STOCKMANN plc
Annual Financial Statement
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STOCKMANN'S FINANCIAL STATEMENT BULLETIN 2008

REASONABLE RESULTS IN DIFFICULT MARKET CONDITIONS

Stockmann's sales in the fourth quarter were up 13 per cent to EUR 652.8 million (EUR 578.8 million in 2007). Fourth-quarter operating profit fell to EUR 58.4 million (EUR 70.8 million). Full-year sales grew by 36 per cent, totalling EUR 2 265.8 million (EUR 1 668.3 million). Consolidated operating profit declined during the financial year to EUR 121.9 million (EUR 125.2 million). Net financing expensesgrew as planned as a result of the Lindex acquisition, and with the weakening of the Swedish krona a deferred tax liability of EUR 27.2 million, which nevertheless has no effect on cash flow, was recognized on the basis of the unrealized exchange gain on the foreign currency loan. For these reasons, net profit for the financial year declined from the previous year, amounting to EUR 39.1 million. Earnings per share were EUR 0.67 (EUR 1.59). Without the increase in deferred tax liability due to the weakening of the Swedish krona, the earnings per share would have been EUR 1.13. The Board of Directors will propose the payment of a dividend of EUR 0.62 per share. The Board also proposes that it be authorised to decide at its discretion, by 31 December 2009, on the payment of a dividend of no more than EUR 0.38 per share, the company's financial standing permitting, in addition to the above-mentioned dividend decided by the Annual General Meeting.

Key figures		Q4 2008	Q4 2007	2008	2007
Sales	EUR mill.	652.8	578.8	2 265.8	1 668.3
Revenue	EUR mill.	541.3	483.9	1 878.7	1 398.2
Operating profit	EUR mill.	58.4	70.8	121.9	125.2
Profit before taxes	EUR mill.	45.7	66.5	71.7	119.4
Earnings per share	EUR	0.34	0.87	0.67	1.59
Earnings per share without th deferred tax liability due to the weakening of the Swedish krona	EUR			1.13	
Equity per share	EUR			11.24	10.66
Cash flow from operating activities	EUR mill.			170.1	119.9
Net gearing	per cent			107.4	146.9
Equity ratio	per cent			39.0	32.6
Weighted average number of shares, diluted	thousands			58 609	55 606
Return on capital employed, rolling 12 months	per cent			8.3	12.1

SALES AND RESULT

The Stockmann Group’s sales in 2008 grew by 36 per cent, totalling EUR 2 265.8 million (EUR 1 668.3 million). The strong growth came as a result of Lindex joining the Group in December 2007. Seppälä’s sales were up, the Department Store Division’s sales were on a par with the previous year’s level, and Hobby Hall’s sales were down on the 2007 figure.

Sales in Finland were up 5 per cent to EUR 1 224.8 million. Consolidated sales abroad totalled EUR 1 041.0 million, a growth of 110 per cent. Without Lindex, the corresponding figure would have been 2 per cent. Growth in sales abroad was adversely affected by the closure of the department store in the Smolensky Passage shopping centre in Moscow in May due to the unlawful activities of its lessors, as well as the weakening of the Swedish krona, Norwegian krone and Russian rouble against the euro. International operations accounted for an increased share of consolidated sales, rising from 30 per cent to 46 per cent.

Other operating income on the sale of an unbuilt plot and certain equities totalled EUR 4.2 million (EUR 9.7 million the previous year).

The Group's operating gross margin increased by EUR 300.1 million to EUR 907.0 million, and its relative gross margin was 48.3 per cent (43.4 per cent). The improvement in the Group’s relative gross margin was mainly due to the inclusion of Lindex in the consolidated figures. Lindex’s relative gross margin was at an all-time high. Hobby Hall’s relative gross margin improved, Seppälä’s relative gross margin was at the previous year’s level and the Department Store Division’s relative gross margin decreased slightly. Operating costs increased by EUR 273.2 million and depreciation by EUR 24.5 million.

Expenses totalling EUR 6.0 million were recorded for the financial year due to the closure of the Smolenskaya department store. The effect of this on earnings was a total of EUR 14 million, taking into account, too, the overhead costs allocated to other units after the closure, and the lost margin.

Consolidated operating profit for the financial year was down by EUR 3.3 million to EUR 121.9 million.

Net financing expenses grew by EUR 44.4 million, reaching EUR 50.1 million (EUR 5.7 million). The increase in net financing expenses was mainly due to the costs of borrowed capital for the Lindex acquisition.

Profit before taxes was EUR 71.7 million for the financial year, down EUR 47.7 million on the figure a year earlier. Direct taxes were EUR 32.7 million, inreasing by EUR 1.6 million on the previous year’s figure. Due to the weakening of the Swedish krona, a deferred tax liability of EUR 27.2 million was recognized on the basis of the unrealized exchange gain on the foreign currency loan taken out for the Lindex acquisition. Net profit for the financial year totalled EUR 39.1 million (EUR 88.4 million).

Fourth-quarter net profit declined, amounting to EUR 19.1 million (EUR 48.6 million).

Earnings per share in the financial year were EUR 0.67 (EUR 1.59) and, diluted for options, earnings were EUR 0.67 (EUR 1.58). Calculated without the increase of EUR 27.2 million in deferred tax liabilities as a result of the weakening of the Swedish krona, earnings per share in the financial year amounted to EUR 1.13. Equity per share was EUR 11.24 (EUR 10.66).

SALES AND EARNINGS TREND BY BUSINESS SEGMENT

Department Store Division

The Department Store Division's sales maintained the previous year's level, totalling EUR 1 218.9 million. Sales in Finland remained at the same level as the year before. International sales were boosted by the good like-for-like sales growth of the department stores in Russia and the Baltic countries and the new Bestseller stores, but were adversely affected by the closing of the Smolenskaya department store in Moscow. International sales grew by one per cent and their share of the division's sales was 29 per cent (28 per cent).

The relative gross margin for the financial year declined. This was due to the vigorous price campaigning targeted at Loyal Customers in the latter part of the year, the aim of which was to maintain sales volumes. The Department Store Division's operating profit was down to EUR 54.0 million (EUR 91.8 million). The previous year's operating profit included EUR 9.7 million in non-recurring income. Total costs of EUR 6.0 million arising from the closure of the Smolenskaya department store were recorded for the financial year. The effect of the closure on earnings was a total of EUR 14 million, taking into account, too, the overhead costs allocated to other units after the closure, and the lost margin.

