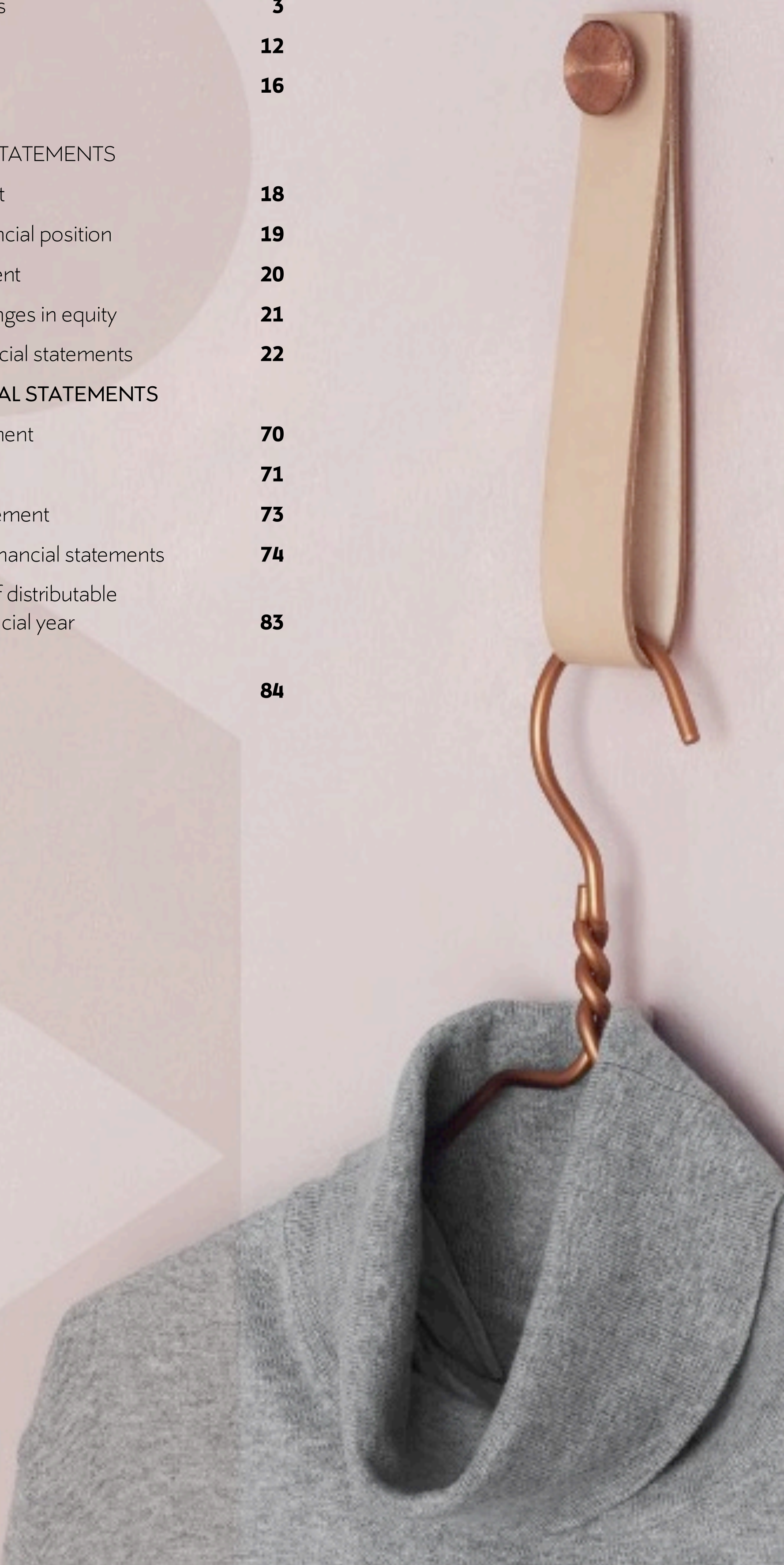
FINANCIAL REVIEW 2017

CONTENTS



REPORT BY THE BOARD OF DIRECTORS

The Stockmann Group's consolidated revenue was EUR 1 055.9 million (1 175.7) in 2017. Revenue in comparable businesses was down by 1.5 %. Gross margin was 55.8% (55.7). Adjusted operating result was EUR 12.3 million (30.9) and reported operating result was EUR -148.4 million (28.3), including an impairment charge of EUR 150 million in Lindex's goodwill. Adjusted earnings per share were EUR -0.59 (-0.14). The Board of Directors will propose no distribution of funds will take place for the 2017 financial year.

The food operations in Finland, which were divested on 31 December 2017, have been classified as discontinued operations. The comparison figures have been adjusted accordingly. The comments in the Board's Report refer only to continuing operations.

A table over items affecting comparability is on page 4.

STRATEGY

The Stockmann Group is focusing on developing retail operations and real estate business in its department store properties in Finland and the Baltic countries, in Lindex fashion stores in 18 countries, and e-commerce in Stockmann and Lindex online stores. An investigation process related to a possible divestment of the Nevsky Centre shopping centre in St Petersburg was ongoing in 2017.

In line with its strategy, Stockmann has withdrawn from unprofitable business operations and merchandise areas. The divestment of the Delicatessen food business in Finland was completed on 31 December 2017. The transaction included all Stockmann Delicatessen business operations and personnel in Finland, and the transaction price was EUR 27 million. See further information in the notes to the financial statements. After the divestment Stockmann Retail will mainly focus on fashion, beauty and home products in its own selection. The Delicatessen operations in the Baltic countries will remain with Stockmann.

In June, Stockmann signed an expanded licensing agreement with Reviva Holding Limited's subsidiary AO Stockmann concerning the use of the Stockmann brand in Russia from 2018 until 2023. Reviva has been responsible for the Stockmann department stores' operations in Russia since 1 February 2016.

The new department store in Tapiola, Finland was opened in March 2017. The department store operates in rental premises and under a totally new concept. Many initiatives to improve the customer experience were implemented in stores during the year. Digital solutions were further developed and a whole range of new experiences and services were introduced in the department stores, such as mobile payment solutions.

MARKET ENVIRONMENT

The general economic situation has recovered in Finland, and consumer confidence continued to improve in 2017. In Stockmann's largest product area, fashion, the market in Finland in January-December was down by 1.7%. In 2016, the decrease was also 1.7% (source: Textile and Fashion Suppliers and Retailers in Finland, TMA).

In Sweden, the general economic situation has improved, but the fashion market was down by 2.6% in January-December, compared with an increase of 0.2% in the previous year (source: Swedish Trade Federation, Stilindex).

