Register on June 30, 2004, and 3 151 shares were entered on August 30, 2004, and became available for public trading, together with the existing shares, on the Helsinki Stock Exchange on July 1, 2004, and August 31, 2004, respectively.

In December, the 2000 Stockmann share options were exercised to subscribe for a total of 170 150 Stockmann plc Series B shares with a par value of 2 euros. As a consequence of the subscriptions the share capital was increased by EUR 340 300. The shares were entered in the Trade Register on December 30, 2004, and they became available for public trading, together with the existing shares, on the Helsinki Stock Exchange on January 3, 2005.

Following share subscriptions made on the basis of share conversions and share options, the total number of Series A shares at December 31, 2004, was 24 564 243 and the total number of Series B shares was 28 855 817.

At the end of December, the 2000 Stockmann share options were exercised to subscribe for another 4 900 Stockmann plc Series B shares with a

EFFECT OF IFRS ON KEY FIGURES	FAS 2004	Effect of transition to IFRS	IFRS 2004
Operating profit	71.4	-1.0	70.4
Net profit for the period, EUR million	58.2	1.1	59.3
Earnings per share, EUR	1.11	0.02	1.13
Earnings per share, diluted, EUR	1.09	0.02	1.11
Total assets, EUR million	750.4	-1.4	749.0
Return on capital employed, %	14.3	0.5	14.8
Return on shareholders' equity, %	11.2	1.0	12.2
Equity ratio, %	65.5	-3.2	62.3

of the subscriptions the share capital was increased by EUR 9 800. Stockmann's Board of Directors approved the subscriptions in its meeting held on February 15, 2005.

Stockmann held 406 939 of its own Series B shares (treasury shares) at the end of December 2004. The par value of these shares is a total of EUR 813 878, and they represent 0.8 per cent of all the shares outstanding as well as 0.1 per cent of the total votes. The shares were bought back at a total price of EUR 6.1 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 own shares. The Board of Directors has valid authorizations to transfer 406 939 company-owned Series B treasury shares up to March 30, 2005.

Personnel strength

The Stockmann Group had an average payroll of 9 589 employees, or 844 more than in the previous year. The growth in the number of employees was attributable mainly to the new department stores in Moscow. Converted to a full-time basis, the average number of personnel increased by 744 employees and was 7 812.

At the end of December 2004, Stockmann had 3 391 employees working abroad. At the end of December of last year Stockmann had 1 946 people working abroad. The proportion of the total personnel who were working abroad increased from 20 per cent to 31 per cent.

Outlook for 2005

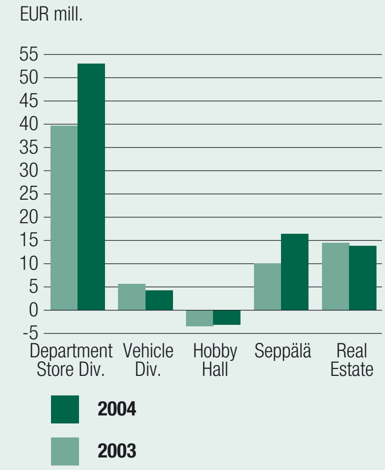
Retail sales, excluding the motor trade, are estimated to increase by about 2-3 per cent in Finland in 2005. The volume of new vehicle sales is expected to decrease compared with 2004. It is estimated that the markets in Russia and the Baltic countries will continue growing faster than the Finnish market. Sales in 2005 are expected to come in at about EUR 1.9 billion.

The operating profit generated by the Department Store Division and Seppälä is estimated to improve further on the level reported for 2004. The operating profit reported by Stockmann Auto is expected to diminish somewhat. Hobby Hall's result is expected to improve significantly and to return to the black. Stockmann's target is to post even better earnings in 2005 than in 2004.

Board proposal for the distribution of profits

The Board of Directors' proposal for the parent company's dividend is on page 66 of the Annual Report. □

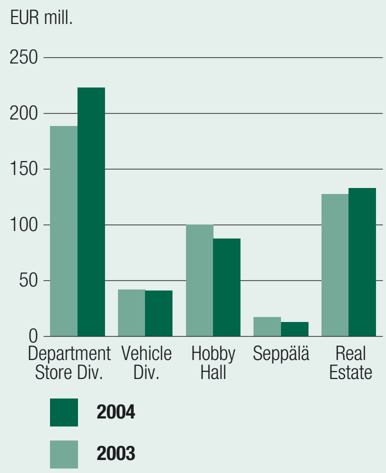
Operating profit according to management accounting 2003-2004



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.

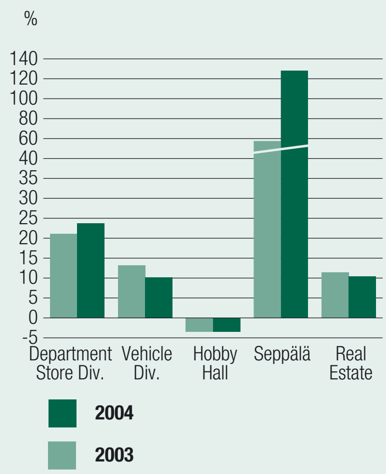
Capital employed 2003-2004



Capital employed

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

ROCE %* 2003-2004



*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 and they are listed on Helsinki Exchanges. The number of registered shareholders at December 31, 2004, was 33 029 (15 591 shareholders at December 31, 2003) 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 3.25 per cent as measured by the HEX All-Share Index and by 14.64 per cent as measured by the HEX Portfolio Index. The retail industry index rose by 17.33 per cent.

Price trend of Stockmann's shares and share options

	Closing prices Dec. 31, 2004 EUR	Closing prices Dec. 31, 2003 EUR	Change %
Series A	21.10	18.00	17.2
Series B	21.70	18.30	18.6
1997 options		19.00	
2000 options A	5.80		
2000 options B	5.20		

Turnover of Stockmann's shares and share options

	Number of shares	% of total shares outstanding	EUR	Average price EUR
Series A	1 053 826	4.3	20 263 650	19.23
Series B	10 978 967	38.0	228 532 921	20.82
Total	12 032 793		248 796 571	
1997 options	100		1 750	17.50
2000 options A	200 100		1 093 272	5.46
2000 options B	156 080		749 978	4.81

The Stockmann shares and share options that were traded accounted for 0.08 per cent of the share turnover on Helsinki Exchanges. The company's market capitalization at December 31, 2004, was EUR 1 140.8 million. The market capitalization at December 31, 2003, was EUR 955,6 million.

The trading lot for both Series A and Series B shares is 50 shares. The trading code for the Series A share is STCAS and for the Series B share STCBV.

Share capital

Share capital of Stockmann plc, December 31, 2004

Series A	24 564 243	shares at EUR 2 each	49 128 486	EUR
Series B	28 855 817	shares at EUR 2 each	57 711 634	EUR
Total	53 420 060	shares at EUR 2 each	106 840 120	EUR

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. The subscription price after the dividend payout proposed by the Board of Directors for the 2004 financial year on the basis of option A is EUR 13.95 per share, on the basis of option B EUR 14.95 per share and on the basis of option C EUR 15.95 per share. The share options have been issued in the book-entry system. The share options A and B are listed on Helsinki Exchanges. The share options C will be listed as from April 1, 2005.

Loyal Customer share options

In spring 2000, a total of 1 382 524 Loyal Customer share options were subscribed for. During the share subscription period in 2004, a total of 600 269 Series B shares at a price of EUR 10.81 per share were subscribed for on the basis of the subscribed options. So far, a total of 606 933 Series B shares have been subscribed for on the basis of the Loyal Customer share otions. The remaining subscription period for shares with the Loyal Customer share options is 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 2004 financial year is EUR 8.81.

Own shares

At December 31, 2004, the company held 406 939 of its own Series B shares. The Series B shares owned by the company represented 0.8 per cent of all the shares outstanding 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 2004 was EUR 14.49 and the taxation value of the Series B share was EUR 14.63.

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, 2000

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				16.3	102.8
2002 With the Loyal Customer options	2002	13.06	1 084 B	0.0	102.8
2003 With the Loyal Customer options	2003	12.16	5 580 B	0.0	102.8
2003 With share options	2003	13.21	1 239 700 B	2.5	105.3
2004 With share options	2004	13.21	20 300 B	0.0	105.3
2004 With the Loyal Customer options	2004	10.81	600 269 B	1.2	106.5
2004 With the 2000 key employee options A	2004	14.95	91 950 B	0.2	106.7
2004 With the 2000 key employee options B	2004	15.95	78 200 B	0.2	106.8
2004 With the 2000 key employee options A *	2005	14.95	4 900 B	0.0	106.8

*According to the terms of subcribtion entitled to dividend for the 2004 financial year

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 %
2005 Subscr. with Loyal Customer options	May 2, 05-May 31, 05	15.70/1	776 B	1.6	108.4	1.5	0.3
		less dividends after April 1, 1999					
2005- Subscr. with 2000 key employee options	Apr. 1, 03-Apr.1, 07	20.00 A/2	528 B				
2007	Apr. 1, 04-Apr.1, 07	21.00 B/3	547 B				
	Apr. 1, 05-Apr.1, 07	22.00 C/4	1 250 B				
		less dividends after April 11, 2000					
				4.7	113.1	4.4	0.8