Fourth-quarter operating profit totalled EUR 34.9 million (EUR 46.9 million).

Lindex

Lindex's sales in the financial year amounted to EUR 672.5 million. Compared with the pro forma statement for the corresponding period in 2007, sales were down 5 per cent, owing to changes in foreign exchange rates. In local currency terms, sales remained on a par with the previous year, although Lindex increased its market share in Sweden, its main market. Lindex's operating profit was EUR 58.7 million, and was burdened by the depreciation connected with the Lindex acquisition under IFRS and by a non-recurring cost entry for inventories, which together totalled EUR 6.5 million. In local currency terms, Lindex's operative result was its best ever. The weakening of the Swedish krona and Norwegian krone against the euro reduced operating profit for the financial year by an imputed EUR 2.7 million. Lindex's pro forma operating profit in 2007 totalled EUR 70.9 million. In the consolidated earnings for 2007, the operating profit generated by Lindex, which was acquired in December of that year, was EUR 15.0 million.

Fourth-quarter operating profit amounted to EUR 20.3 million. The weakening of the Swedish krona and Norwegian krone against the euro reduced operating profit in the fourth quarter by an imputed EUR 2.6 million.

Hobby Hall

Hobby Hall's sales in the financial year decreased by 7 per cent to EUR 191.0 million (EUR 206.5 million). A large proportion of Hobby Hall's sales consists of electronic products, for which the total market has diminished and the general price trend has been on the decline. Sales declined both in Finland and abroad, but Hobby Hall's relative gross margin grew. Hobby Hall's operating profit for the financial year fell by EUR 4.9 million, amounting to EUR 0.8 (EUR 5.7 million), as a result of lower sales and the unprofitable operations in Russia. It was decided to discontinue operations in Russia as from the start of 2009.

Hobby Hall's operating profit in the fourth quarter was EUR 1.6 million (EUR 2.7 million).

Seppälä

Seppälä's sales in the financial year increased by 4 per cent on the previous year, totalling EUR 182.6 million. Sales in Finland were down 2 per cent, but showed strong growth in Russia, where they were buoyed by new stores and the good like-for-like sales trend. Sales abroad were up 19 per cent, and their share of Seppälä's total sales rose to 34 per cent (30 per cent). The relative gross margin was at the previous year's level. Because new stores were opened in rapid succession, fixed costs and depreciation grew faster than the gross margin, causing Seppälä's operating profit to decrease by EUR 6.1 million to EUR 14.6 million (EUR 20.7 million).

Seppälä's fourth-quarter sales grew by 1 per cent to EUR 51.5 million. Sales decreased by 2 per cent in Finland and increased by 8 per cent abroad. Operating profit was EUR 4.2 million (EUR 8.6 million).

FINANCING AND CAPITAL EMPLOYED

Liquid assets totalled EUR 35.2 million at the close of the year, as against EUR 33.2 million a year earlier.

Interest-bearing liabilities at the end of the year were EUR 775.7 million (EUR 905.6 million), of which EUR 755.7 million consisted of long-term borrowing (EUR 855.4 million). In June, Stockmann carried out a EUR 137.4 million share issue targeted at institutional investors. The proceeds of the share issue were used to repay part of the long-term loan which Stockmann took out when it acquired AB Lindex (publ). Capital expenditures in the report period amounted to EUR 182.3 million. Net working capital amounted to EUR 150.9 million at the close of the year, as against EUR 193.9 million a year earlier. The decrease in net working capital was principally due to the reduction of goods in stock and the release of capital from the Department Store Division's trade receivables. Dividend payouts totalled EUR 75.2 million.

At the close of the year, the equity ratio was 39.0 per cent (32.6 per cent) and net gearing was 107.4 per cent (146.9 per cent).

The return on capital employed over the past 12 months was 8.3 per cent (12.1 per cent). The Group's capital employed increased by EUR 37.8 million and stood at EUR 1 466.8 million (EUR 1 504.7 million) at the end of the financial year.

The financing package negotiated in conjunction with the Lindex acquisition was due to be refinanced by 30 September 2009. On 19 December 2008, Stockmann agreed on a loan financing package of EUR 1 000 million, the parties to which were Varma, the Nordic Investment Bank (NIB) and a banking consortium composed of Nordea, Pohjola, Handelsbanken and Danske Bank. The financing package is divided into separate elements, with maturity periods of 7, 5 and 3 years. The purpose of this solution is to ensure financing for Stockmann's main investments in the near future, which include the enlargement and renovation project of the Helsinki department store and the construction of the Nevsky Centre department store and shopping centre in St Petersburg, as well as for the Group's day-to-day operations. As a result of the decline in interest rates caused by the global financial crisis, it is estimated that this solution will significantly reduce Stockmann's financing expenses in 2009 compared with 2008.

DIVIDENDS

In accordance with the resolution of the Annual General Meeting, a dividend of EUR 1.35 per share was paid on the 2007 financial year, or a total of EUR 75.2 million. The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.62 per share be paid on the 2008 financial year. The proposed dividend is 93 per cent of the earnings per share. The Board also proposes that it be authorised to decide at its discretion, by 31 December 2009, on the payment of a dividend of no more than EUR 0.38 per share, the company's financial standing permitting, in addition to the above-mentioned dividend decided by the Annual General Meeting.

ACQUISITION OF LINDEX

The Finnish branch office of Stockmann Sverige AB, a Stockmann subsidiary, purchased 97.8 per cent of the shares in the Swedish fashion chain AB Lindex (publ) in December 2007 and the remaining shares in 2008. The cost of acquiring Lindex's entire share capital was EUR 851.7 million. Lindex's balance sheet items have been measured at fair value at the time of the acquisition. According to the final calculations, the balance sheet value of trademarks, customer and supplier agreements and inventories was a total of EUR 89.1 million greater than the carrying amount at the time of purchase, EUR 91.0 million.