The retail market in the Baltic countries continued its growth, by approximately 1.5% in Estonia (source: Statistic Estonia) and by approximately 4.2% in Latvia (source: Latvia Central Statistical Bureau).

REVENUE AND EARNINGS IN CONTINUING OPERATIONS

The Stockmann Group's revenue for the year was EUR 1 055.9 million (1 175.7). The comparison figure for 2016 includes revenue from closed and divested units. Revenue in comparable businesses was down by 1.5 %.

The revenue in Finland was EUR 402.6 million (504.4). Revenue in comparable businesses was up by 0.3%. Revenue in other countries was EUR 653.3 million (671.3), down by 2.5% in comparable businesses.

The gross profit amounted to EUR 588.8 million (655.4) and the gross margin was 55.8% (55.7). The gross margin was up in Stockmann Retail but down in Lindex.

Adjusted operating costs were down by EUR 52.8 million and amounted to EUR 515.3 million (568.1). Costs declined due to efficiency measures initiated in 2016 and the divestment of Hobby Hall. Adjustments booked in operating costs were EUR 9.6 million (2.6).

The Group's adjusted EBITDA was EUR 73.2 million (88.2). Depreciation, excluding the adjustments related to impairment of goodwill (EUR 150 million) and write-down of ICT investments (EUR 5 million), was EUR 60.9 million (57.3).

The adjusted operating result for the year was EUR 12.3 million (30.9). The operating result increased in Stockmann Retail and Real Estate, while Lindex's operating result decreased.

Adjustments were EUR 160.6 million in total and include an impairment charge of EUR 150 million related to Lindex's goodwill. The reported operating result for the year was EUR -148.4 million (28.3).

Net financial expenses were EUR 31.1 million (23.1). The expenses include write-offs of EUR 3.8 million related to Stockmann's investment in Tuko Logistics Cooperative, EUR 2 million related to Seppälä and EUR 1.5 million related to Hobby Hall (2016: write-off of EUR 5 million related to Seppälä). Foreign exchange losses amounted to EUR 2.6 million (1.2). Financial expenses grew mainly due to refinancing expenses in the last quarter of the year. The result before taxes was EUR -179.5 million (5.2).

Taxes for the year totalled EUR 18.7 million (12.7), including adjustments recognised relating to fair value adjustments of real estate holdings. In line with the Board of Adjustment's decision on Stockmann's claim for rectification relating to the Finnish Tax Administration's decision on additional taxes, Stockmann returned EUR 5.6 million taxes and EUR 2.1 million related interest to its income statement in 2017. The decision was related to a tax audit which examined transfer pricing and the market basis of interest rates in the Stockmann Group's internal financing between Finland and Russia during 2009-2011.

The adjusted result for the year was EUR -37.5 million and the result for the year was EUR -198.1 million (-7.5). The net result for the year, including discontinued operations, was EUR -209.4 million (-3.2).

Adjusted earnings per share for the year were EUR -0.59 (-0.14). Earnings per share for the year were EUR -2.82, or EUR -2.98 including discontinued operations (-0.18, or -0.12 including discontinued operations). Equity per share was EUR 12.29 (14.99).

ITEMS AFFECTING COMPARABILITY

EUR million	1–12/2017	Restated 1-12/2016
Adjusted EBITDA	73.2	88.2
Adjustments to EBITDA		
Onerous contracts related to restructuring	-6.9	
Lindex's restructuring arrangements	-2.7	
Fair value gains and losses on investment properties	4.0	
ICT outsourcing		-2.6
Adjustments total	-5.6	-2.6
EBITDA	67.6	85.6

EUR million	1–12/2017	Restated 1-12/2016
Adjusted operating result (EBIT)	12.3	30.9
Adjustments to EBIT		
Lindex goodwill impairment	-150.0	
Write-down of ICT investments related to restructuring	-5.0	
Onerous contracts related to restructuring	-6.9	
Lindex's restructuring arrangements	-2.7	
Fair value gains and losses on investment properties	4.0	
ICT outsourcing		-2.6
Adjustments total	-160.6	-2.6
Operating result (EBIT)	-148.4	28.3

Stockmann uses Alternative Performance Measures according to the guidelines of the European Securities and Market Authority (ESMA) to better reflect the operational business performance and to facilitate comparisons between financial periods. Gross profit is calculated by deducting the costs of goods sold from the revenue, and gross margin is calculated by dividing gross profit by the revenue as a percentage. EBITDA is calculated from the operating result excluding depreciation, amortisation and impairment losses. Adjusted EBITDA and adjusted operating result (EBIT) are measures which exclude non-recurring items and other adjustments affecting comparability from the reported EBITDA and reported operating result (EBIT). Stockmann also uses the term "revenue in comparable businesses" which refers to revenue excluding Hobby Hall, which was divested on 31 December 2016, the Oulu department store, which was closed on 31 January 2017, and the Lindex stores in Russia, which were closed in 2016. See further information in the notes to the Financial Statements.

FINANCING AND CAPITAL EMPLOYED

Stockmann refinanced its long-term credit facilities in November 2017. New loans were agreed on with six banks, and the loans will expire in 2018-2019 and 2021. Stockmann also has new secured senior bonds to a value of EUR 250 million that will mature in January 2022. The EUR 150 million bond maturing in March 2018 was early redeemed in December 2017.

Cash flow from operating activities came to EUR 25.9 million (41.5) in January-December. Cash and cash equivalents at the end of the year totalled EUR 21.0 million (20.2).

Comparable inventories were below the previous year's level. Total inventories were EUR 162.2 million, compared with EUR 180.7 million a year earlier when the comparison figure included the Delicatessen food inventories in Finland.

Interest-bearing liabilities at the end of December were EUR 763.6 million (761.8), of which long-term debt amounted to EUR 505.2 million (525.3). Part of the short-term debt has been raised in the commercial paper market. In addition, the Group has undrawn, long-term committed credit facilities of EUR 224.6 million and uncommitted, short-term credit facilities of EUR 464.0 million. Stockmann also has a EUR 84.3 million hybrid bond which is treated as equity.

The equity ratio at the end of December was 43.0% (48.3), and net gearing was 83.8% (68.3).

The Group's capital employed at the end of December was EUR 1 648.7 million (1 842.0). The return on capital employed over the past 12 months was -9.1% (1.8).

DISTRIBUTION OF FUNDS

Decisions by the 2017 Annual General Meeting were published in a stock exchange release on 23 March 2017. In accordance with a resolution of the meeting, no dividend was paid for the financial year 2016.

The Board of Directors will propose to the Annual General Meeting, to be held on 22 March 2018, that no distribution of funds are to be made for the 2017 financial year. The net loss for the financial year 2017 will be carried over in the retained earnings.