*If all options are exercised

1 Subscription price after 2004 dividend payout proposed by the Board of Directors: EUR 8.81

2 Subscription price after 2004 dividend payout proposed by the Board of Directors: EUR 13.95

3 Subscription price after 2004 dividend payout proposed by the Board of Directors: EUR 14.95

4 Subscription price after 2004 dividend payout proposed by the Board of Directors: EUR 15.95

Shareholders at December 31, 2004

Ownership structure

	Shareholders no.	Shareholders %	Percentage of shares %	Percentage of votes %
Households	31 831	96.4	22.4	20.2
Private and public corporations	548	1.7	15.0	17.5
Banks and insurance companies	45	0.1	3.8	1.2
Foundations and others	471	1.4	51.0	59.1
Foreign shareholders (incl. nominee registrations)	133	0.4	6.9	2.0
Unregistered shares			0.1	0.0
Shares owned by the company	1	0.0	0.8	0.0
Total	33 029	100.0	100.0	100.0

Shares and share capital

Shareholders at December 31, 2004

Number of shares

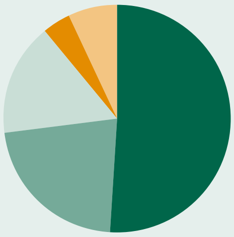
	Shareholders		Percentage of shares
	no.	%	%
1-100	20 384	61.7	1.3
101-1000	9 963	30.2	7.2
1001-10000	2 435	7.4	11.8
10001-100000	201	0.6	10.0
100001-	45	0.1	68.9
Shares owned by the company	1	0.0	0.8
Total	33 029	100.0	100.0

Major shareholders at December 31, 2004

	Percentage of shares	Percentage of votes
	%	%
1 Föreningen Konstsamfundet grouping	11.4	15.3
2 Svenska litteratursällskapet i Finland	8.9	16.5
3 Niemistö grouping	7.1	10.6
4 Etola companies	5.3	7.1
5 Stiftelsen för Åbo Akademi	4.8	6.7
6 Samfundet Folkhälsan i svenska Finland	2.8	3.2
7 Jenny ja Antti Wihurin rahasto	2.4	2.4
8 Tapiola Group	2.3	0.4
9 Inez och Julius Polins fond	2.0	1.0
10 The Local Government Pensions Institution	2.0	0.4
11 Wilhelm och Else Stockmanns Stiftelse	1.6	2.6
12 Sigrid Jusélius Stiftelse	1.3	1.6
13 Stiftelsen Bensows Barnhem Granhyddan	1.2	1.6
14 Helene och Walter Grönqvists Stiftelse	1.1	1.7
15 Ilmarinen Mutual Pension Insurance Company	1.0	0.2
16 Stiftelsen Brita Maria Renlunds minne	0.8	1.0
17 Varma Mutual Insurance Company	0.7	1.4
18 William Thurings stiftelse	0.6	0.9
19 Nordea Life Assurance Finland Ltd	0.6	0.4
20 The State Pension Fund	0.6	0.1
Total	58.5	75.1

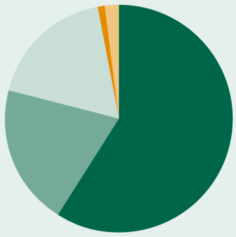
The holdings in the personal ownership of the members of the company's Board of Directors, CEO and the executive vice president, as well as the ownership of institutions under their control and persons under their guardianship at December 31, 2004, was a total of 6 624 340 shares, representing a total of 12.4 per cent of the shares outstanding and 17.7 per cent of the voting rights (December 31, 2003: 6 430 594 shares, representing 12.2 per cent of the shares and 16.5 per cent of the voting rights) and 250 817 share options. The share options entitle their holders to subscribe for 250 817 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, 2004.

Distribution of shares



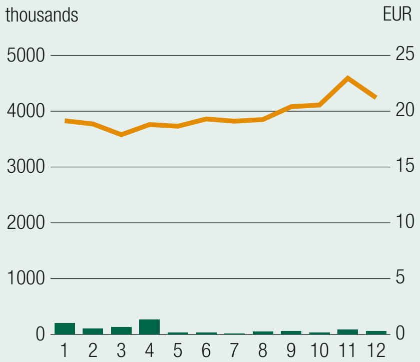
- 51% Foundations and others
- 22% Households
- 16% Private and public corporations
- 4% Banks and insurance companies
- 7% Foreign shareholders (incl. nominee registrations)

Distribution of votes



- 59% Foundations and others
- 20% Households
- 18% Private and public corporations
- 1% Banks and insurance companies
- 2% Foreign shareholders (incl. nominee registrations)

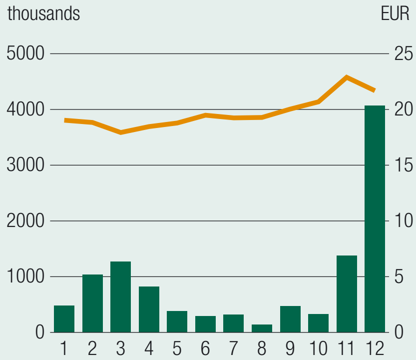
Turnover and price trend of Series A shares 2004



Number of shares traded

Monthly closing price

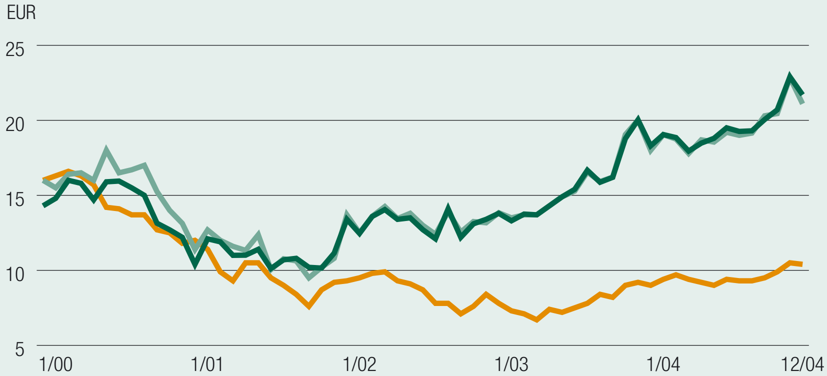
Turnover and price trend of Series B shares 2004



Number of shares traded

Monthly closing price

Price trend of Series A and Series B (share-issue adjusted) compared with HEX Portfolio Index 2000-2004



HEX Portfolio Index *

Stockmann A

Stockmann B

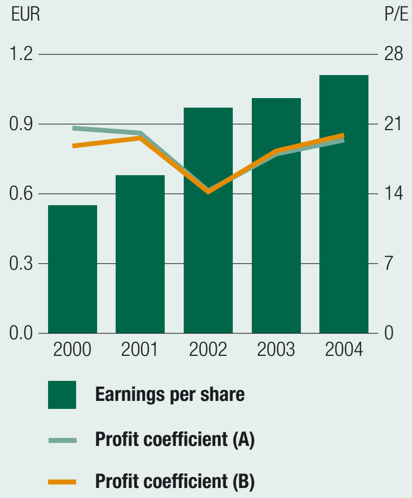
* The weighting of each company in the index is limited to a maximum of 10 per cent.

Shares and share capital

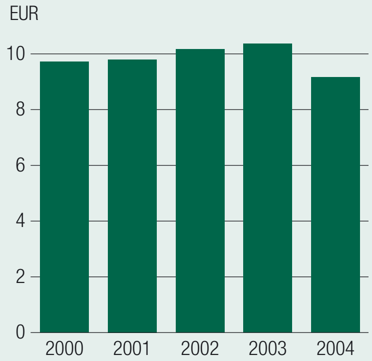
Earnings per share and dividend per share 2000-2004

* Dividend according to the Board proposal

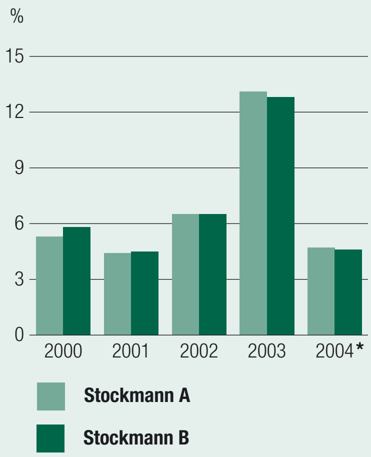
Earnings per share and P/E ratio 2000-2004 (share-issue adjusted)