In May, the Gothenburg Administrative Court of Appeal overturned the affirmative decisions which Lindex had received in the County Administrative Court concerning the deductibility under the Swedish tax system in the years 2004/2005 and 2005/2006 of losses amounting to approximately EUR 70 million made by the Lindex Group's company in Germany. Lindex has lodged an appeal with the highest court of justice against the ruling of the Administrative Court of Appeal. In accordance with the decision of the Administrative Court of Appeal, Lindex had to repay EUR 23.8 million in taxes and interest to the tax office. The repaid tax with interest increased the Group's goodwill by EUR 23.8 million, and the amount has no effect on the Group's earnings.

A total of EUR 746.2 million of the cost of acquiring Lindex has been allocated to goodwill. EUR 656.2 million of this has been allocated to the Lindex business segement, EUR 65 million to the Seppälä business segment and EUR 25 million to the Department Store Division business segment. The goodwill is denominated in Swedish krona, and, following the weakening of this currency, its value at the close of the financial year was EUR 646.5 million.

In the impairment testing carried out, no signs of impairment on any of the business segments were found. The acquisition cost for the business operations is presented in accordance with IFRS 3 in the tabular section of the financial statements bulletin.

NEW LONG-TERM FINANCIAL TARGETS

The Group's strategy and long-term targets were revised following the acquisition of Lindex. At its strategy meeting on 18 June 2008, the Stockmann Group Board of Directors confirmed the following five-year strategic guidelines and financial targets for the same period.

A revised objective of the Group is to attain a level of annual growth in all its markets that is above the average rate for these markets, and to obtain an operating profit margin of 12 per cent and a 20 per cent return on capital employed at the end of the strategy period in 2013. The return on capital employed during the initial phase of the period will be lower than in previous years due to the Group's significant investment programme. A further strategic objective is to raise the Group's equity ratio to at least 40 per cent.

The company's dividend policy remained unchanged despite the strong growth and vigorous investment programme. The target is to pay out in dividends more than half of the earnings derived from the company's ordinary operations, but taking into account the financing required to grow operations.

CAPITAL EXPENDITURE

Capital expenditure during 2008 totalled EUR 182.3 million (EUR 977.4 million). Gross capital expenditure in 2009 is estimated to total approximately EUR 150 million.

Department Store Division

On 13 February 2009, Stockmann opened a new department store in leased premises in the Metropolis shopping centre near Moscow city centre. The department store has a total area of about 8 000 square metres. Stockmann's capital expenditure on the new location is approximately EUR 12 million, of which EUR 11.4 million was employed during 2008. Although Stockmann was forced to close its Smolenskaya department store due to the unlawful actions of the lessors, the company now has four department stores open for business in Moscow.

A major enlargement and transformation project is under way at the department store in the centre of Helsinki. The new premises will be opened in stages. The project involves expanding the department store's commercial premises by about 10 000 square metres by converting existing premises to commercial use and by building new retail space. In addition, new goods handling, servicing and customer parking areas will be built. After the enlargement, the Helsinki department store will have a total of about 50 000 square metres of retail space. The capital expenditure for the enlargement part of the project is estimated to be about EUR 250 million, in addition to which significant repair and renovation work has been and will be carried out in the old property in the course of the project. The new car park, goods handling areas and additional retail space will be opened during 2009. The project is expected to be completed in phases up to the end of 2010. During the financial year, the project required an investment of EUR 67.1 million.

In 2006, Stockmann purchased a commercial plot of approximately 10 000 square metres on Nevsky Prospect, St Petersburg's high street. The plot is located next to the Vosstaniya Square metro station and in the immediate vicinity of the Moscow railway station. On this plot, Stockmann will erect the Nevsky Centre shopping centre that will have about 100 000 square metres of gross floor space, of which about 50 000 square metres will be for stores and offices. A full-scale Stockmann department store with about 20 000 square metres of retail space has been planned for the shopping centre, along with other retail stores, office premises and an underground car park. The total investment is estimated at about EUR 185 million. The final building permit for the site was obtained at the start of March, and construction work is now under way. The building's foundation stone was laid on 17 October 2008. According to the current timetable, the building will be completed in summer 2010, and commercial operations are scheduled to start before the end of 2010. During the financial year, the project required an investment of EUR 27.4 million.

In Russia, Stockmann opened two new Nike stores and one Bestseller store.

Stockmann's credit-line Loyal Customer Card was relaunched in Finland as an international MasterCard as from April. In Latvia, where Stockmann had not previously had any Loyal Customer credit card, the new cards were introduced towards the end of 2008, and they went into use in Estonia in early 2009. The new arrangements for the cards are based on an agreement between Stockmann and Nordea concerning the transfer of the financing of Loyal Customer accounts to Nordea. Stockmann's MasterCard Loyal Customer Card with a credit facility was introduced to the Russian market in March 2008 in cooperation with Citibank. Stockmann has a total of about 1.7 million Loyal Customers in Finland, Russia and the Baltic countries.

The Department Store Division's capital expenditure totalled EUR 146.0 million.

Lindex

Lindex's capital expenditure totalled EUR 25.2 million. This was spent on opening new stores and refurbishing existing ones, and on the new distribution centre in Gothenburg, which entered into service at the turn of 2007/2008 and has operated at full capacity since the spring.

In August, Lindex opened its first Russian store, in St Petersburg. Lindex also opened four stores in Norway, three in Sweden, and two each in Finland, Estonia, Lithuania and the Czech Republic in 2008. One store was closed in Sweden.

The Lindex chain expanded to Saudi Arabia, when its franchising partner Delta International Establishment opened its first five stores there in the autumn. The franchising partner makes the investments in the stores, recruits staff and is responsible for all retail operations.

Hobby Hall

Hobby Hall’s head office moved into new leased premises in Helsinki in September. The division’s new telephone system and the modernized cash register system will contribute to improving Hobby Hall’s customer service. Hobby Hall’s capital expenditure totalled EUR 3.1 million.

Seppälä

During 2008, Seppälä opened seven stores in Russia, five in Finland and three each in Estonia and Lithuania. The Stockmann Group’s operations were expanded into Ukraine in late October, when the country’s first Seppälä store was opened in Kharkov. In addition, 12 stores in Finland were refurbished according to the new store concept. One store in Finland was closed.

Seppälä’s capital expenditure totalled EUR 7.2 million.

Other capital expenditure

The Group’s other capital expenditure came to EUR 0.8 million.