CAPITAL EXPENDITURE

Capital expenditure totalled EUR 34.7 million (44.2) in January-December. Most of the capital expenditure was used for Lindex store refurbishments, the new Tapiola department store, and digitalisation projects in both Stockmann Retail and Lindex. Depreciation was EUR 65.9 million (57.3), including a write-down related to ICT systems of EUR 5.0 million.

REVENUE AND EARNINGS BY DIVISION

Stockmann's divisions and reportable segments are Lindex, Stockmann Retail and Real Estate. Stockmann Retail includes non-food department store operations in Finland and non-food and food operations in the Baltic countries.

LINDEX

LINDEX	**1-12/ 2017**	1-12/ 2016
Revenue, EUR mill.	**606.0**	633.2
Gross margin, %	**60.1**	63.8
Operating result, EUR mill.	**13.4**	54.9
Capital expenditure, EUR mill.	**22.6**	17.7

Lindex's revenue for the year was down by 4.3%, to EUR 606.0 million (633.2), or, excluding Russian stores, down by 4.1%. In comparable stores, revenue at comparable exchange rates was down by 2.7%.

The gross margin for the year was 60.1% (63.8). The gross margin was down mostly due to higher markdowns. Redefined treatment of inventory obsolescence had a positive impact on the 2016 comparison figure.

Operating costs were up by EUR 0.9 million. The profitability improvement programme launched in October 2017 aims to reduce fixed costs by over EUR 10 million annually, to be reached by the end of 2018. Increasing the gross margin is also a part of the profitability improvement programme.

Adjusted operating profit for the year was EUR 16.1 million and reported operating profit was EUR 13.4 million (54.9).

Store network

In 2017, 24 Lindex stores were opened and 9 stores were closed. During 2018, Lindex will mainly focus on optimising its store locations. Unprofitable stores will either move to new locations or close down. New store openings in attractive locations and with new formats will be launched. The total number of stores is estimated to slightly decrease during 2018.

STOCKMANN RETAIL

STOCKMANN RETAIL	1-12/ 2017	Restated 1-12/ 2016
Revenue, EUR mill.	**410.2**	508.3
Gross margin, %	**45.2**	41.4
Operating result, EUR mill.	**-20.6**	-39.1
Operating result, exkluding Hobby Hall, EUR mill.	**-20.6**	-34.0
Capital expenditure, EUR mill.	**5.7**	21.2

Stockmann Retail's revenue for the year was EUR 410.2 million (508.3). Revenue in comparable businesses was up by 1.2%. The best growth was achieved in fashion.

Revenue in Finland was EUR 319.6 million (420.8). Revenue in comparable businesses was up by 0.5%. Revenue from international operations was up by 3.5%, to EUR 90.6 million (87.5) with growth both in the Tallinn and Riga department stores.

The gross margin for the year was 45.2% (43.2, or 41.4 including Hobby Hall). The gross margin improved mainly in fashion.

Operating costs excluding Hobby Hall were down by EUR 17.1 million. The operating costs amounted to EUR 191.1 million (208.2, or 236.7 including Hobby Hall). Costs declined due to efficiency measures initiated in 2016.

EBITDA was EUR -5.7 million (-21.3, or -26.2 including Hobby Hall). The operating result for the year was EUR -20.6 million (-34.0, or -39.1 including Hobby Hall).

REAL ESTATE

REAL ESTATE	1-12/ 2017	1-12/ 2016
Revenue, EUR mill.	**67.1**	60.1
Net operating income, Stockmann-owned properties, EUR mill.	**50.6**	44.4
Operating result, EUR mill.	**29.0**	21.1
Capital expenditure, EUR mill.	**4.9**	5.3

Real Estate's revenue for the year was EUR 67.1 million (60.1). The increase was due to higher rent levels and the strengthened Russian rouble.

The net operating income of the Stockmann-owned properties was EUR 50.6 million (44.4). The average monthly rent from these properties was EUR 37.11 per square metre (33.36).

Operating costs for the year increased, mostly due to changes in Russian operations.

The operating profit for the year was EUR 29.0 million (21.1), including a fair value gain on the investment properties of EUR 4.0 million.

Properties

The five properties owned by Stockmann have a gross leasable area (GLA) of 142 000 m^2 in total. On 1 January 2018, Stockmann Retail was using 46% of the total GLA. Excluding the Nevsky Centre and the Book House, 75% was being used by Stockmann Retail. The occupancy rate of the properties remained at a high level, at 99.7% (99.1). The net rental yield in the reporting period was 5.4% (4.9).

During 2017, several new partners started operations in Stockmann's department stores. The Solaris sunglasses shop, Mumin Kaffe, AT Lastenturva baby equipment store and XS Toys opened in the Helsinki flagship store. New summer restaurant terraces opened on the roofs of the department stores in Helsinki and Tallinn. Cushman & Wakefield started as an office tenant and Technopolis expanded its UMA Esplanadi in the Book House. Instrumentarium and Solaris opened an opticians and sunglasses store in Itis. Robert's Coffee, Kukkakaari flower shop and Shortcut hair salon opened in the Tapiola department store. Westerback opened jewellery and watch shops in Tapiola and Turku. Yliopiston Apteekki opened an express pharmacy store, Teenuspunkt an extended shoemaker service point and Truman a barber shop in the Tallinn department store.

On 1 January 2017, the fair value of Stockmann's properties amounted to EUR 950.1 million, of which the Nevsky Centre's value was EUR 181.0 million. The weighted average market yield requirement used in the fair value calculation was 5.6% (5.7).

During the year, the depreciation of department store properties was deducted from the fair value. The Nevsky Centre, which is being treated as an asset held for sale as of 31 March 2017, has not been depreciated. Since Stockmann is no longer practising retail business in the Book House property, it was reclassified as an investment property in the company's balance sheet on 31 December 2017.

The properties were revalued on 31 December 2017 and their fair value amounted to EUR 973.0 million. The value of Book

House in Helsinki was EUR 100 million and the value of Nevsky Centre in St Petersburg was EUR 181.0 million. Investigations related to possible divestments of the Nevsky Centre and the Book House continue.