Equity per share 2000-2004

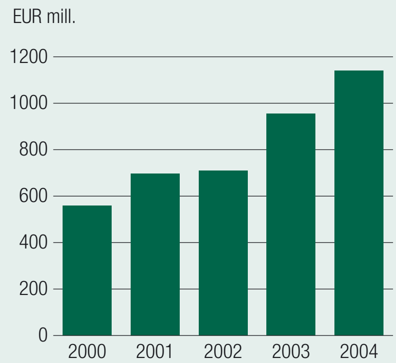


Effective yield of shares 2000-2004



* Dividend according to the Board proposal

Market capitalization 2000-2004



Key figures

		2000	2001	2002	2003	**2004**
Sales	EUR mill.	1 467.9	1 537.6	1 582.3	1 698.6	**1 735.0**
Change on the previous year	%	-7.3	4.7	2.9	7.4	**2.1**
Net turnover	EUR mill.	1 220.5	1 281.9	1 315.3	1 412.7	**1 445.0**
Change on the previous year	%	-7.5	5.0	2.6	7.4	**2.3**
Operating profit	EUR mill.	35.7	46.3	61.9	65.7	**71.4**
Change on the previous year	%	-56.3	29.6	33.6	6.2	**8.6**
Share of net turnover	%	2.9	3.6	4.7	4.7	**4.9**
Profit before extraordinary items	EUR mill.	41.2	51.2	68.6	74.0	**79.1**
Change on the previous year	%	-52.5	24.2	34.0	7.9	**7.0**
Share of net turnover	%	3.4	4.0	5.2	5.2	**5.5**
Profit before taxes	EUR mill.	40.6	51.2	68.6	74.0	**79.1**
Change on the previous year	%	-53.2	26.0	34.0	7.9	**7.0**
Share of net turnover	%	3.3	4.0	5.2	5.2	**5.5**
Share capital	EUR mill.	102.8	102.8	102.8	105.3	**106.8**
Series A	EUR mill.	49.7	49.7	49.7	49.5	**49.1**
Series B	EUR mill.	53.0	53.0	53.0	55.8	**57.7**
Dividends	EUR mill.	30.6	30.6	45.9	123.3	**53.0** *
Return on equity	%	5.6	6.9	9.6	9.6	**11.2**
Return on capital employed	%	8.4	9.8	12.6	13.2	**14.3**
Capital employed	EUR mill.	591.9	584.4	578.4	594.6	**584.7**
Capital turnover rate		2.1	2.2	2.3	2.4	**2.5**
Equity ratio	%	67.2	69.5	69.7	68.3	**65.5**
Gearing	%	9.2	9.1	-3.4	-10.4	**5.0**
Investment in fixed assets	EUR mill.	45.1	31.1	25.8	40.9	**59.0**
Share of net turnover	%	3.7	2.4	2.0	2.9	**4.1**
Interest-bearing debtors	EUR mill.	123.2	109.5	110.3	111.4	**103.7**
Interest-bearing liabilities	EUR mill.	87.8	71.6	52.6	64.7	**65.8**
Interest-bearing net debt	EUR mill.	-77.1	-63.4	-128.1	-168.0	**-79.2**
Total assets	EUR mill.	746.8	728.2	752.7	800.8	**750.4**
Staff expenses	EUR mill.	164.8	179.0	184.9	194.9	**202.2**
Share of net turnover	%	13.5	14.0	14.1	13.8	**14.0**
Personnel, average	persons	7 626	8 084	8 313	8 745	**9 589**
Net turnover per person	EUR thousands	160.0	158.6	158.2	161.5	**150.7**
Operating profit per person	EUR thousands	4.7	5.7	7.4	7.5	**7.4**
Staff expenses per person	EUR thousands	21.6	22.1	22.2	22.3	**21.1**

*) Board proposal to the AGM. According to the proposal, a dividend of EUR 1,00 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 x $\frac{\text{Profit before extraordinary items less income taxes}}{\text{Capital and reserves + minority interest (average over the year)}}$

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

Capital employed = Total assets less deferred tax liability and other non-interest-bearing liabilities (average over the year)

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

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

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

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)		2000	2001	2002	2003	**2004**
Earnings per share	EUR	0.55	0.68	0.97	1.01	**1.11**
Earnings per share, diluted	EUR	0.55	0.68	0.97	1.00	**1.09**
Equity per share	EUR	9.72	9.80	10.17	10.36	**9.16**
Dividend per share	EUR	0.60	0.60	0.90	2.35	**1.00** *
Dividend per earnings	%	108.7	88.2	92.8	232.7	**90.1** *
Cash flow per share	EUR	0.49	1.00	1.38	1.41	**1.62**
Effective dividend yield	%					
Series A		5.3	4.4	6.5	13.1	**4.7**
Series B		5.8	4.5	6.5	12.8	**4.6**
P/E ratio of shares						
Series A		20.6	20.1	14.3	18.0	**19.4** **
Series B		18.8	19.6	14.2	18.3	**19.9** **
Share quotation at December 31	EUR					
Series A		11.39	13.70	13.84	18.00	**21.10**
Series B		10.40	13.40	13.80	18.30	**21.70**
Highest price during the period	EUR					
Series A		18.20	13.70	14.85	20.50	**23.74**
Series B		16.50	13.70	15.00	20.50	**23.82**
Lowest price during the period	EUR					
Series A		10.52	9.50	11.62	12.80	**20.15**
Series B		9.80	10.00	11.80	12.92	**20.54**
Average price during the period	EUR					
Series A		15.64	11.43	13.44	15.89	**21.78**
Series B		14.35	11.07	13.45	15.91	**22.78**
Share turnover	thousands					
Series A		1 756	3 032	379	1 781	**1 054**
Series B		4 464	5 467	6 146	8 895	**10 979**
Share turnover	%					
Series A		7.1	12.2	1.5	7.2	**4.3**
Series B		16.8	20.6	23.2	31.9	**38.0**
Market capitalization at December 31	EUR mill.	559.0	696.0	710.1	955.6	**1 140.8**
Number of shares at December 31	thousands	51 383	51 383	51 384	52 629	**53 420**
Series A		24 869	24 869	24 869	24 739	**24 564**
Series B		26 514	26 514	26 515	27 890	**28 856**
Weighted average number of shares	thousands	51 237	50 970	50 971	51 111	**52 544**
Series A		24 829	24 706	24 706	24 654	**24 598**
Series B		26 408	26 264	26 265	26 458	**27 946**
Weighted average number of shares, diluted	thousands	50 970	50 970	50 971	52 216	**53 509**
The own shares owned by the company	thousands	413	413	413	413	**407**
Series A		163	163	163	163	**0**
Series B		250	250	250	250	**407**
Total number of shareholders at December 31		12 664	13 399	13 999	15 591	**33 026**

1) Adjusted for share issues.

*) Board proposal to the AGM. According to the proposal, a dividend of EUR 1,00 per share will be paid.

**) The dilution effect of options has been taken into account in the 2004 figures.

Definition of key indicators

Earnings per share	=	$\frac{\text{Profit before extraordinary items less income taxes}}{\text{Average number of shares, adjusted for share issues}}$
Equity per share	=	$\frac{\text{Capital and reserves - fund for own shares}}{\text{Number of shares on the balance sheet date, adjusted for share issues 2)}}$
Dividend per share	=	Dividend per share, adjusted for share issues
Dividend per earnings, %	= 100 x	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Cash flow per share	=	$\frac{\text{Cash flow from operations}}{\text{Average number of shares, adjusted for share issues}}$
Effective dividend yield, %	= 100 x	$\frac{\text{Dividend per share, adjusted for share issues}}{\text{Share quotation at December 31, adjusted for share issues}}$
P/E ratio of shares	=	$\frac{\text{Share quotation at December 31, adjusted for share issues}}{\text{Earnings per share}}$
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

2) Without the own shares owned by the company

Profit and loss account

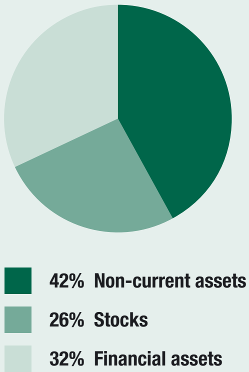
PROFIT AND LOSS ACCOUNT	Ref.	STOCKMANN GROUP Jan.1- Dec. 31, 2004 EUR mill.	% of net turnover	Jan.1- Dec. 31, 2003 EUR mill.	% of net turnover	STOCKMANN plc Jan.1- Dec. 31, 2004 EUR mill.	% of net turnover	Jan.1- Dec. 31, 2003 EUR mill.	% of net turnover
NET TURNOVER	1	**1 445.0**	100.0	1 412.7	100.0	**970.6**	100.0	987.7	100.0
Other operating income	2	**3.1**	0.2	15.4	1.1	**12.1**	1.2	24.0	2.4
Raw materials and services									
Raw materials and consumables:	3								
Purchases during the financial year		**955.2**		957.6		**666.7**		694.5	
Variation in stocks, increase (-), decrease (+)		**-3.7**		-2.4		**0.6**		-0.8	
Raw materials and services, total		**951.5**	65.8	955.3	67.6	**667.3**	68.7	693.7	70.2
Staff expenses	4	**202.2**	14.0	194.9	13.8	**147.1**	15.2	146.0	14.8
Depreciation and reduction in value	5	**30.2**	2.1	28.8	2.0	**14.4**	1.5	16.1	1.6
Other operating expenses	6	**192.9**	13.4	183.4	13.0	**96.4**	9.9	93.9	9.5
		1 376.8	95.3	1 362.4	96.4	**925.2**	95.3	949.8	96.2
OPERATING PROFIT		**71.4**	4.9	65.7	4.7	**57.5**	5.9	62.0	6.3
Financial income and expenses:									
Income from Group undertakings	7							69.8	
Income from other investments held as non-current assets		**0.8**		0.5		**0.7**		0.4	
Interest and financial income from Group undertakings						**3.2**		2.4	
Interest and financial income from outside the Group		**11.3**		11.5		**10.9**		11.1	
Reduction in value of securities held in current assets				0.6				0.6	
Reduction in value of non-current investments	8							0.0	
Interest and other financial expenses for Group undertakings						**-0.1**		0.0	
Interest and other financial expenses outside the Group	9	**-4.4**		-4.4		**-5.6**		-5.5	
Financial income and expenses, total		**7.8**	0.5	8.3	0.6	**9.2**	0.9	78.9	8.0
PROFIT BEFORE EXTRAORDINARY ITEMS		**79.1**	5.5	74.0	5.2	**66.7**	6.9	140.9	14.3
Extraordinary items	10								
Extraordinary income						**14.0**		9.0	
Extraordinary expenses						**-7.4**		-4.7	
Extraordinary items, total						**6.6**	0.7	4.3	0.4
PROFIT BEFORE TAXES/		**79.1**	5.5	74.0	5.2				
PROFIT BEFORE APPROPRIATIONS AND TAXES						**73.2**	7.5	145.2	14.7
Appropriations	11					**2.8**	0.3	-8.3	-0.8
Income taxes	12								
For the financial year		**25.0**		20.5		**22.1**		39.7	
For previous financial years		**0.3**		-0.1		**0.0**		-0.2	
Change in deferred tax liability /-asset		**-4.4**		1.9					
Income taxes, total		**20.9**	1.4	22.3	1.6	**22.1**	2.3	39.5	4.0
Minority interest		**0.0**		0.0					
PROFIT FOR THE FINANCIAL YEAR		**58.2**	4.0	51.7	3.7	**54.0**	5.6	97.4	9.9