NEW PROJECTS

Department Store Division

The Department Store Division has preliminary agreements for the opening of department stores in leased premises that are being or will be built in Ekaterinburg and north Moscow in Russia and in Vilnius, the capital of Lithuania. Due to the economic downturn, the implementation and timetable of these projects are being reassessed.

Lindex

Lindex plans to continue expanding in 2009, aiming to open about as many new stores as it did in 2008. The number of franchising stores will increase by about ten.

Hobby Hall

Hobby Hall’s redesigned online store will be opened in 2009. The company’s operations in Russia were discontinued as from the start of 2009.

Seppälä

Seppälä will open a total of 8 to 12 new stores in 2009, half of which will be in Russia and the rest in other countries where Seppälä currently has operations.

SHARES AND SHARE CAPITAL

The company's market capitalization at the end of 2008 was EUR 611.6 million. At the end of 2007 the corresponding figure was EUR 1 659.8 million.

The trend in Stockmann’s shares price during 2008 was below both the OMX Helsinki Cap index and the OMX Helsinki index. At the end of the year, the stock exchange price of the Series A shares was EUR 10.10, compared with

EUR 29.50 at the end of 2007, and the Series B shares were selling at EUR 9.77, as against EUR 29.66 at the end of 2007.

A total of 364 Stockmann plc Series B shares were subscribed with Stockmann Loyal Customer share options in May. The shares were entered in the Trade Register on 26 June 2008, and they became available for public trading, together with the existing shares, on the Helsinki exchange on 27 June 2008. As a consequence of the subscriptions, the share capital was increased by EUR 728.

The 2008 Annual General Meeting authorized the Board of Directors to decide on the issuance of shares and on special rights entitling holders to shares under chapter 10, section 1 of the Limited Liability Companies Act, in one or more instalments. The Board of Directors was authorized to decide on the amount of Series A and Series B shares to be issued. However, the aggregate number of shares issued on the basis of the authorization may not exceed 15 000 000 shares. The issuance of shares and the special rights entitling holders to shares may be carried out in accordance with or deviating from the shareholders' pre-emptive rights (directed issue). The Board of Directors is authorized to decide on all the terms and conditions regarding the issue of shares and concerning the special rights referred to in chapter 10, section 1 of the Limited Liability Companies Act. The authorization will be valid for up to three years.

In accordance with the authorization granted by the Annual General Meeting, the Board of Directors decided on a directed share issue of 5 609 360 new shares, which was carried out on 23 June 2008. In the share issue, subscriptions were made for 2 456 424 Stockmann plc Series A shares and 3 152 936 Stockmann plc Series B shares, all at EUR 24.50 per share. Of the Series A shares subscribed, 438 618 were converted to Series B shares. As a consequence of the share subscriptions and conversions, 2 017 806 Series A shares and 3 591 554 Series B shares were entered in the Trade Register on 27 June 2008, and they were made available for public trading on the Helsinki exchange, together with the existing shares, on 27 June 2008. Following the directed issue, a further 9 390 640 shares may still be subscribed on the basis of the authorization.

Following the above-mentioned registrations, Stockmann’s share capital increased to EUR 123 406 672. On 31 December 2008, Stockmann had 26 582 049 Series A shares and 35 121 287 Series B shares.

Stockmann held 364 321 of its own Series B shares (treasury shares) at the end of 2008. They comprised 0.6 per cent of all the shares and represented 0.1 per cent of all the votes. Their acquisition price was a total of EUR 5.5 million.

The Annual General Meeting in 2007 authorized the Board of Directors to decide on the transfer of the company’s own Series B shares in one or more instalments. The authorization remains valid for five years. Stockmann’s Board of Directors has no valid authorizations to purchase Stockmann shares.

BOARD OF DIRECTORS’ PROPOSALS TO THE ANNUAL GENERAL MEETING

The Board of Directors proposes to the Annual General Meeting to be convened on 17 March 2009, that the voting restriction referred to in

Article 3 of the Articles of Association, whereby no-one at a General Meeting can cast more than one fifth of the votes represented at the meeting, be removed. In addition, the Board of Directors proposes that Article 5 of the Articles of Association be amended in such a way as to remove the upper age limit applying to persons to be elected as members of the Board of Directors. At present, anyone who has reached the age of 65 years cannot be elected a member of the Board of Directors.

The Board of Directors also proposes to the Annual General Meeting that the terms applying to the 2008 Loyal Customer share options be amended such that the subscription price for shares subscribed under these options is the volume-weighted average price of the Series B share on the Helsinki exchange during the period 1 February – 28 February 2009. Under the Loyal Customer share option terms approved by the Annual General Meeting in 2008, the determination period for the subscription price was 1 February – 29 February 2008. In other respects the terms applying to the option rights would remain unchanged.

NUMBER OF EMPLOYEES

The Group had an average payroll of 15 669 employees in 2008, an increase of 4 508 on the 2007 figure of 11 161 employees (10 069 in 2006). The increase in the number of employees was attributable in large part to the acquisition of Lindex in December 2007, though there was steady growth in the number of staff employed by the other divisions. Converted to full-time equivalents, Stockmann's average number of employees grew by 2 985, to 11 964 employees (8 979 in 2007 and 8 037 in 2006). The Group's total wages and salaries amounted to EUR 279.8 million, up by EUR 97.8 million on the corresponding figure for 2007 (EUR 181.9 million; EUR 167.9 million in 2006).

At the end of 2008, Stockmann had 8 072 employees working abroad. The corresponding total for the end of the previous year was 8 294 employees. The proportion of employees working abroad was 51 per cent of the total personnel (50 per cent).

MAJOR EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

Stockmann develops its distance retailing business

On 9 January 2009, Stockmann announced its strategic objective of integrating Hobby Hall with the Department Store Division's operations as from the start of 2010. Hobby Hall will continue as an independent division until the end of 2009, its objective being to improve its profitability and prepare for the integration process during the year. As part of the measures aimed at boosting Hobby Hall's profitability, its distance retailing in Russia was discontinued as from the start of 2009.

Raija-Leena Söderholm, lately the Buying Director in the Department Store Division, has been appointed as the Department Store Division's director of distance retailing and will take up these duties as from 1 January 2010. Söderholm took up the post of Managing Director at Hobby Hall on 1 February 2009, and began preparations for the integration process. She will also participate in the work of the Stockmann Group's Management Committee until the end of 2009.