PROPERTIES

STOCKMANN GROUP	Gross leasable area, m2 31.12.2017	Occupancy rate, % 31.12.2017	Usage by Stockmann Retail, % 1.1.2018
Helsinki flagship building	51 000	99.8	67
Tallinn department store building	22 000	100.0	84
Riga department store building	15 000	100.0	86
Total, all Stockmann-owned department properties	**88 000**	**99.9**	**75**
Book House, Helsinki	9 000	100.0	2
Nevsky Centre, St Petersburg	46 000	99.3	0
Total, all own properties	**142 000**	**99.7**	**46**

STORE NETWORK

STOCKMANN GROUP	Total 31.12.2016	New stores in 2017	Closed/divested stores in 2017	**Total 31.12.2017**
Lindex stores	475	*24*	*9*	**490**
of which own stores	436	16	8	**444**
of which franchising	39	8	1	**46**
Department stores	9	0	1	**8**

CHANGES IN MANAGEMENT

Kai Laitinen (born 1970), M.Sc. (Business Administration), was appointed Stockmann's Chief Financial Officer and as a member of the Management Team on 15 February 2017. Kai Laitinen joined Stockmann in August 2017.

Ingvar Larsson, CEO of Lindex, resigned from his post in August 2017. Elisabeth Peregi (born 1971), M.Sc. (Econ.), Country Manager of Lindex Sweden, was appointed the interim CEO of Lindex. At the same time, the CEO of Stockmann, Lauri Veijalainen, started as the Chairman of the Board of Directors at Lindex.

Nora Malin (born 1975), M.Sc. (Pol.), was appointed Stockmann's Director, Corporate Development as of 20 December 2017. She earlier worked as the Group's Director, Corporate Communications. Nora Malin continues as a member of the Stockmann Management Team.

Susanna Ottila, Director, Delicatessen, resigned from the Stockmann Management Team as of 31 December 2017, when the divestment of Delicatessen food business in Finland was completed.

SHARES AND SHARE CAPITAL

Stockmann has two series of shares. Series A shares each confer 10 votes, while Series B shares each confer one vote. The shares carry an equal right to dividends. The par value is EUR 2.00 per share.

Stockmann had 30 530 868 Series A shares and 41 517 815 Series B shares, or a total of 72 048 683 shares at the end of the year. The number of votes conferred by the shares was 346 826 495.

The share capital remained at EUR 144.1 million during the year. The market capitalisation was EUR 321.0 million (509.6) at the end of the period.

The price of a Series A share was EUR 4.60 at the end of the year, compared with 7.09 EUR at the end of 2016, while the price of a Series B share was EUR 4.35, compared with EUR 7.06 at the end of 2016.

A total of 2.0 million (2.8) Series A shares and 13.7 million (12.2) Series B shares were traded during the year on Nasdaq Helsinki. This corresponds to 6.5% (9.1) of the average number of Series A shares and 32.9% (29.5) of the average number of Series B shares.

The company does not hold any of its own shares, and the Board of Directors has no valid authorisations to purchase company shares or to issue new shares.

Stockmann was on 11 August 2017 notified of a change in the indirect ownership of shares, where Hartwall Capital Oy Ab (business identity code 0711984-8) had acquired control in HTT STC Holding Oy Ab. The number of Stockmann shares owned by HTT STC Holding remained unchanged.

At the end of the year, Stockmann had 46 672 shareholders, compared with 49 813 a year earlier.

NON-FINANCIAL INFORMATION

Commitment to responsible operations is incorporated in Stockmann's values and daily operations. According to the Group Corporate Social Responsibility (CSR) strategy, Stockmann targets to offer customers responsible shopping experiences and commits to working for a more sustainable future. The responsibility goals, which are defined in the CSR strategy, have been set to support the Group strategy and business operations by enhancing customer focus and improving efficiency. The CSR work focuses on five key themes, Customer, Personnel, Products & Supply chain, Environment and Finance & Governance, which have been identified through materiality analysis and stakeholder dialogue.

The Group's Code of Conduct (CoC), complemented with further policies, define the ways of working for all employees and management staff without exception. The principles of the Code of Conduct also apply to suppliers and partners, and effort is put into communicating the principles to them. The Code of Conduct covers compliance with legislation and ethical operations, free competition and consumer rights, employees and working conditions, environment, and corruption and conflicts of interest. Stockmann respects and promotes all human rights, as described in the Human Rights policy. The most significant risks related to human rights can be found in the supply chain and are related to working conditions.

Stockmann's policies relating to anti-corruption and anti-competitive behaviour are included in the Stockmann Code of Conduct and further specified in the anti-corruption policy. Stockmann's whistleblowing channel is a tool for the Group's own employees, business partners and other stakeholders to report suspected or detected violations of the Stockmann Code of Conduct or other corporate policies. Unethical business practices among Stockmann's employees or various stakeholders could cause reputational damage for Stockmann as well as a possible financial impact. During the year, Stockmann was not informed of any corruption-related lawsuits against the Group. There were no legal actions or fines for anti-competitive behaviour, anti-trust, or monopoly practices or their outcomes in 2017. At the end of 2017, 30% of all Stockmann staff in Finland had completed the Code of Conduct training. Of the members in the Stockmann support function and department store management teams, [87%] had completed the training.

Customers

Stockmann builds ongoing dialogue to maintain and raise customer satisfaction. Efforts to improve customer dialogue include customer surveys, net promoter score (NPS) and brand tracking, engagement in social media and other feedback channels, to better understand customer needs and expectations. To inspire its customers, Stockmann actively shares information about its CSR work and sustainable choices in its selection, and engages in CSR and charity projects on a regular basis. Stockmann complies with valid competition and privacy legislations in its operations and promotes free competition in its sector. In 2017, there were zero incidents of breaches of customer privacy.

Personnel

The Stockmann Group's Human Resources (HR) policies are based on the company's values, HR strategy and Code of Conduct, on top of which the divisions have their own more detailed HR guidelines that support the success of individuals and the wellbeing of the personnel. The implementation of good HR policies is monitored through personnel surveys, performance appraisal discussions and other feedback channels. Cooperation also takes place in local personnel committees and the Group Employee Council. A failure by Stockmann to recruit, motivate and retain highly skilled staff at every level of its organisation could have a material adverse effect on Stockmann's business.

The Group's average number of personnel in continuing operations was 7 360 (8 164) in 2017. In terms of full-time equivalents, the average number of employees was 5 486 (5 960). The decline was due to personnel reductions mostly in Stockmann Retail's shared support functions, and the divestment of Hobby Hall. In addition, 731 employees on average worked in the Stockmann Delicatessen operations in Finland, which are reported as discontinued operations.

At the end of the year, the Group had 7 325 employees (7 572), of whom 2 212 (2 563) were working in Finland. The number of employees working outside Finland was 5 113 (5 009), which represented 69.8% (66.2) of the total. Stockmann Retail employed 2 327 people (2 712), Real Estate 113 (85) and Lindex 4 596 (4 427), while 154 people (216) were employed in the Group's shared services in Finland and 135 (132) in production offices in Asia.