Balance sheet

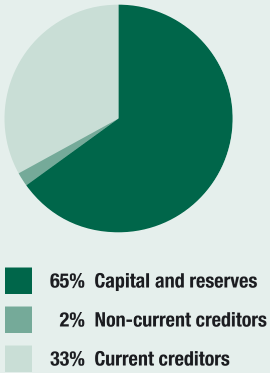
BALANCE SHEET		STOCKMANN GROUP		STOCKMANN plc	
ASSETS	Ref.	**Dec. 31, 2004 EUR mill.**	Dec. 31, 2003 EUR mill.	**Dec. 31, 2004 EUR mill.**	Dec. 31, 2003 EUR mill.
NON-CURRENT ASSETS					
Intangible assets	13				
Intangible rights		**9.1**	10.3	**4.6**	5.7
Goodwill arising on consolidation		**0.5**			
Goodwill		**0.0**	0.0	**0.0**	0.0
Other capitalized long-term expenses		**13.7**	14.7	**11.4**	10.8
Advance payments and projects in progress		**1.2**	5.4	**0.6**	2.1
Intangible assets, total		**24.4**	30.5	**16.6**	18.6
Tangible assets	14				
Land and water		**17.8**	17.8	**11.5**	11.5
Buildings and constructions		**143.7**	133.0	**113.0**	111.3
Machinery and equipment		**57.8**	59.8	**21.5**	26.8
Other tangible assets		**36.3**	10.0	**0.1**	0.1
Advance payments and construction in progress		**7.0**	9.5	**7.0**	4.0
Tangible assets, total		**262.7**	230.0	**153.1**	153.7
Investments	15				
Holdings in Group undertakings				**47.7**	49.8
Own shares		**6.1**	6.2	**6.1**	6.2
Other shares and participations		**21.9**	22.4	**17.9**	18.3
Investments, total		**28.0**	28.7	**71.7**	74.3
NON-CURRENT ASSETS, TOTAL		**315.2**	289.2	**241.4**	246.6
CURRENT ASSETS					
Stocks					
Raw materials and consumables		**195.0**	191.3	**124.1**	124.7
Stocks, total		**195.0**	191.3	**124.1**	124.7
Non-current debtors	16				
Trade debtors		**0.1**	0.2	**0.1**	0.2
Amounts owed by Group undertakings				**34.0**	4.5
Loan receivables		**0.0**	0.1	**0.0**	0.1
Other debtors		**1.0**	0.5		
Non-current debtors, total		**1.1**	0.9	**34.1**	4.8
Deferred tax asset		**1.8**	0.8		
Current debtors	17				
Trade debtors		**169.6**	177.7	**103.2**	108.4
Amounts owed by Group undertakings				**161.5**	146.7
Other debtors		**15.7**	6.5	**3.5**	2.1
Prepayments and accrued income	18	**10.7**	13.1	**7.7**	7.4
Current debtors, total		**196.0**	197.3	**275.9**	264.6
Debtors, total		**198.9**	199.0	**310.0**	269.4
Securities held in current assets	19	**28.7**	101.8	**25.9**	101.6
Cash in hand and at banks		**12.7**	19.5	**5.5**	6.7
CURRENT ASSETS, TOTAL		**435.2**	511.6	**465.5**	502.4
TOTAL		**750.4**	800.8	**706.9**	749.0

BALANCE SHEET		STOCKMANN GROUP		STOCKMANN plc	
LIABILITIES	Ref.	**Dec. 31, 2004 EUR mill.**	Dec. 31, 2003 EUR mill.	**Dec. 31, 2004 EUR mill.**	Dec. 31, 2003 EUR mill.
CAPITAL AND RESERVES	20-21				
Share capital		**106.8**	105.3	**106.8**	105.3
Premium fund		**155.0**	147.1	**155.0**	147.1
Fund for own shares		**6.1**	6.2	**6.1**	6.2
Reserve fund		**0.2**	0.2		
Other funds		**43.8**	43.7	**43.7**	43.7
Retained earnings		**121.5**	192.9	**54.4**	80.2
Net profit for the financial year		**58.2**	51.7	**54.0**	97.4
CAPITAL AND RESERVES, TOTAL		**491.7**	547.1	**420.1**	479.9
MINORITY INTEREST		**0.0**	0.0		
ACCUMULATED APPROPRIATIONS	22			**76.1**	79.0
CREDITORS	23-25				
Deferred tax liability		**22.6**	26.0		
Non-current creditors					
Loans from credit institutions		**13.1**	48.6		35.0
Non-current creditors, total		**13.1**	48.6		35.0
Current creditors					
Loans from credit institutions		**35.0**		**35.0**	
Trade creditors		**93.8**	92.2	**73.2**	75.2
Amounts owed to Group undertakings				**30.0**	10.0
Other creditors		**46.0**	40.5	**39.0**	36.3
Accruals and prepaid income		**48.2**	46.4	**33.4**	33.5
Current creditors, total		**223.0**	179.0	**210.7**	155.1
CREDITORS, TOTAL		**258.7**	253.7	**210.7**	190.1
TOTAL		**750.4**	800.8	**706.9**	749.0
Distributable funds		**159.7**	227.1	**152.1**	221.4

Assets 2004



Financing 2004



Funds statement

FUNDS STATEMENT	STOCKMANN GROUP		STOCKMANN plc	
	2004 EUR millions	2003 EUR millions	**2004 EUR millions**	2003 EUR millions
CASH FLOW FROM OPERATIONS				
Payments from sales	**1 420.5**	1 416.9	**972.8**	982.6
Payments from other operating income	**2.5**	2.3	**11.6**	10.9
Payments for operating expenses	**-1 319.7**	-1 333.2	**-912.9**	-922.9
Cash flow from operations before financial items and taxes	**103.3**	85.9	**71.4**	70.6
Paid interest and payments for other operating financial expenses	**-4.7**	-3.8	**-5.4**	-4.9
Interest received from operations	**11.8**	11.0	**14.5**	13.0
Direct taxes paid	**-23.9**	-20.9	**-23.4**	-18.6
Cash flow before extraordinary items	**86.4**	72.2	**57.1**	60.1
Cash flow from operational extraordinary items (net)			**4.3**	6.9
CASH FLOW FROM OPERATIONS (A)	**86.4**	72.2	**61.4**	67.0
CASH FLOW INTO AND FROM INVESTMENTS				
Capital expenditures on tangible and intangible assets	**-57.1**	-41.0	**-11.6**	-13.2
Cash from tangible and intangible assets	**0.5**	36.6	**0.5**	36.2
Capital expenditures on other investments	**0.0**	0.0	**0.2**	0.0
Cash from other investments	**1.2**	0.4	**0.9**	0.4
Investments in Group companies			**-2.9**	-4.7
Group companies divested			**4.9**	
Dividends from investments	**0.6**	0.3	**0.5**	49.9
CASH FLOW INTO AND FROM INVESTMENTS (B)	**-54.7**	-3.8	**-7.4**	68.6
FINANCIAL CASH FLOW				
Change in loans granted, increase (-), decrease (+)	**0.1**	0.1	**-43.0**	-57.5
Subscriptions with options	**9.5**	16.4	**9.5**	16.4
Change in short-term loans, increase (+), decrease (-)	**1.7**	-0.9	**24.6**	-1.2
Long-term loans drawn down		13.6		
Repayments of long-term loans		-1.0		-1.0
Dividend paid and other distribution of profits	**-123.0**	-45.8	**-123.0**	-45.8
FINANCIAL CASH FLOW (C)	**-111.7**	-17.6	**-131.9**	-89.0
Change in cash funds (A+B+C) increase (+), decrease (-)	**-79.9**	50.8	**-77.8**	46.5
Cash funds at start of the financial year	**121.3**	70.5	**109.2**	62.6
Cash funds at end of the financial year	**41.4**	121.3	**31.4**	109.2

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 property management 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.

Mutual 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. The companies acquired during the year have been included in the consolidation from the time of acquisition.

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 account 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
Transactions in foreign currencies are recorded at the rates prevailing on the transaction date.

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. Further, the deferred tax liability has not been calculated for the profit of the Estonian subsidiary since the year 2004. Accordingly, also the accumulated deferred tax liability for the profits of the Estonian subsidiary has been presented as a change in deferred tax liability in 2004. The deferred tax liability for the profit of the Estonian subsidiary will be calculated when the decision concerning the distribution of dividend has been made. 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. Investments in finishing works of rented premises in Russia have been classified as tangible assets instead of intangible assets since the year 2003. Reclassification of EUR 9.9 million has been made in the figures of the comparison year.