RISK FACTORS

The Group has business operations in Finland, Sweden, Norway, Russia and the Baltic countries, as well as in the Czech Republic and Ukraine, in both of which operations are in their start-up phase. The business environments in the Stockmann Group's areas of operations have varying risk levels. The level of business risk in the Baltic countries has diminished significantly since these countries became members of the European Union and, apart from the risks concerning uncertainty in currency exchange rates and a continuation of the downturn in their economies, the risks do not differ in any material respect from business risks in Finland. A strong downturn in the economy could nevertheless affect the operating conditions for retailing in the Baltic countries.

Business risks in Russia are higher than in the Nordic countries and the Baltic area, and the operating environment is less stable owing to factors such as the business culture and the undeveloped state of the infrastructure in the country. The black economy is still considerable, particularly in the import of consumer goods, and plays a part in distorting competition. In recent years, however, the operating environment and legislation pertaining to business activities have evolved in a favourable direction. Russia's sustained period of economic growth showed a significant slow down towards the end of 2008, as income from energy sector exports dwindled and the value of the Russian rouble fell. The trend in energy prices will have a significant effect on the state of the Russian economy in the next few years.

The global economic downturn is influencing consumers' purchasing behaviour and having an impact on purchasing power in all of the Group's market areas. The decline in demand is also affecting Stockmann's sales and profitability. Stockmann is addressing the situation by maintaining the level of sales, launching campaigns, striving to optimize its procurements in line with demand, and boosting the efficiency of operations. Due to the global financial crisis Stockmann will have to reassess its programme of capital expenditure, which is based on its long-term strategy. It is likely that part of the expenditure programme will have to be postponed or even abandoned completely as a result of a significant deterioration in the growth outlook. The expansion and transformation project in progress at the Helsinki department store and the construction of the Nevsky Centre department store and shopping centre in St Petersburg will be carried through as planned.

Fashion accounts for about half of the Group's sales. An inherent aspect of the fashion trade is the short life cycle of products and their dependence on trends, the seasonality of sales and their susceptibility to abnormal weather conditions. The Group responds to these factors as part of its day-to-day management of operations. Except for major exceptional situations, these factors are not expected to have a material effect on the Group's sales or earnings.

The Group's operations are based on flexible logistics and efficient flows of goods. Delays or disturbances in the flow of goods and information can have a temporary adverse effect on operations. Every effort is made to control these operational risks by developing appropriate back-up systems and alternative ways of operating and by making every effort to minimize disturbances to information systems. Operational risks are also met by taking out insurance cover. Operational risks are not considered to have any significant effects on Stockmann's business activities.

The Group’s revenue and earnings are affected by changes in foreign exchange rates between the Group’s reporting currency, the euro, and the Swedish krona, the Norwegian krone, the Russian rouble, the US dollar and certain other currencies. Financial risks, including risks arising from interest rate fluctuations, are managed in accordance with the risk policy confirmed by the Board of Directors, and these risks are not considered to have a significant effect on the Group’s business operations.

AB Lindex (publ) has pending legal proceedings in the highest court of justice concerning the eligibility for deduction in Swedish taxation of losses of about EUR 70 million incurred by the Lindex Group’s subsidiary in Germany. Lindex paid the disputed taxes with interest in 2008, a total of EUR 23.8 million, which has been recognized as an increase in the company’s goodwill. Any taxes and interest repaid as a result of a favourable verdict in the case will be recorded in earnings.

Lindex has also demanded rectification in regard to the presumptive income tax on estimated earnings from operations in Germany during 2004–2006. The value of this rectification demand is about EUR 32 million, which has not been recorded in earnings.

Stockmann has initiated legal proceedings against the lessors of the Smolenskaya department store in the International Commercial Arbitration Court (ICAC) in Moscow, whereby it is claiming damages of about USD 75 million due to the unlawful closure of the department store.

The Stockmann Group has no other major legal proceedings pending.

OUTLOOK FOR 2009

The economic downturn has swept rapidly and forcefully through the global economy. Consumer demand has weakened in all of Stockmann’s market areas, making it extremely difficult to forecast the future trend.

It is likely that all of Stockmann’s market areas will experience an economic downturn during the year, recording negative growth. In Russia, developments are to a large extent dependent on the price of energy.

Sales will be down on the previous year’s figures, especially in the first and second quarters of 2009, as retail sales were still brisk in all markets in the first half of 2008. In the latter half of 2009, sales are expected to improve in relative terms, when compared against the weakened figures for the second half of 2008. Operating profit for the first quarter of the year will be in the red and weaker than in the previous year.

Stockmann has launched a series of adjustment measures to adjust to the conditions of lower demand. Financing costs will be clearly lower than in 2008. The aim is a positive cash flow after net capital expenditure and to maintain the profitability of operations at a good level during 2009.

ACCOUNTING POLICIES

This financial statements bulletin has been prepared in compliance with IAS 34. The accounting policies and calculation methods applied are the same as those in the 2007 financial statements. The figures are unaudited.

Balance sheet, Group EUR millions	31.12.08	31.12.07
ASSETS		
Non-current assets		
Intangible assets (Ref. 1.2)	758.5	844.5
Property, plant and equipment (Ref.1.2)	587.5	476.8
Available-for-sale investments	6.6	6.5
Non-current receivables	1.6	1.7
Deferred tax assets	4.5	5.3
Non-current assets, total	1 358.8	1 334.8
Current assets		
Inventories	220.3	244.4
Receivables, interest-bearing	52.2	98.8
Receivables, non interest-bearing	98.4	112.5
Cash and cash equivalents	35.2	33.2
Current assets, total	406.2	488.9
Assets, total	1 765.0	1 823.7
EQUITY AND LIABILITIES		
Equity	689.1	593.8
Minority interest	0.0	0.0
Equity, total	689.1	593.8
Non-current liabilities, interest-bearing	755.7	855.4
Reserves	2.0	5.3
Non-current liabilities, total	757.7	860.7
Deferred taxes liabilities	78.1	57.3
Current liabilities		
Current liabilities, interest-bearing	20.0	50.1
Current liabilities, non interest-bearing	220.1	261.7
Current liabilities, total	240.1	311.8
Equity and liabilities, total	1 765.0	1 823.7