The Group's wages and salaries amounted to EUR 183.6 million in 2017, compared with EUR 207.1 million in 2016 and EUR 251.6 million in 2015 (including employees of the Delicatessen food business in Finland). The total employee benefits expenses were EUR 236.2 million (270.4), which is equivalent to 22.4% (23.0) of revenue.

Among the Stockmann Group's employees, women represented 91% (90) and men 9% (10). 82% (83) were permanent employees, whereas 18% (17) had fixed-term employment contracts. The Group's personnel turnover was 19% (21). In Finland, the turnover rate was 17% and in Sweden 6%.

Products & Supply chain

Stockmann offers a wide selection of safe and lasting quality products. In the Stockmann department stores, the major part of merchandise is made up of international brand products, complemented with a wide selection of own brand products in fashion and home areas, which are designed by Stockmann's own designers. At Lindex this applies to the majority of the products. Around 93% of own brand products are produced in risk countries as definied by amfori BSCI, mainly in China and Bangladesh. During the year, there was one public product recall: a children's sock in Lindex selection, due to non-compliance with the Group's chemical requirements.

The Group's own brand suppliers and producers are required to comply with the Supplier Code of Conduct (CoC), which is based on the amfori BSCI Code of Conduct that sets out 11 core labour rights which are to be incorporated in a step-by-step development approach. All Stockmann Group's garment producers for own brands have signed the Stockmann's Supplier CoC, amfori BSCI CoC or another similar commitment. The Group has purchase offices with local personnel in six main production locations to oversee production quality and compliance with the Code of Conduct, and producers in risk countries are also subject to amfori BSCI audits. The identified main risks concern management systems, documentation, trade union affiliation, wages and compensation, and working hours.

To improve traceability and reduce the environmental impact of its products, Stockmann aims to increase the use of sustainable materials in its own brand garments. 54% (50) of the Lindex assortment was made from more sustainable materials in 2017 and approximately 95% (90) of all Lindex cotton was more sustainable, such as organic and Better Cotton. During 2017, Lindex launched an upcycled denim collection that was repurposed and made of unsold garments, a step towards closing the material loop. In 2017 Lindex produced in total approximately 33 million garments made from more sustainable materials. Sustainable materials were launched in Stockmann's own brand garments in 2016, and 10% of these products were made of sustainable materials in 2017. New and updated product tags that provide information about the use of sustainable materials and Stockmann's own design work were introduced in 2017 to promote sustainable products in the selection.

Stockmann publishes a comprehensive list of suppliers and for fashion own brand garments on the company website, which is updated annually.

Environment

Stockmann's objective is to reduce the environmental impact of its business operations and prevent adverse effects by cutting emissions, increasing the efficiency of energy and water consumption and carrying out waste sorting and recycling. To ensure continuous improvement, Stockmann monitors compliance with the Group's environmental systems and progress towards set environmental goals and objectives. Environmental work at Stockmann is based on the CSR strategy and on the environmental policy. The divisions independently set specific environmental targets, define indicators for monitoring the achievement of these targets and establish appropriate management practices. Stockmann's operations in Finland are certified with ISO 14001 environmental management system. The same operating methods have been adopted in the department stores in the Baltic countries. Environmental risks related to Stockmann's own business operations are not estimated to be material.

The Stockmann Group's waste recycling rate was 72.7% (73.6). The rate varies according to activity and location. In Finland it was 70.4% (71.7), in the Baltics 43.5% (47.7) and in Sweden in the Lindex logistics centre 96.9% (97.8). The Group's greenhouse gas emissions in 2017 were 61 870 (62 670) tCO2e. The highest emissions, around 75%, came from the generation of purchased energy, especially electricity, which remained on the same level as the previous year. Stockmann reports on its CO2 emissions annually in the Group's CSR Review and in the international Climate Change Disclosure (CDP) survey. Water consumption in Stockmann's own operations is minimal and these operations take place in areas where there is currently no scarcity of water.

Environmental impacts are looked at over the product lifecycle. In retail, environmental impact comes largely from production and the use of the sold goods. Lindex develops production methods that save water, energy and chemicals, together with its suppliers, for example in denim production. To tackle product end-of-life, Stockmann and Lindex enable customers to recycle their used clothes, with the help of partnerships.

Further information on Stockmann's CSR activities and results is published in Stockmann's CSR Review, which will be published in the week starting 26 February 2018 at year2017.stockmanngroup.com. The CSR Review is reported according to the Global Reporting Initiative (GRI).

RISK FACTORS

Stockmann is exposed to risks that arise from the operating environment, risks related to the company's own operations and financial risks.

The general economic situation affects consumers' purchasing behaviour and purchasing power in all of the Group's market areas. Consumers' purchasing behaviour is also influenced by digitalisation, increasing competition and changing purchasing trends. Rapid and unexpected movements in markets may influence the behaviour of both the financial markets and consumers. Uncertainties related to changes in purchasing behaviour are considered to be the principal risk from the operating environment that could affect Stockmann during 2018.

The operating environment may also affect the operations of Stockmann's tenants and consequently may have a negative impact on rental income and the occupancy rate of Stockmann's properties. These, particularly if related to the biggest tenants of the properties, may have an effect on the fair value of the real estate.

Fashion accounts for over two thirds of the Group's revenue. An inherent feature of the fashion trade is the short lifecycle of products and their dependence on trends, the seasonality of sales and the susceptibility to abnormal changes in weather conditions. These factors may have an impact on the Group's revenue and gross margin. In the retail sector, the products' value chain from raw material to customers often contains many stages and involves reputation risks related to the fulfilment of human rights, good working conditions, environmental and other requirements set in Stockmann's Code of Conduct and other policies. Responsible management of the supply chain and sustainable use of natural resources are important for the Group's brands in order to retain customer confidence in Stockmann.

The Group's operations are based on flexible logistics and efficient flows of goods and information. Delays and disturbances in logistic and information systems as well as uncertainties related to the logistics partners can have an adverse effect on operations. Every effort is made to manage these operational risks by developing appropriate back-up systems and alternative ways of operating, and by seeking to minimise disturbances to information systems. Operational risks are also met by taking out insurance cover.

The Group's revenue, earnings and balance sheet are affected by changes in exchange rates between the Group's reporting currency, which is the euro, and the Swedish krona, the Norwegian krone, the US dollar, the Russian rouble and certain other currencies. Currency fluctuations may have an effect on the Group's business operations. Financial risks, mainly risks arising from interest rate fluctuations due to the Group's high level of debt and hence high interest costs, may have an effect on the financial costs and the financial position. Interest rate fluctuations may also impact the goodwill and the valuation related to the properties owned by the Group and thus to the fair value of these assets. Financial risks are managed in accordance with the risk policy confirmed by the Board of Directors.