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, 2004	Dec.31, 2003	2004	2003
Russia	RUB	37.7570	36.9360	35.8447	34.6801
Estonia	EEK	15.6466	15.6466	15.6466	15.6466
Latvia	LVL	0.6979	0.6725	0.6652	0.6407
Sweden	SEK	9.0206	9.0800	9.1243	9.1242
Lithuania	LTL	3.4528	3.4524	3.4529	3.4527

Notes to the accounts

NOTES TO THE PROFIT AND LOSS ACCOUNT	STOCKMANN GROUP 2004	2003	STOCKMANN plc 2004	2003
1. Net turnover				
Breakdown of net turnover by market area				
EUR mill.				
Finland	**1 237.9**	1 254.9	**970.6**	987.7
Russia	**105.1**	70.5		
Estonia	**65.3**	63.3		
Latvia	**33.7**	19.1		
Lithuania	**3.0**	4.9		
Total	**1 445.0**	1 412.7	**970.6**	987.7
2. Other operating income				
EUR mill.				
Capital gains on divestments	**3.1**	15.4	**2.9**	15.4
Rental income from subsidiaries			**3.8**	4.1
Compensation for services to Group companies			**5.4**	4.5
Total	**3.1**	15.4	**12.1**	24.0
3. Gross margin				
EUR mill.				
Net turnover	**1 445.0**	1 412.7	**970.6**	987.7
Raw materials and consumables	**955.2**	957.6	**666.7**	694.5
Variation in stocks	**-3.7**	-2.4	**0.6**	-0.8
Gross profit	**493.5**	457.5	**303.4**	294.0
Gross profit/net turnover (%)	**34.2**	32.4	**31.3**	29.8
4. Staff expenses				
EUR mill.				
Salaries and emoluments paid to the CEO and his alternate	**1.1**	1.1	**0.6**	0.7
Salaries and emoluments paid to the Board of Directors	**0.3**	0.2	**0.3**	0.2
Other wages and salaries	**161.1**	155.0	**117.7**	116.1
Wages during sick leave	**4.1**	3.8	**3.1**	3.0
Pension expenses	**24.1**	22.4	**18.1**	16.9
Other staff costs	**11.5**	12.4	**7.2**	9.1
Total	**202.2**	194.9	**147.1**	146.0
Group and parent company staff, average				
Finland	**7 097**	7 139	**5 464**	5 416
Russia	**1 428**	810	**4**	3
Estonia	**613**	586	**1**	1
Latvia	**440**	196	**3**	3
Lithuania	**11**	14		
Total	**9 589**	8 745	**5 472**	5 423
Age breakdown of staff				
%				
Under 24 years old	**32.2**	27.3	**24.1**	20.9
25 - 34 years old	**30.3**	32.4	**30.9**	32.1
35 - 44 years old	**19.3**	19.7	**20.3**	20.7
45 - 54 years old	**11.0**	11.7	**13.6**	13.9
55 - 65 years old	**7.2**	8.9	**11.1**	12.4
Total	**100.0**	100.0	**100.0**	100.0

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

5. Depreciation and reduction in value

EUR mill.	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Intangible rights	**3.9**	3.4	**2.1**	2.1
Goodwill arising on consolidation	**0.0**	0.0		
Goodwill	**0.0**	0.1	**0.0**	0.0
Other capitalized long-term expenses	**5.8**	4.3	**2.1**	1.9
Buildings and constructions	**5.0**	4.6	**3.5**	3.6
Machinery and equipment	**15.4**	16.4	**6.7**	8.5
Total	**30.2**	28.8	**14.4**	16.1

6. Other operating expenses

EUR mill.	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Site expenses *	**84.9**	79.5	**54.3**	50.9
Marketing expenses	**40.2**	37.8	**12.7**	12.9
Goods handling expenses	**15.3**	16.6	**5.0**	4.9
Credit losses	**1.6**	3.5	**0.0**	1.2
Voluntary indirect employee costs	**3.8**	3.4	**2.2**	2.1
Other costs	**47.1**	42.6	**22.3**	21.9
Total	**192.9**	183.4	**96.4**	93.9

* environmental costs (e.g. waste management and waste water) of EUR 0.8 million in Finland in 2004 included

7. Financial income

EUR mill.

Income from holdings in Group undertakings	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Dividend from Oy Hobby Hall Ab				66.8
Dividend from Seppälä Oy				2.3
Dividend from Oy Suomen Pääomarahoitus-Finlands Kapitalfinans Ab				0.7
Total				69.8

Interest and financial income from outside the Group	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
From interest-bearing trade debtors	**9.2**	9.7	**9.2**	9.7
Other	**2.1**	1.8	**1.7**	1.4
Total	**11.3**	11.5	**10.9**	11.1

8. Reduction in value of non-current investments

EUR mill.	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Write-down on receivables of SPL Seppälä AB				0.0
Total				0.0

9. Interest and other financial expenses outside the Group

EUR mill.	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Foreign exchange losses and gains (net)	**0.9**	1.8	**3.1**	3.3
Other interest and financial expenses paid to parties outside the Group	**3.5**	2.5	**2.5**	2.2
Total	**4.4**	4.4	**5.6**	5.5

10. Extraordinary items

EUR mill.	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Contributions from Group companies			**14.0**	9.0
Contributions to Group companies			**-7.4**	-4.7
Total			**6.6**	4.3

11. Appropriations

EUR mill.	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Change in depreciation reserve				
Intangible rights			**0.1**	0.0
Other capitalized long-term expenses			**0.4**	0.4
Buildings and constructions			**-0.3**	8.6
Machinery and equipment			**2.6**	2.9
Replacement reserve				-20.1
Total			**2.8**	-8.3

12. Income taxes

EUR mill.	STOCKMANN GROUP 2004	STOCKMANN GROUP 2003	STOCKMANN plc 2004	STOCKMANN plc 2003
Income taxes on ordinary operations for the financial year	**25.0**	20.5	**19.3**	20.6
Income taxes on dividends received from subsidiaries				20.2
Income taxes on extraordinary items			**1.9**	1.2
Income taxes on ordinary operations from previous financial years	**0.3**	-0.1	**0.0**	-0.2
Change in deferred tax liability /-asset *	**-4.4**	1.9		
Tax payable on appropriations			**0.8**	-2.4
Total	**20.9**	22.3	**22.1**	39.5

* The effect of change in tax rate in Finland was EUR -2.6 million, and the decrease in deferred tax liability in Estonia was EUR -1.2 million in 2004.

Notes to the accounts

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2004	2003	STOCKMANN plc 2004	2003
Non-current assets				

13. Intangible assets
EUR mill.

Intangible rights				
Acquisition cost Jan. 1	**23.1**	19.2	**14.4**	11.7
Increases Jan. 1-Dec. 31	**2.7**	4.0	**0.9**	2.8
Decreases Jan. 1-Dec. 31	**-3.7**	-0.1	**-3.5**	0.0
Acquisition cost Dec. 31	**22.2**	23.1	**11.8**	14.4
Accumulated depreciation Jan. 1	**12.8**	9.4	**8.7**	6.6
Depreciation on reductions	**-3.6**	0.0	**-3.5**	
Depreciation for the financial year	**3.9**	3.4	**2.1**	2.1
Accumulated depreciation Dec. 31	**13.1**	12.8	**7.2**	8.7
Book value Dec. 31	**9.1**	10.3	**4.6**	5.7
Goodwill arising on consolidation				
Acquisition cost Jan. 1	**2.4**	2.4		
Increases Jan. 1-Dec. 31	**0.5**			
Acquisition cost Dec. 31	**2.9**	2.4		
Accumulated depreciation Jan. 1	**2.4**	2.3		
Depreciation for the financial year	**0.0**	0.0		
Accumulated depreciation Dec. 31	**2.4**	2.4		
Book value Dec. 31	**0.5**	0.0		
Goodwill				
Acquisition cost Jan. 1 and Dec. 31	**0.3**	0.3	**1.1**	1.1
Accumulated depreciation Jan. 1	**0.3**	0.2	**1.1**	1.1
Depreciation for the financial year	**0.0**	0.1	**0.0**	0.0
Accumulated depreciation Dec. 31	**0.3**	0.3	**1.1**	1.1
Book value Dec. 31	**0.0**	0.0	**0.0**	0.0
Other capitalized long-term expenses				
Acquisition cost Jan. 1	**29.6**	30.3	**20.8**	20.7
Increases Jan. 1-Dec. 31	**3.1**	2.3	**2.9**	1.8
Decreases Jan. 1-Dec. 31	**-2.0**	-3.0	**-1.3**	-1.6
Acquisition cost Dec. 31	**30.6**	29.6	**22.4**	20.8
Accumulated depreciation Jan. 1	**14.8**	13.8	**10.0**	9.2
Depreciation on reductions	**-1.2**	-2.0	**-1.2**	-1.0
Depreciation for the financial year	**3.3**	3.0	**2.1**	1.9
Accumulated depreciation Dec. 31	**16.9**	14.8	**11.0**	10.0
Book value Dec. 31	**13.7**	14.7	**11.4**	10.8
Advance payments and projects in progress				
Acquisition cost Jan. 1	**5.4**	1.6	**2.1**	1.4
Increases Jan. 1-Dec. 31	**1.1**	5.9	**0.6**	2.1
Transfers between items	**-5.3**	-2.2	**-2.1**	-1.4
Book value Dec. 31	**1.2**	5.4	**0.6**	2.1
Intangible assets, total	**24.4**	30.5	**16.6**	18.6

14. Tangible assets
EUR mill.

Land and water				
Acquisition cost Jan. 1	**11.9**	14.3	**5.6**	7.9
Increases Jan. 1-Dec. 31		0.0		0.0
Decreases Jan. 1-Dec. 31		-2.4		-2.4
Acquisition cost Dec. 31	**11.9**	11.9	**5.6**	5.6
Revaluations Jan. 1 and Dec. 31	**5.9**	5.9	**5.9**	5.9
Book value Dec. 31	**17.8**	17.8	**11.5**	11.5
Buildings and constructions				
Acquisition cost Jan. 1	**147.5**	168.3	**119.4**	145.6
Increases Jan. 1-Dec. 31	**16.0**	10.9	**5.3**	1.4
Decreases Jan. 1-Dec. 31	**0.0**	-31.8	**0.0**	-27.6
Acquisition cost Dec. 31	**163.2**	147.5	**124.7**	119.4
Accumulated depreciation Jan. 1	**41.0**	48.0	**34.6**	38.3
Accumulated depreciation on divestments		-11.5		-7.3
Depreciation on reductions	**0.0**		**0.0**	
Depreciation for the financial year	**5.0**	4.6	**3.5**	3.6
Accumulated depreciation Dec. 31	**46.1**	41.0	**38.2**	34.6
Revaluations Jan. 1 and Dec. 31	**26.5**	26.5	**26.5**	26.5
Book value Dec. 31	**143.7**	133.0	**113.0**	111.3