Equity ratio, per cent	39.0	32.6
Net gearing, per cent	107.4	146.9
Cash flow from operations per share, EUR	2.90	2.16
Interest-bearing net debt, EUR mill.	688.2	773.6
Number of shares at Sep. 30, thousands	61 703	56 094
Weighted average number of shares, thousands	58 609	55 606
Weighted average number of shares, diluted, thousands	58 609	55 815
Market capitalization, EUR mill.	611.6	1 659.8

Equity ratio, per cent = 100 x (Equity + minority interest) / Total assets less advance payments received

Net gearing, per cent = 100 x Interest-bearing net financial liabilities / Equity total

Interest-bearing net debt = Interest-bearing liabilities less cash and cash equivalents less interest-bearing liabilities

Market capitalization = Number of shares multiplied by the quotation for the respective share series on the balance sheet date

Cash flow statement, Group EUR millions	1-12/2008	1-12/2007
Cash flows from operating activities		
Net profit for the financial year	39.1	88.4

Adjustments:		
Deprecation	61.4	36.9
Profit (-) and loss (+) from sales of non-current assets	-3.5	
Financial expenses	51.7	7.0
Financial income	-1.6	-1.3
Taxes paid	32.7	31.1
Other adjustments	-1.4	1.2
Changes in working capital:		
Change in trade and other receivables	75.6	-11.0
Change in inventories	24.0	-12.5
Change in trade payables and other liabilities	-12.7	8.8
Interest paid	-47.7	-6.5
Interest received	0.8	1.3
Income taxes paid	-48.3	-23.5
Net cash from operating activities	170.1	119.9
Cash flows from investing activities		
Investments in tangible and intangible assets	-181.1	-113.2
Cash from tangible assets	6.1	
Acquisition of subsidiary net cash acquired	-18.9	-852.5
Dividends received	0.1	0.1
Net cash used in investing activities	-193.7	-965.6
Cash flows from financing activities		
Proceeds from issue of share capital	135.2	5.8
Change in short-term loans, increase (+), decrease (-)	-30.1	35.5
Long-term loans, increase (+), decrease (-)	11.7	835.6
Dividends paid	-75.2	-72.1
Net cash used in financing activities	41.7	804.8
Change in cash and cash equivalents	18.1	-40.9
Cash and cash equivalents at start of the period	33.2	59.2
Translation differences in cash and cash equivalents	-2.2	0.4
Cheque account on credit at start of the period	-14.6	
Cash and cash equivalents	35.2	33.2
Cheque account on credit at the end of the period	-0.7	-14.6
Cash and cash equivalents at end of the period	34.5	18.6

Income statement, Group, EUR millions	1-12/2008	1-12/2007	Change per cent
Revenue	1 878.7	1 398.2	34
Other operating income	4.2	9.7	-57
Materials and consumables	-971.7	-791.2	23
Wages, salaries and employee benefits expenses	-350.5	-224.1	56
Depreciation	-61.4	-36.9	67
Other operating expenses	-377.4	-230.6	64
Operating profit (loss)	121.9	125.2	-3
Finance income and expenses	-50.1	-5.7	777
Profit (loss) before tax	71.7	119.4	-40
Income taxes	-32.7	-31.1	
Profit (loss) for the period	39.1	88.4	-56

Earnings per share, EUR	0.67	1.59	
Earnings per share, diluted, EUR	0.67	1.58	
Operating profit, per cent	6.5	9.0	
Equity per share, EUR	11.24	10.66	5
Return on equity, per cent, moving 12 months	6.1	15.2	-60
Return on capital employed, per cent, moving 12 months	8.3	12.1	-31
Average number of employees, converted to full-time staff	11 964	8 979	33
Investments	182.3	977.4	-81

Earnings per share = (Profit before taxes - minority interest - income taxes) / Average number of shares, adjusted for share issues

Return on equity, per cent, moving 12 months = 100 x Profit for the period (12 months) / (Equity + minority interest) (average over 12 months)

Return on capital employed, per cent, moving 12 months = 100 x (Profit before taxes + interest and other financial expenses) (12 months) / Capital employed (average over 12 months)

SEGMENT INFORMATION

Segments

Sales, EUR millions	1-12/2008	1-12/2007	Change per cent
Department Store Division	1 218.9	1 218.1	0
Lindex	672.5	68.1	887
Hobby Hall	191.0	206.5	-7
Seppälä	182.6	174.7	4
Shared	0.8	0.8	-5
Group	2 265.8	1 668.3	36

Revenue, EUR millions	1-12/2008	1-12/2007	Change per cent
Department Store Division	1 025.9	1 025.0	0
Lindex	540.2	54.7	888
Hobby Hall	159.6	171.7	-7
Seppälä	151.9	145.1	5
Shared	1.1	1.7	-37
Group	1 878.7	1 398.2	34

Operating profit (loss), EUR millions	1-12/2008	1-12/2007	Change per cent
Department Store Division	54.0	91.8	-41
Lindex	58.7	15.0	291
Hobby Hall	0.8	5.7	-86
Seppälä	14.6	20.7	-30
Shared	-6.1	-7.5	-18
Eliminations	0.0	-0.7	-95
Group	121.9	125.2	-3

Investments, gross, EUR millions	31.12.2008	31.12.2007	Change per cent

Department Store Division	146.0	111.5	31
Lindex	25.2	853.1	-97
Hobby Hall	3.1	3.5	-10
Seppälä	7.2	9.3	-23
Shared	0.8		
Group	182.3	977.4	-81

Assets, EUR millions	31.12.2008	31.12.2007	Change per cent
Department Store Division	704.0	652.4	8
Lindex	806.0	992.9	-19
Hobby Hall	90.4	102.7	-12
Seppälä	116.5	44.7	161
Shared	48.1	30.9	56
Group	1 765.0	1 823.7	-3

Non-interest-bearing liabilities, EUR millions	31.12.2008	31.12.2007	Change per cent
Department Store Division	121.9	125.9	-3
Lindex	99.4	100.8	-1
Hobby Hall	16.6	14.5	14
Seppälä	10.7	11.5	-7
Shared	51.6	71.7	-28
Group	300.2	324.3	-7