EVENTS AFTER THE REPORTING PERIOD

On 2 January 2018, Stockmann announced that it is investigating a possible divestment of its Book House property. The Stockmann-owned Book House property in Helsinki city centre is now entirely in external partners' use, after Stockmann Delicatessen's business operations were transferred to S Group on 31 December 2017.

On 10 January 2018, Susanne Ehnbåge, M.Sc.(Econ.), born 1979, was appointed CEO of Lindex. She will start in this position at the latest in August 2018. Susanne Ehnbåge currently works as the CEO of the NetOnNet Group, a Scandinavian home electronics retailer. Susanne Ehnbåge will report to Lauri Veijalainen, Lindex Chairman of the Board and Stockmann's CEO, and she will also be a member of the Stockmann Management Team. Elisabeth Peregi, currently the interim CEO of Lindex, will continue acting as the interim CEO until Susanne Ehnbåge starts in her position.

On 23 January 2018, Stockmann announced that the company is continuing its efficiency measures with a target of annual cost savings of EUR 8 million at a minimum, to be implemented mainly by the end of 2018. A provision of approximately EUR 2 million will be recognised due to restructuring in the first quarter.

On 31 January 2018, the Shareholders' Nomination Board gave its proposals to the Annual General Meeting, which will be held on 22 March 2018. The shareholders' Nomination Board proposes that the present members of the Board of Directors, Kaj-Gustaf Bergh, Jukka Hienonen, Esa Lager, Leena Niemistö, Michael Rosenlew and Dag Wallgren be re-elected for the term of office continuing until the end of the next Annual General Meeting. In addition, the Nomination Board proposes that Eva Hamilton and Tracy Stone be elected as new Board members for the term of office stated above. Hamilton and Stone have been members of Lindex Board since 2014. The Nomination Board also presented its remuneration proposal of the Board of Directors to the Annual General Meeting.

OUTLOOK FOR 2018

In the Stockmann Group's largest operating countries, Finland and Sweden, the general economic situation has improved and according to forecasts by the national central banks, the GDP growth is expected to continue in 2018. Also consumer confidence is estimated to continue its positive development.

However, purchasing behaviour is changing due to digitalisation and increasing competition. This is reflected in the outlook for the fashion market, which according to Stockmann's management estimate is not increasing as rapidly as the economy in general.

In the Baltic countries, the outlook for the retail trade is, according to the management estimate, expected to be better than that for the Stockmann Group's other market areas.

Stockmann will continue improving the Group's long-term competitiveness and profitability. The efficiency measures launched in Lindex at the end of 2017 and at Stockmann in the beginning of 2018 will be mostly implemented during the spring and they will be fully visible in the 2019 operating costs. As the efficiency measures will not bring significant cost savings during the first quarter of 2018, the Group's operating result in the first quarter is not likely to improve from the previous year's level.

As a result of the profitability improvement programme, Lindex's operating profit for the full year is expected to increase from 2017. The Stockmann Retail division, which is still loss-making, is targeting to achieve a positive adjusted operating result in 2018. Real Estate is expected to continue its stable profitable performance.

Capital expenditure for 2018 is estimated to be approximately EUR 40-45 million, which is less than the estimated depreciation for the year.

GUIDANCE FOR 2018

Stockmann expects the Group's revenue for 2018 to be on a par with the previous year. Adjusted operating profit is expected to improve in 2018.

CORPORATE GOVERNANCE STATEMENT

Stockmann will publish a separate Corporate Governance Statement for 2017 in line with the recommendation by the Finnish Corporate Governance Code. The statement will be published during the week starting 26 February 2018 (week 9).

Helsinki, Finland, 13 February 2018

STOCKMANN plc
Board of Directors

Key figures

		2017	2016	2015	2014	2013
Revenue *)	EUR mill.	1 055.9	1 175.7	1 434.8	1 605.5	2 037.1
Gross profit *)	EUR mill.	588.8	655.4	725.4	780.3	990.1
Gross margin *)	%	55.8	55.7	50.6	48.6	48.6
EBITDA *)	EUR mill.	67.6	85.6	19.3	-17.3	128.8
Adjustments to EBITDA *)	EUR mill.	-5.6	-2.6	-24.0	-35.4	
Adjusted EBITDA *)	EUR mill.	73.2	88.2	43.4	18.1	128.8
Operating result *)	EUR mill.	-148.4	28.3	-52.5	-77.2	54.4
Share of revenue *)	%	-14.1	2.4	-3.7	-4.8	2.7
Adjustments to operating result *)	EUR mill.	-160.6	-2.6	-24.0	-39.3	
Adjusted operating result *)	EUR mill.	12.3	30.9	-28.5	-37.8	
Result for the period	EUR mill.	-209.4	-3.2	-175.0	-99.8	48.4
Share capital	EUR mill.	144.1	144.1	144.1	144.1	144.1
A share	EUR mill.	61.1	61.1	61.2	61.2	61.3
B share	EUR mill.	83.0	83.0	82.9	82.9	82.8
Return on equity	%	-21.3	-0.3	-19.4	-12.1	5.4
Return on capital employed	%	-9.1	1.8	-7.6	-4.9	3.4
Capital employed	EUR mill.	1 745.4	1 836.1	1 740.4	1 657.9	1 725.8
Capital turnover rate		0.7	0.6	0.9	1.1	1.2
Inventories rate		3.4	3.4	4.8	4.1	3.7
Equity ratio	%	43.0	48.3	46.1	39.3	43.8
Net gearing	%	83.8	68.3	72.1	105.4	87.3
Capital expenditure	EUR mill.	34.7	44.2	53.4	53.8	56.9
Share of revenue *)	%	3.3	3.8	3.7	3.4	2.8
Interest-bearing net debt	EUR mill.	739.4	736.4	753.6	799.4	737.8
Net debt / EBITDA	EUR mill.	10.9	8.6	39.0	-46.2	5.7
Total assets	EUR mill.	2 061.4	2 241.2	2 273.9	1 936.5	2 044.6
Staff expenses *)	EUR mill.	236.2	270.4	321.5	356.3	397.8
Personnel, average *)	persons	7 360	8 164	10 763	12 157	14 963
Average number of employees, converted to full-time equivalents *)	persons	5 486	5 960	7 643	8 916	11 422
Revenue per person *)	EUR thousands	143.5	144.0	133.3	132.1	136.1

*) Years 2017, 2016, 2015 and 2014 include only continuing operations.
Stockmann Delicatessen in Finland reported as discontinued operations for year ended 31 December 2017, comparison year 2016 was restated.
Department store operations in Russia reported as discontinued operations for years ended 31 December 2016 and 2015, comparison year 2014 restated.