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2004	2003	STOCKMANN plc 2004	2003
Machinery and equipment				
EUR mill.				
Acquisition cost Jan. 1	**135.0**	127.6	**70.8**	74.4
Increases Jan. 1-Dec. 31	**14.1**	13.0	**1.7**	1.0
Decreases Jan. 1-Dec. 31	**-12.5**	-5.6	**-11.0**	-4.6
Acquisition cost Dec. 31	**136.5**	135.0	**61.5**	70.8
Accumulated depreciation Jan. 1	**75.3**	64.5	**43.9**	40.0
Depreciation on reductions	**-12.0**	-5.6	**-10.6**	-4.6
Depreciation for the financial year	**15.4**	16.4	**6.7**	8.5
Accumulated depreciation Dec. 31	**78.6**	75.3	**40.0**	43.9
Book value Dec. 31	**57.8**	59.8	**21.5**	26.8
Other tangible assets				
Acquisition cost Jan. 1	**14.9**	12.1	**0.1**	0.1
Increases Jan. 1-Dec. 31	**28.9**	2.8		
Acquisition cost Dec. 31	**43.8**	14.9	**0.1**	0.1
Accumulated depreciation Jan. 1	**5.0**	3.7		
Depreciation for the financial year	**2.6**	1.2		
Accumulated depreciation Dec. 31	**7.6**	5.0		
Book value Dec. 31	**36.3**	10.0	**0.1**	0.1
Advance payments and construction in progress				
Acquisition cost Jan. 1	**9.5**	6.1	**4.0**	1.0
Translation difference	**-0.2**	-0.4		
Increases Jan. 1-Dec. 31	**7.0**	5.0	**7.0**	4.0
Transfers between items	**-9.3**	-1.2	**-4.0**	-1.0
Acquisition cost Dec. 31	**7.0**	9.5	**7.0**	4.0
Book value Dec. 31	**7.0**	9.5	**7.0**	4.0
Tangible assets, total	**262.7**	230.0	**153.1**	153.7
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.	**2003**	2002	**2003**	2002
Taxation values				
Land and water	**72.7**	76.0	**69.0**	72.3
Holdings in Group undertakings			**21.1**	85.6
Other shares	**19.9**	18.7	**16.2**	16.5
Buildings				
Taxation values	**22.2**	28.8	**18.1**	24.8
Fire insurance values	**235.5**	230.0	**234.8**	229.3

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

15. Investments				
EUR mill.				
Holdings in Group undertakings				
Acquisition cost Jan. 1			**49.8**	45.1
Increases Jan. 1-Dec. 31			**2.8**	4.7
Decreases Jan. 1-Dec. 31			**-4.9**	
Book value Dec. 31			**47.7**	49.8
Receivables from Group undertakings				
Book value Jan. 1				3.7
Decreases Jan. 1-Dec. 31				-3.7
Book value Dec. 31				0.0
Own shares				
Acquisition cost Jan. 1	**6.2**	6.2	**6.2**	6.2
Decreases Jan. 1-Dec. 31	**-0.1**		**-0.1**	
Book value Dec. 31	**6.1**	6.2	**6.1**	6.2

Notes to the accounts

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2004	2003	STOCKMANN plc 2004	2003
Other shares and participations				
EUR mill.				
Acquisition cost Jan. 1	**22.4**	22.5	**18.3**	18.3
Increases Jan. 1-Dec. 31	**0.0**	0.0	**0.0**	0.0
Decreases Jan. 1-Dec. 31	**-0.5**	0.0	**-0.4**	0.0
Book value Dec. 31	**21.9**	22.4	**17.9**	18.3
Investments, total	**28.0**	28.7	**71.7**	74.3

Shares and participations

Group undertakings

Parent company holdings	Number	Shareholding %	Voting rights %	Cur-rency	Par value in given currency thousands	Book value, EUR thousands	Shareholders' equity EUR thousands
Oy Hobby Hall Ab, Helsinki	120 000	100	100	EUR	10 092	18 802	15 349
Seppälä Oy, Helsinki	30 000	100	100	EUR	5 046	5 046	11 245
Oy Stockmann Auto Ab, Helsinki	5 000	100	100	EUR	10	10	10
Stockmann AS, Tallinn	1 800	100	100	EEK	18 000	1 136	9 128
SIA Stockmann, Riga	975 000	100	100	LVL	1 950	3 008	-4 217
SIA Stockmann Centrs, Riga	31 500	63	63	LVL	63	116	23
Oy Stockmann Russia Holding Ab, Helsinki	4 000	100	100	EUR	673	796	653
Z-Fashion Finland Oy, Helsinki	50	100	100	EUR	9	8	8
Oy Suomen Pääomarahoitus-Finlands Kapitalfinans Ab, Helsinki	1 000	100	100	EUR	1 682	1 682	2 063
UAB Stockmann, Vilnius	52 000	100	100	LTL	5 200	1 510	-945
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 Helsingin 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	27
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	4 460
Oy Hullut Päivät-Galna Dagarna Ab, Helsinki	40	100	100	EUR	11	11	11
Autotalo Jurvakainen Oy, Oulu	100	100	100	EUR	17	2 776	2 210
Espoon Autotalo Oy, Espoo	400	100	100	EUR	11	463	35
TF-Autokeskus Oy, Vantaa	600	100	100	EUR	11	455	294
Parent company holdings, total						47 652	43 514

Holdings of subsidiaries	Number	Shareholding %	Voting rights %	Cur-rency	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	8 637
ZAO Stockmann-Krasnoselskaya, Moscow	100	100	100	RUB	55	8	2 177
ZAO Stockmann, Moscow	2 000	100	100	RUB	20 000	587	-2 308
Oy Stockmann Russia Finance Ab, Helsinki	40 000	100	100	EUR	673	784	745
Bullworker Myynti Oy, Helsinki	100	100	100	EUR	8	8	407
Oy Concert Hall Society Ab, Helsinki	10	100	100	EUR	0	0	0
Hobby Hall AB, Stockholm	1 000	100	100	SEK	100	11	7
ZAO Kalinka-Stockmann STP, St Petersburg	100	100	100	RUB	30 000	5	1 874
Group undertakings owned by subsidiaries, total						4 964	11 538
Group undertakings, total						52 616	55 052

Other undertakings

Parent company holdings	Number	Shareholding %	Cur-rency	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	86	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				2 015	1 020
Parent company holdings, total					17 903

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	2 522
Arabian Liiketalo Oy, Helsinki	1 590	12.0	EUR	1	995
Others					486
Other undertakings owned by subsidiaries, total					4 004
Other Group-owned undertakings, total					21 907

The market value of the other publicly traded shares owned by parent company and subsidiaries was equal to the book value December 31, 2004.
The market value of the company,s own shares held by the parent company exceeded the book value on December 31, 2004, by EUR 2.7 million.

CHANGES IN GROUP STRUCTURE

Oy Stockmann Russia Finance Ab was established in the autumn 2004. The company will finance, among other things, purchases of fixed assets by Stockmann's subsidiaries in Russia. Also a Finnish holding company Oy Stockmann Russia Holding Ab was established. The subsidiaries operating in Russia were transferred to the holding company.
In October 2004 Stockmann purchased the entire shares outstanding in Autotalo Jurvakainen Oy, a BMW-MINI dealership in Oulu.
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.

Debtors

16. Non-current debtors	STOCKMANN GROUP		STOCKMANN plc	
EUR mill.	**2004**	2003	**2004**	2003
Interest-bearing trade debtors	**0.1**	0.2	**0.1**	0.2
Amounts owed by Group undertakings			**34.0**	4.5
Interest-bearing loan receivables	**0.0**	0.1	**0.0**	0.1
Other debtors	**1.0**	0.5		
Non-current debtors, total	**1.1**	0.9	**34.1**	4.8

17. Current debtors				
EUR mill.				
Interest-bearing trade debtors	**103.3**	110.4	**59.8**	43.8
Non-interest bearing trade debtors	**66.4**	67.4	**43.4**	64.5
Trade debtors, total	**169.6**	177.7	**103.2**	108.4
Amounts owed by Group undertakings			**161.5**	146.7
Other debtors	**15.7**	6.5	**3.5**	2.1
Prepayments and accrued income	**10.7**	13.1	**7.7**	7.4
Current debtors, total	**196.0**	197.3	**275.9**	264.6

The Group's interest-bearing trade debtors include one-time credits on mail order sales of EUR 59.8 million in 2004 and EUR 66.5 million in 2003. 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.