Market areas

Sales, EUR millions	1-12/2008	1-12/2007	Change per cent
Finland 1)	1 224.8	1 171.5	5
Sweden and Norway 2)	575.2	59.5	867
Baltic states and Czech Republic 1)	211.7	194.1	9
Russia 3)	254.1	243.2	4
Group	2 265.8	1 668.3	36
Finland, per cent	54.1	70.2	
International operations, per cent	45.9	29.8	

Revenue, EUR millions	1-12/2008	1-12/2007	Change per cent
Finland 1)	1 021.8	977.6	5
Sweden and Norway 2)	460.2	47.5	868
Baltic states and Czech Republic 1)	179.8	165.0	9
Russia 3)	217.0	208.0	4
Group	1 878.7	1 398.2	34
Finland, per cent	54.4	69.9	
International operations, per cent	45.6	30.1	

Operating profit (loss), EUR millions	1-12/2008	1-12/2007	Change per cent
Finland 1)	71.1	96.3	-26
Sweden and Norway 2)	57.3	14.4	298
Baltic states and Czech Republic 1)	10.7	21.1	-49
Russia 3)	-17.3	-6.6	163
Group	121.9	125.2	-3
Finland, per cent	58.4	76.9	
International operations, per cent	41.6	23.1	

Investments, gross, EUR millions	31.12.2008	31.12.2007	Change per cent
Finland 1)	104.6	80.2	30
Sweden and Norway 2)	19.4	847.0	-98
Baltic states and Czech Republic 1)	8.9	5.1	75
Russia 3)	49.5	45.0	10
Group	182.3	977.4	-81
Finland, per cent	57.4	8.2	
International operations, per cent	42.6	91.8	

Assets, EUR millions	31.12.2008	31.12.2007	Change per cent
Finland 1)	689.5	585.2	18
Sweden and Norway 2)	752.7	975.7	-23
Baltic states and Czech Republic 1)	108.2	75.8	43
Russia 3)	214.6	187.0	15
Group	1 765.0	1 823.7	-3
Finland, per cent	39.1	32.1	
International operations, per cent	60.9	67.9	

1) Department Store Division, Lindex, Hobby Hall and Seppälä
2) Lindex
3) Department Store Division, Lindex, Hobby Hall and Seppälä

Statement of changes in equity Group, EUR millions	Equity*	Share premium fund	Legal reserve
Equity December 31, 2006	111.7	183.4	44.1
Options exercised	0.5	2.6	
Share bonus			
Transfer to other funds			0.0
Cash flow hedges			
Cost of share issue			
Dividends			
Translation differences			
Profit for the period			
Equity December 31, 2007	112.2	186.0	44.1
Options exercised	0.0	0.0	
Rights issue	11.2		
Share bonus			
Cost of share issue			
Cash flow hedges			
Cost of share issue			
Dividends			
Translation differences			
Profit for the period			
Equity December 31, 2008	123.4	186.1	44.1

* including share issue

Statement of changes in equity Group, EUR millions	Fair value reserve**	Reserve for invested unrestricted equity	Translation reserve
Equity December 31, 2006	0.0	0.0	0.0
Options exercised			

Share bonus			
Transfer to other funds			
Cash flow hedges	0.5		
Cost of share issue			
Dividends			
Translation differences			0.0
Profit for the period			
Equity December 31, 2007	0.5	0.0	0.0
Options exercised			
Rights issue		126.2	
Share bonus			
Cost of share issue		-2.1	
Cash flow hedges	1.0		
Cost of share issue			
Dividends			
Translation differences	-0.1		-6.8
Profit for the period			
Equity December 31, 2008	1.4	124.1	-6.7

** excluding deferred tax liability

Statement of changes in equity Group, EUR millions	Retained earnings	Total	Minority interest	Total
Equity December 31, 2006	232.3	571.6	0.0	571.6
Options exercised		3.1		3.1
Share bonus	0.4	0.4		0.4
Transfer to other funds		0.0		0.0
Cash flow hedges		0.5		0.5
Cost of share issue	1.9	1.9		1.9
Dividends	-72.1	-72.1		-72.1
Translation differences	0.0	0.0		0.0
Profit for the period	88.4	88.4		88.4
Equity December 31, 2007	250.9	593.8	0.0	593.8
Options exercised		0.0		0.0
Rights issue		137.4		137.4
Share bonus	0.1	0.1		0.1
Cost of share issue		-2.1		-2.1
Cash flow hedges		1.0		1.0
Cost of share issue	1.9	1.9		1.9
Dividends	-75.2	-75.2		-75.2
Translation differences		-6.9		-6.9
Profit for the period	39.1	39.1	0.0	39.1
Equity December 31, 2008	216.8	689.1	0.0	689.1

Contingent liabilities, Group EUR millions	31.12.2008	31.12.2007
Mortgages on land and buildings	1.7	1.7
Pledges	1.0	0.1
Liability for adjustments of VAT deductions made on investments to immovable property	48.2	
Total	50.9	1.8

Lease agreements on business	31.12.2008	31.12.2007

premises, EUR millions		
Minimum rents payable on the basis of binding lease agreements on business premises		
Within one year	143.2	124.6
After one year	478.9	449.3
Total	622.1	573.8

Lease payments	31.12.2008	31.12.2007
Within one year	1.1	1.4
After one year	0.9	1.3
Total	2.0	2.8

Derivative contracts	31.12.2008	31.12.2007
Nominal value		
Currency derivatives	204.4	67.8
Electricity derivatives	2.5	1.5
Total	206.9	69.3

Exchange rates

Country	Currency	31.12.2008	31.12.2007
Russia	RUB	41.2830	35.9860
Estonia	EEK	15.6466	15.6466
Latvia	LVL	0.7083	0.6964
Lithuania	LTL	3.4528	3.4528
Sweden	SEK	10.8700	9.4415

Income statement quarterly, Group, EUR millions	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Continuing operations				
Revenue	541.3	440.8	483.3	413.4
Other operating income	0.1	0.3	-0.1	3.8
Materials and consumables	-273.5	-224.7	-242.6	-231.0
Wages, salaries and employee benefits expenses	-92.9	-82.3	-90.2	-85.1
Depreciation	-14.2	-13.2	-18.7	-15.2
Other operating expenses	-102.4	-86.2	-100.3	-88.5
Operating profit (loss)	58.4	34.6	31.4	-2.5
Finance income and expenses	-12.7	-12.8	-13.3	-11.3
Profit (loss) before tax	45.7	21.8	18.1	-13.8
Income taxes	-25.8	-6.2	-2.9	2.2
Profit (loss) for the period	19.9	15.6	15.2	-11.6
Earnings per share, EUR				
Basic	0.34	0.27	0.27	-0.21
Diluted	0.34	0.27	0.27	-0.21