Key figures per share

		2017	2016	2015	2014	2013
Earnings per share, continuing operations	EUR	-2.82	-0.18	-1.24	-1.34	0.67
Earnings per share, discontinued operations	EUR	-0.16	0.06	-1.20	-0.04	
Earnings per share (undiluted and diluted)	EUR	-2.98	-0.12	-2.43	-1.39	0.67
Cash flow from operating activities per share	EUR	0.36	0.58	0.24	0.41	1.74
Equity per share	EUR	12.29	14.99	14.53	10.55	12.42
Dividend per share *	EUR					0.40
Dividend per earnings *	%					59.5
Effective dividend yield *	%					
A share						3.6
B share						3.6
P/E ratio of shares						
A share		-1.5	-60.4	-2.6	-4.6	16.5
B share		-1.5	-60.2	-2.6	-4.6	16.4
Share quotation at 31.12.	EUR					
A share		4.60	7.09	6.22	6.42	11.06
B share		4.35	7.06	6.25	6.36	11.04
Highest price during the period	EUR					
A share		8.20	7.55	8.00	12.40	15.20
B share		8.00	7.31	8.41	12.58	14.92
Lowest price during the period	EUR					
A share		4.22	5.26	5.94	6.20	11.00
B share		4.05	5.06	5.98	6.21	10.75
Average price during the period	EUR					
A share		5.29	5.97	6.86	9.76	12.51
B share		6.19	6.33	7.10	10.00	12.50
Share turnover	thousands					
A share		1 996	2 791	2 188	933	447
B share		13 664	12 231	14 615	17 625	14 564
Share turnover	%					
A share		6.5	9.1	7.2	3.0	1.5
B share		32.9	29.5	35.2	42.5	35.1
Market capitalisation at 31.12.	EUR mill.	321.0	509.6	449.4	460.1	796.0
Number of shares at 31.12.	thousands	72 049	72 049	72 049	72 049	72 049
A share		30 531	30 531	30 553	30 596	30 596
B share		41 518	41 518	41 495	41 453	41 453
Weighted average number of shares	thousands	72 049	72 049	72 049	72 049	72 049
A share		30 531	30 533	30 590	30 596	30 601
B share		41 518	41 515	41 459	41 453	41 448
Weighted average number of shares, diluted	thousands	72 049	72 049	72 049	72 049	72 049
Total number of shareholders at 31.12.		46 672	49 813	52 415	55 343	59 475

*) The Board of Directors proposes to the AGM that no dividend be paid.

Definition of key figures

Performance measures according to IFRS

Earnings per share, continuing operations	Result for the period attributable to the parent company's shareholders from continuing operations - tax-adjusted interest on hybrid bond / Average number of shares
Earnings per share, discontinued operations	Result for the period attributable to the parent company's shareholders from discontinued operations - tax-adjusted interest on hybrid bond / Average number of shares
Earnings per share	Result for the period attributable to the parent company's shareholders - tax-adjusted interest on hybrid bond / Average number of shares

Alternative performance measures

Gross profit	Revenue - costs of goods sold
Gross margin	Gross profit / revenue x 100
EBITDA	Operating result + depreciation, amortisation and impairment losses
Adjusted EBITDA	EBITDA – adjustments
Adjusted operating result	Operating result - adjustments
Return on equity, %	Result for the period / Equity total (average for the year) x 100
Return on capital employed, %	Result before taxes + interest and other financial expenses / Capital employed x 100
Capital employed	Total assets - deferred tax liability and other non-interest-bearing liabilities (average for the year)
Capital turnover rate	Revenue / Total assets - deferred tax liability and other non-interest-bearing liabilities (average for the year)
Inventories rate	365 / Inventories turnover time
Equity ratio, %	Equity total / Total assets - advance payments received x 100
Net gearing, %	Interest-bearing liabilities - cash and cash equivalents - interest-bearing receivables / Equity total x 100
Interest-bearing net debt	Interest-bearing liabilities - cash and cash equivalents – interest-bearing receivables

Key figures per share

Equity per share	Equity attributable to the parent company's shareholders / Number of shares on the balance sheet date
Cash flow from operating activities per share	Cash flow from operating activities / Average number of shares without the own shares owned by the company
Dividend per earnings, %	Dividend per share / Earnings per share x 100
Effective dividend yield, %	Dividend per share / Share quotation on balance sheet date x 100
P/E ratio of shares	Share quotation on balance sheet date / Earnings per share
Share turnover	Number of shares traded during the period
Market capitalisation	Number of shares multiplied by the quotation for the respective share series on balance sheet date

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 Nasdaq Helsinki. The trading code for the Series A share is STCAS and for the Series B share STCBV. The number of registered shareholders at 31 December 2017 was 46 672 (49 813 shareholders at 31 December 2016).

The company's market capitalisation at 31 December 2017 was EUR 321.0 million (EUR 509.6 million at 31 December 2016).

Share option programmes

Stockmann had one option program, which ended in 2017.

Own shares

At 31 December 2017, the company did not hold any of its own shares, and the Board of Directors had no valid authorisations to purchase shares of the company.

Price trend of shares

	Closing prices Dec. 31, 2017 EUR	Closing prices Dec. 31, 2016 EUR	Change %
Series A	4,60	7,09	-35,1
Series B	4,35	7,06	-38,4

Turnover of shares 2017 on the Helsinki Stock Exchange

	Number of shares	% of total shares outstanding	EUR	Average price EUR
Series A	1 995 845	6,5	10 701 100	5,97
Series B	13 664 186	32,9	84 875 756	6,33
Total	15 660 031		95 576 856	

Share capital, 31 December 2017

Series A	30 530 868	shares at EUR 2 each	61 061 736	EUR
Series B	41 517 815	shares at EUR 2 each	83 035 630	EUR
Total	72 048 683		144 097 366	EUR

Number of shares, 31 December 2017

	Number	Shareholders %	Percentage of shares %	Percentage of votes %
1-100	30 961	66,3	1,7	0,6
101-1000	13 005	27,9	6,1	4,4
1001-10000	2 478	5,3	8,5	5,6
10001-100000	190	0,4	7,3	3,8
100001-1000000	25	0,1	11,6	13,5
1000001-	13	0,0	64,8	72,1
Total	46 672	100,0	100,0	100,0