18. Essential items in prepayments and accrued income				
EUR mill.				
Deferred annual discounts	**1.0**	1.1	**1.0**	1.1
Periodized financial income and expenses	**0.6**	1.0	**0.6**	1.0
Deferred indirect employee costs	**1.4**	1.5	**1.3**	1.2
Tax receivables	**0.0**	2.9		
Other	**7.7**	6.7	**4.8**	4.2
Total	**10.7**	13.1	**7.7**	7.4

19. 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	**28.7**	101.8	**25.9**	101.6
Book value Dec. 31	**28.7**	101.8	**25.9**	101.6
Difference	**0.0**	0.0	**0.0**	0.0

Notes to the accounts

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2004	2003	STOCKMANN plc 2004	2003
20. Changes in capital and reserves				
EUR mill.				
Share capital				
Series A shares Jan. 1	**49.5**	49.7	**49.5**	49.7
Conversion from Series A to Series B	**-0.3**	-0.3	**-0.3**	-0.3
Series A shares Dec. 31	**49.1**	49.5	**49.1**	49.5
Series B shares Jan. 1	**55.8**	53.0	**55.8**	53.0
Conversion from Series A to Series B	**0.3**	0.3	**0.3**	0.3
Subscriptions with options	**1.6**	2.5	**1.6**	2.5
Series B shares Dec. 31	**57.7**	55.8	**57.7**	55.8
Share capital, total	**106.8**	105.3	**106.8**	105.3
Premium fund Jan. 1	**147.1**	133.1	**147.1**	133.1
Subscriptions with options	**7.9**	14.0	**7.9**	14.0
Premium fund Dec. 31	**155.0**	147.1	**155.0**	147.1
Fund for own shares Jan. 1	**6.2**	6.2	**6.2**	6.2
Share bonus	**-0.1**		**-0.1**	
Fund for own shares Dec. 31	**6.1**	6.2	**6.1**	6.2
Reserve fund Jan. 1	**0.2**	0.1		
Translation difference		0.0		
Transfer from retained earnings		0.1		
Reserve fund Dec. 31	**0.2**	0.2		
Other funds Jan. 1	**43.7**	43.7	**43.7**	43.7
Transfer from retained earnings	**0.1**			
Other funds Dec. 31	**43.8**	43.7	**43.7**	43.7
Retained earnings Jan. 1	**244.6**	238.9	**177.6**	126.1
Distribution of profit	**-123.3**	-45.9	**-123.3**	-45.9
Translation difference	**0.2**	0.0		
Share bonus	**-0.1**			
Transfer to reserve fund	**0.1**	-0.1	**0.1**	
Total	**121.5**	192.9	**54.4**	80.2
Net profit for the financial year	**58.2**	51.7	**54.0**	97.4
Capital and reserves, total	**491.7**	547.1	**420.1**	479.9

Breakdown of distributable funds Dec. 31				
EUR mill.				
Other funds	**43.8**	43.7	**43.7**	43.7
Retained earnings	**121.5**	192.9	**54.4**	80.2
Depreciation difference entered in capital and reserves	**-63.8**	-61.2		
Net profit for the financial year	**58.2**	51.7	**54.0**	97.4
Total	**159.7**	227.1	**152.1**	221.4

21. Stockmann plc shares		
Par value EUR 2.00	**Number of shares**	Number of shares
Series A shares (10 votes each)	**24 564 243**	24 738 893
Series B shares (1 vote each)	**28 855 817**	27 890 448
Total	**53 420 060**	52 629 341

22. Accumulated appropriations		
Depreciation difference	**56.0**	58.9
Voluntary provisions	**20.1**	20.1
Total	**76.1**	79.0

23. Deferred taxes liability		
EUR mill.		
From depreciation reserve	**17.2**	19.2
From voluntary provisions	**5.2**	5.8
From periodization differences	**0.2**	1.0
Total	**22.6**	26.0

NOTES TO THE BALANCE SHEET	STOCKMANN GROUP 2004	2003	STOCKMANN plc 2004	2003
24. Essential items in accruals and prepaid income				
EUR mill.				
Accrued staff expenses	**32.4**	30.3	**24.3**	22.6
Accrued interest expenses	**0.6**	0.4	**0.6**	0.4
Periodization of mail-order returns	**1.5**	1.6		
Accrued taxes	**8.0**	9.7	**7.4**	8.9
Other accruals	**5.7**	4.4	**1.2**	1.6
Total	**48.2**	46.4	**33.4**	33.5
25. Creditors				
EUR mill.				
Deferred tax liability	**22.6**	26.0		
Non-current interest-bearing liabilities	**13.1**	48.6		35.0
Current interest-bearing liabilities	**52.7**	16.0	**53.1**	16.0
Current non-interest-bearing liabilities	**170.3**	163.0	**157.6**	139.0
Total	**258.7**	253.7	**210.7**	190.1
26. Security pledged, contingent liabilities and other commitments				
EUR mill.				
Security pledged on behalf of the company				
Mortgages given	**1.7**	1.7	**1.7**	1.7
Security pledged	**0.2**	0.1	**0.2**	0.1
Total	**1.9**	1.7	**1.9**	1.7
Security pledged on behalf of Group undertakings				
Rent guarantees			**17.8**	16.4
Other guarantees			**19.3**	17.4
Total			**37.1**	33.8
Leasing commitments				
Payable during the 2005 financial year	**3.0**	2.9	**5.6**	4.8
Payable at a later date	**0.8**	0.9	**12.4**	11.9
Total	**3.9**	3.8	**18.0**	16.7
Other own commitments				
Repurchase commitments for transferred leasing and hire purchase agreements	**35.4**	55.3	**35.4**	55.3
Total	**35.4**	55.3	**35.4**	55.3
Commitments, total				
Mortgages	**1.7**	1.7	**1.7**	1.7
Pledges	**0.2**	0.1	**0.2**	0.1
Guarantees			**37.1**	33.8
Other commitments	**39.2**	59.1	**53.4**	72.0
Total	**41.1**	60.8	**92.4**	107.5
Lease agreements on business premises				
EUR mill.	**2004**		2003	
Minimum rents payable on the basis of binding lease agreements on business premises				
Within one year	**59.3**		54.1	
Falling due in more than one year and a maximum of five years	**201.6**		197.5	
After five years	**195.9**		219.5	
Total	**456.8**		471.1	

27. 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 2004	2003

28. Derivative instruments of the Group

EUR mill.	December 31, 2004	December 31, 2003
Nominal value		
Foreign exchange derivatives	**86.9**	11.7
Interest rate derivatives	**35.0**	35.0
Fair value		
Foreign exchange derivatives	**1.0**	-0.1
Interest rate derivatives	**-0.5**	-0.9

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, 2004, were EUR 159.7 million. The parent company's distributable funds according to the balance sheet at December 31, 2004, were EUR 152.1 million. According to the Parent Company Balance Sheet at December 31, 2004, the following amounts are at the disposal of the Annual General Meeting:

• retained earnings, including the Contingency fund	98 114 438.23
• net profit for the financial year	54 001 522.83
	152 115 961.06

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

on the 53 023 788 shares owned by external parties be paid	
• a dividend of EUR 1.00 per share for the 2004 financial year	53 023 788.00
• to be carried forward to the Contingency fund and Retained earnings	99 092 173.06
	152 115 961.06

Helsinki, February 15, 2005

Board of Directors

Lasse Koivu

Erkki Etola *Eva Liljeblom* *Kari Niemistö*

Christoffer Taxell *Carola Teir-Lehtinen* *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 2004. 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 58,242,800.04 in the consolidated income statement and a profit of EUR 54,001,522.83 in the parent company income statement, have been prepared in accordance with the 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, 17 February 2005

Henrik Holmbom	*Wilhelm Holmberg*
Authorized Public Accountant	Authorized Public Accountant

Contact information

www.stockmann.fi
firstname.surname@stockmann.fi

Corporate Management

Aleksanterinkatu 52 B
P.O. BOX 220, FI-00101 HELSINKI
Tel. +358 9 1211
Fax +358 9 121 3101

Corporate Administration

Kutomotie 1 C
P.O. BOX 147, FI-00381 HELSINKI
Tel. +358 9 121 51
Fax +358 9 121 3342

Department Store Division

Kutomotie 1 C
P.O. BOX 147, FI-00381 HELSINKI
Tel. +358 9 121 51
Fax +358 9 121 5812 (Operations in Finland)
Fax +358 9 121 5250 (International Operations)

Stores

Finland

Helsinki Department Store
Aleksanterinkatu 52
P.O. BOX 220, FI-00101 HELSINKI
Tel. +358 9 1211
Fax +358 9 121 3632

Itäkeskus Department Store
Itäkatu 1-5 C 124, FI-00930 HELSINKI
Tel. +358 9 121 461
Fax +358 9 121 4655

Jumbo Department Store (Opening late 2005)
Vantaanportinkatu 3, FI-01510 VANTAA
Tel. +358 9 121 251
Fax +358 9 121 2555
Office till August 14, 2005:
Kutomotie 1 C, FI-00380 HELSINKI
Tel. +358 9 121 251
Fax +358 9 121 5504

Oulu Department Store
Kirkkokatu 14
P.O. BOX 230, FI-90101 OULU
Tel. +358 8 317 9411
Fax +358 8 317 9433

Tampere Department Store
Hämeenkatu 4
P.O. BOX 291, FI-33101 TAMPERE
Tel. +358 3 248 0111
Fax +358 3 213 3573

Tapiola Department Store
Länsituulentie 5, FI-02100 ESPOO
Tel. +358 9 121 21
Fax +358 9 121 2269

Turku Department Store
Yliopistonkatu 22
P.O. BOX 626, FI-20101 TURKU
Tel. +358 2 265 6611
Fax +358 2 265 6714

Academic Bookstore
Keskuskatu 1
P.O. BOX 128, FI-00101 HELSINKI
Tel. +358 9 121 41
Fax +358 9 121 4245
www.akateeminen.com

Bookstores
Helsinki centre, Itäkeskus, Tapiola, Tampere, Turku, Vantaa (Opening late 2005)