Sales, EUR millions	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Department Store Division	371.8	264.8	306.4	275.9

Lindex	175.6	174.9	183.8	138.3
Hobby Hall	53.7	41.6	48.3	47.4
Seppälä	51.5	50.1	45.2	35.7
Shared	0.2	0.2	0.2	0.2
Group	652.8	531.5	583.9	497.5

Revenue, EUR millions				
Department Store Division	312.9	223.1	257.3	232.7
Lindex	141.0	140.6	147.6	111.0
Hobby Hall	44.9	34.7	40.4	39.7
Seppälä	42.8	41.7	37.6	29.7
Shared	-0.3	0.6	0.4	0.4
Group	541.3	440.7	483.3	413.4

Operating profit, EUR millions				
Department Store Division	34.9	13.5	4.1	1.5
Lindex	20.3	15.7	23.8	-1.2
Hobby Hall	1.6	0.7	0.7	-2.1
Seppälä	4.2	5.9	5.1	-0.6
Shared	-3.3	-0.7	-2.2	0.2
Eliminations	0.8	-0.5	0.0	-0.3
Group	58.4	34.6	31.4	-2.5

Income statement quarterly, Group, EUR millions	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Continuing operations				
Revenue	483.9	308.6	294.2	311.4
Other operating income	0.0	9.7		
Materials and consumables	-255.8	-179.8	-164.0	-191.6
Wages, salaries and employee benefits expenses	-73.2	-47.6	-52.6	-50.8
Depreciation	-10.5	-8.9	-8.4	-9.1
Other operating expenses	-73.7	-50.0	-55.1	-51.7
Operating profit (loss)	70.8	32.1	14.1	8.2
Finance income and expenses	-4.3	-0.5	-0.8	-0.2
Profit (loss) before tax	66.5	31.6	13.3	8.0
Income taxes	-17.9	-8.1	-3.2	-1.9
Profit (loss) for the period	48.6	23.5	10.2	6.1

Earnings per share, EUR				
Basic	0.87	0.43	0.18	0.11
Diluted	0.87	0.42	0.18	0.11

Sales, EUR millions	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Department Store Division	400.4	275.5	261.0	281.2
Lindex	68.1			
Hobby Hall	58.9	45.9	46.0	55.6
Seppälä	51.2	45.4	43.5	34.6
Shared	0.2	0.2	0.2	0.2
Group	578.8	367.0	350.7	371.7

Revenue, EUR millions

Department Store Division	336.9	232.2	219.6	236.3
Lindex	54.7			
Hobby Hall	49.2	38.2	38.1	46.2
Seppälä	42.5	37.8	36.1	28.7
Shared	0.7	0.5	0.4	0.1
Group	483.9	308.6	294.2	311.4

Operating profit, EUR millions				
Department Store Division	46.9	25.7	11.5	7.8
Lindex	15.0			
Hobby Hall	2.7	2.5	-0.9	1.5
Seppälä	8.6	5.5	5.8	0.8
Shared	-2.4	-1.1	-2.1	-1.8
Eliminations	0.0	-0.5	-0.1	0.0
Group	70.8	32.1	14.1	8.2

1. ASSETS

EUR mill.	31.12.2008	31.12.2007
Acquisition cost Jan. 1	813.8	551.7
Translation difference +/-	-21.0	0.0
Aquisitions through business combinations (investment) (+)		154.7
Translation difference +/-		-0.2
Increases Jan. 1-Dec. 31	181.6	125.9
Decreases Jan. 1-Dec. 31	-29.0	-18.4
Acquisition cost Dec. 31	945.4	813.8
Accumulated depreciation Jan. 1	212.5	193.2
Translation difference +/-	-2.6	0.0
Depreciation on reductions	-25.5	-17.6
Depreciation for the financial year	61.4	36.9
Accumulated depreciation Dec. 31	245.7	212.5
Book value Jan. 1	601.3	358.5
Book value Dec. 31	699.6	601.3

Goodwill

EUR mill.	31.12.2008	31.12.2007
Acquisition cost Jan. 1	720.0	
Aquisitions through business combinations (investment) (+)		721.7
Translation difference +/-	-94.6	-1.7
Increases Jan.1-Dec. 30	23.8	
Translation difference +/-	-2.8	
Acquisition cost Dec. 31	646.5	720.0
Book value Jan 1.	720.0	
Book value Dec. 31	646.5	720.0
Total	1 346.1	1 321.3

2. ACQIORED OPERATIONS, 2007
Lindex acquisition, precision of preliminary acquisition cost in 31.12.2008
Acquired companies

Milj. euroa	Carrying amounts	Fair values	Carrying amounts

	before business combination	recognized in business combination	after business combination
Intangible assets			
Trademarks	18.4	78.2	96.6
Rights over leased premises	0.0		0.0
Customer relationships		2.4	2.4
Supplier relationships		4.3	4.3
EDP software	10.3		10.3
Goodwill	7.6	-7.6	0.0
Property, plant and equipment	41.1		41.1
Other fiancial assets	2.6		2.6
Deferred tax assets	3.0		3.0
Inventories	72.6	4.2	76.8
Trade and other receivables	14.6		14.6
Cash and cash equivalents	9.0		9.0
Assets, total	179.2	81.5	260.8
Deferred taxes liabilities	1.7	25.0	26.7
Pension liabilities	3.4		3.4
Other provisions	2.5		2.5
Current account with overdraft facility	29.0		29.0
Other liabilities	69.9	23.8	93.7
Liabilities, total	106.5	48.8	155.3
Net assets	72.7	32.7	105.4
Acquisition cost			851.7
Goodwill		746.2	746.2

STOCKMANN plc

Hannu Penttilä
CEO

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A press and analyst conference will be held today, 13 February 2008, at 14.00 at the World Trade Center, Aleksanterinkatu 17, Helsinki.