Stockmann Outlet
Kuriiritie 17
FI-01370 VANTAA
Tel. +358 9 121 6551
Fax +358 9 121 6549

Stockmann Beauty
Office
Kutomotie 1 C
P.O. BOX 147, FI-00381 HELSINKI
Tel. +358 9 121 51
Fax +358 9 121 5812

Stores
Helsinki, Kuopio, Lahti, Pori, Seinäjoki, Tampere, Vaasa, Vantaa, Espoo (Opening in autumn 2005), Jyväskylä (Opening in autumn 2005)

Zara
Office
Z-Fashion Finland Oy
Kutomotie 1 C
P.O. BOX 147, FI-00381 HELSINKI
Tel. +358 9 121 4414
Fax +358 9 121 3342

Stores
Helsinki centre, Itäkeskus, Turku

Russia
Moscow Office
ZAO Stockmann
Microdistrict No 8, Khimki
141400 MOSCOW REGION, Russia
Tel. +7 095 739 8636
Fax +7 095 739 8642

Smolenskaya Department Store
Smolenskaya Square, 3
121099 MOSCOW, Russia
Tel. +7 095 785 2500
Fax +7 095 785 2505

Mega South Department Store
Mega Teplyj Stan Shopping Centre
Leninsky District
142704 MOSCOW REGION, Russia
Tel. + 7 095 980 8282
Fax + 7 095 980 8283

Mega North Department Store
Mega Khimki Shopping Centre
Microdistrict No 8, Khimki
141400 MOSCOW REGION, Russia
Tel. +7 095 974 0122
Fax +7 095 784 7383

Speciality stores
Leninsky boutique, Moscow
Fashion store, St. Petersburg
Supermarket, St. Petersburg

Zara
Office
Stockmann-Krasnoselskaya
Proezd Olminskogo 3 a
129085 MOSCOW, Russia
Tel. +7 095 974 0122
Fax +7 095 282 0189

Stores
Moscow (3)

Bestseller
Office
ZAO Stockmann
Microdistrict No 8, Khimki
141400 MOSCOW REGION, Russia
Tel. +7 095 790 3261
Fax +7 095 739 8642

Store
Moscow

Estonia
Tallinn Department Store
Liivalaia 53
10145 TALLINN, Estonia
Tel. +372 6 339 500
Fax +372 6 339 556

Latvia
Riga Department Store
13. Janvarā ielā 8
RIGA LV-1050, Latvia
Tel. +371 707 1200
Fax +371 707 3227

Contact information

Stockmann Auto
Kutomotie 1 A
P.O. BOX 157, FI-00381 HELSINKI
Tel. +358 9 121 861
Fax +358 9 121 5401
www.stockmannauto.fi
firstname.surname@stockmann.fi

Sales Units and Servicing Centres

Espoo
Stockmann Auto, Audi Center Espoo
Audi: vehicle sales, servicing centre, spare parts
Martinkuja 6
FI-02270 ESPOO
Tel. +358 9 121 781
Fax +358 9 455 1354

Stockmann Auto, Niittykumpu
Ford: vehicle sales, servicing centre, body repair shop, spare parts
Kotitontuntie 2
FI-02200 ESPOO
Tel. +358 9 121 771
Fax +358 9 121 7740

Stockmann Auto, Suomenoja
Volkswagen: vehicle sales, servicing centre, body repair shop, spare parts
Audi: body repair shop
Isonniitynkuja 2
FI-02270 ESPOO
Tel. +358 9 121 751
Fax +358 9 121 7561

Helsinki
Stockmann Auto, Herttoniemi
Ford: vehicle sales, servicing centre, body repair shop, spare parts
Valurinkatu 1
FI-00880 HELSINKI
Tel. +358 9 121 481
Fax +358 9 121 4848

Stockmann Auto, Pitäjänmäki
Ford and Volkswagen: vehicle sales, servicing centre, spare parts
Audi, BMW and MINI: servicing centre, spare parts
Kutomotie 1 A
FI-00380 HELSINKI
Tel. +358 9 121 51
Fax +358 9 121 5401

Stockmann Auto, Lauttasaari servicing centre
Audi, Ford, Renault, Škoda, Volkswagen and Volvo: servicing centre, spare parts
Vattuniemenkatu 27
FI-00210 HELSINKI
Tel. +358 9 121 6151
Fax +358 9 121 6153

Stockmann Auto, Takkatie servicing centre
Audi and Volkswagen: servicing centre, body repair shop, spare parts
Ford: body repair shop
Takkatie 7a
FI-00370 HELSINKI
Tel. +358 9 121 645
Fax +358 9 121 6400

Stockmann Auto, Takkatie
Institutional sales of spare parts
Takkatie 7a
FI-00370 HELSINKI
Tel. +358 9 121 645
Fax +358 9 121 6400

Oulu
Stockmann Auto, Oulu
BMW and MINI: vehicle sales, servicing centre, body repair shop, spare parts
Tyrnäväntie 6
FI-90400 OULU
Tel. +358 8 562 9000
Fax +358 8 562 9010

Tampere
Stockmann Auto, Tampere
Škoda: vehicle sales, servicing centre, body repair shop, spare parts
Ford and Mitsubishi: servicing centre, body repair shop, spare parts
Lahdenperänkatu 3
FI-33900 TAMPERE
Tel. +358 3 3123 4111
Fax +358 3 3123 4129

Turku
Stockmann Auto, Turku
Ford: vehicle sales, servicing centre, body repair shop, spare parts
Satakunnantie 164
FI-20320 TURKU
Tel. +358 2 273 6900
Fax +358 2 273 6940

Vantaa
Stockmann Auto, Tikkurila
Ford: vehicle sales, servicing centre, body repair shop, spare parts
Servicing centre for Flyers
Kuriiritie 19
FI-01510 VANTAA
Tel. +358 9 121 6500
Fax +358 9 121 6505

Stockmann Auto, Veromies
Volkswagen: vehicle sales, servicing centre, body repair shop, spare parts
Audi: servicing centre, body repair shop, spare parts
Servicing centre for Flyers
Kiitoradantie 2
FI-01530 VANTAA
Tel. +358 9 121 761
Fax +358 9 121 7626

Hobby Hall

Hämeentie 157
FI-00560 HELSINKI
Tel. +358 9 777 611
Fax +358 9 7776 1381
www.hobbyhall.fi
firstname.surname@hobbyhall.fi

Finland

Online Store

www.hobbyhall.fi

Customer Service

Tel. 0106 7722
asiakaspalvelu@hobbyhall.fi

Stores

Hämeentie 157
FI-00560 HELSINKI
Tel. +358 9 7776 1286
Fax +358 9 7776 1290

Valimotie 11
FI-01510 VANTAA
Tel. +358 9 7776 1425
Fax +358 9 7776 1614

Logistics Centres

Tahkotie 2
FI-01740 VANTAA
Tel. +358 9 777 611
Fax +358 9 7776 1481

Valimotie 11
FI-01510 VANTAA
Tel. +358 9 777 611
Fax +358 9 7776 1597

Estonia

Stockmann AS/Hobby Hall
Maakri 25
10145 TALLINN, Estonia
Tel. +372 6 339 600
Fax +372 6 339 603

Online Store

www.hobbyhall.com

Store

Paldiski maantee 102
Rocca al Mare kaubanduskeskus
10149 TALLINN, Estonia
Tel. +372 6 659 065

Latvia

SIA Stockmann/Hobby Hall
Katlakalna 11 c
RIGA LV-1073, Latvia
Tel. +371 707 3200
Fax +371 707 3215
klientu.serviss@hobbyhall.fi

Seppälä

Tikkurilantie 146
P.O. BOX 234, FI-01531 VANTAA
Tel. +358 9 825 981
Fax +358 9 825 1100
www.seppala.fi
firstname.surname@stockmann.fi

Stores

Finland

Alajärvi, Espoo (4), Forssa, Hamina, Haukipudas, Heinola, Helsinki (6), Hollola, Huittinen, Hyvinkää, Hämeenlinna (2), Iisalmi, Imatra (2), Joensuu (2), Jyväskylä (3), Jämsä, Järvenpää, Kaarina, Kajaani, Kangasala, Kankaanpää, Karhula, Kauhajoki, Kauhava, Kemi, Kemijärvi, Kempele, Kerava, Keuruu, Kirkkonummi, Klaukkala, Kokkola (2), Kotka, Kouvola (2), Kuopio (3), Kurikka, Kuusamo, Kuusankoski, Lahti (3), Lappeenranta (2), Lapua, Laukaa, Lempäälä, Lieksa, Lohja, Loimaa, Loviisa, Mikkeli, Muurame, Mäntsälä, Naantali, Nastola, Nivala, Nokia, Orimattila, Oulu (3), Palokka, Parainen, Pello, Pieksämäki, Pietarsaari, Pirkkala, Pori (3), Porvoo, Raahe, Raisio, Rauma, Riihimäki, Rovaniemi, Salo, Savonlinna, Seinäjoki (2), Siilinjärvi, Sodankylä, Sotkamo, Tammisaari, Tampere (5), Tornio, Turku (5), Uusikaupunki, Vaasa, Valkeakoski, Vammala, Vantaa (3), Varkaus, Ylivieska, Ylöjärvi, Äänekoski.

Estonia

Haapsalu, Kohtla-Järve, Narva, Pärnu, Tallinn (7), Tartu (2), Viljandi

Latvia

Riga (5), Liepaja

Russia

Moscow (3)

Aleksanterinkatu 52 B
P.O.Box 220
FI-00101 Helsinki
Tel. +358 9 1211
www.stockmann.fi