Ownership structure, 31 December 2017

	Number	Shareholders %	Percentage of shares %	Percentage of votes %
Households	45 433	97,3	23,2	20,8
Private and public corporations	762	1,6	20,3	20,1
Foundations and associations	280	0,6	45,5	56,1
Nominee registrations (incl. foreign shareholders)	173	0,4	7,5	2,2
Financial and insurance companies	24	0,1	3,5	0,8
Unregistered shares		0,0	0,0	0,0
Total	46 672	100,0	100,0	100,0

Major shareholders, 31 December 2017	Percentage of shares %	Percentage of votes %
1 HTT STC Holding Oy Ab	11,7	10,7
2 Föreningen Konstsamfundet Grouping	9,4	15,1
3 Varma Mutual Pension Insurance Company	9,1	5,4
4 Society of Swedish Literature in Finland	7,6	15,7
5 Niemistö Kari	5,8	9,4
6 Stiftelsen för Åbo Akademi	4,2	6,7
7 Etola Group	4,2	6,1
8 The State Pension Fund	2,3	0,5
9 Samfundet Folkhälsan i svenska Finland r.f.	2,2	2,7
10 Ilmarinen Mutual Pension Insurance Company	2,0	0,9
11 Jenny ja Antti Wihuri Foundation	1,9	2,1
12 Inez och Julius Polins Fond	1,5	0,8
13 Wilhelm och Else Stockmanns Stiftelse	1,1	2,2
14 Etera Mutual Pension Insurance Company	0,9	0,2
15 Helene och Walter Grönqvists Stiftelse	0,7	1,5
16 William Thurings Stiftelse	0,5	0,7
17 City of Turku	0,4	0,1
18 Taaleritehdas Value Markka Osake Fund	0,4	0,1
19 Danske Invest Arvo Finland Value Fund	0,4	0,1
20 Brita Maria Renlunds minne Foundation	0,4	0,8
Other	33,3	18,2
Total	100,0	100,0

Consolidated income statement

EUR mill.	Note	1.1.–31.12.2017	Restated 1.1.–31.12.2016
Continuing operations			
REVENUE	2,4	**1 055.9**	1 175.7
Other operating income	5	**0.0**	1.2
Fair value changes on investment properties	6,16	**3.7**	−0.3
Materials and consumables	7	**−467.1**	−520.4
Wages, salaries and employee benefit expenses	8,33	**−236.2**	−270.4
Depreciation, amortisation and impairment losses	2,9,14,15	**−215.9**	−57.3
Other operating expenses	10	**−288.8**	−300.3
Total expenses		**−1 208.0**	−1 148.4
OPERATING PROFIT/LOSS	2	**−148.4**	28.3
Financial income	11	**0.7**	0.8
Financial expenses	11	**−31.8**	−23.9
Total financial income and expenses		**−31.1**	−23.1
PROFIT/LOSS BEFORE TAX		**−179.5**	5.2
Income taxes	12	**−18.7**	−12.7
PROFIT/LOSS FROM CONTINUING OPERATIONS		**−198.1**	−7.5
Profit/loss from discontinued operations	3	**−11.3**	4.3
NET PROFIT/LOSS FOR THE PERIOD		**−209.4**	−3.2
Profit/loss for the period attributable to:			
Equity holders of the parent company		**−209.4**	−3.2
Earnings per share, EUR:	13		
From continuing operations (undiluted and diluted)		**−2.82**	−0.18
From discontinued operations (undiluted and diluted)		**−0.16**	0.06
From the period result (undiluted and diluted)		**−2.98**	−0.12

Consolidated statement of comprehensive income

EUR mill.	Note	1.1.–31.12.2017	1.1.–31.12.2016
PROFIT/LOSS FOR THE PERIOD		**−209.4**	−3.2
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Changes in revaluation surplus (IAS 16), before tax		**38.0**	48.3
Changes in revaluation surplus (IAS 16), tax		**−7.5**	−9.7
Changes in revaluation surplus (IAS 16), net of tax		**30.5**	38.6
Items that may be subsequently reclassified to profit and loss			
Exchange differences on translating foreign operations, before tax		**−7.2**	−2.9
Exchange differences on translating foreign operations, net of tax	12,22	**−7.2**	−2.9
Cash flow hedges, before tax		**−2.0**	1.1
Cash flow hedges, tax		**0.4**	−0.2
Cash flow hedges, net of tax	12,22	**−1.6**	0.8
Other comprehensive income for the period, net of tax		**21.7**	36.6
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**−187.7**	33.4
Total comprehensive income attributable to:			
Equity holders of the parent company, continuing operations		**−176.4**	29.0
Equity holders of the parent company, discontinued operations		**−11.3**	4.3

Consolidated statement of financial position

EUR mill.	Note	31.12.2017	31.12.2016
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill		**563.8**	735.6
Trademark		**92.4**	95.2
Intangible rights		**38.5**	45.3
Other intangible assets		**2.7**	3.2
Advance payments and construction in progress		**0.6**	3.7
Intangible assets, total	14	**698.0**	883.1
Property, plant and equipment			
Land and water		**103.9**	114.3
Buildings and constructions		**587.6**	654.8
Machinery and equipment		**76.2**	81.0
Modification and renovation expenses for leased premises		**4.4**	6.1
Advance payments and construction in progress		**1.2**	8.7
Property, plant and equipment, total	15	**773.2**	864.9
Investment properties	16	**100.5**	181.0
Non-current receivables	28,32	**3.0**	7.2
Available-for-sale investments	18	**0.3**	5.5
Deferred tax assets	27	**33.2**	38.3
NON-CURRENT ASSETS, TOTAL		**1 608.2**	1 980.0
CURRENT ASSETS			
Inventories	19	**162.2**	180.7
Current receivables			
Interest-bearing receivables		**2.2**	1.6
Income tax receivables		**3.6**	0.0
Non-interest-bearing receivables		**79.6**	58.7
Current receivables, total	20	**85.4**	60.3
Cash and cash equivalents	21	**21.0**	20.2
CURRENT ASSETS, TOTAL		**268.6**	261.2
ASSETS CLASSIFIED AS HELD FOR SALE	2,3	**184.6**	
ASSETS, TOTAL		**2 061.4**	2 241.2

EUR mill.	Note	31.12.2017	31.12.2016
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**144.1**	144.1
Share premium fund		**186.1**	186.1
Revaluation surplus		**418.6**	398.3
Invested unrestricted equity fund		**250.4**	250.4
Other funds		**43.8**	45.4
Translation reserve		**−14.5**	−7.2
Retained earnings		**−227.6**	−21.1
Hybrid bond		**84.3**	84.3
Equity attributable to equity holders of the parent company	22	**885.1**	1 080.3
EQUITY, TOTAL		**885.1**	1 080.3
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**146.7**	163.6
Non-current interest-bearing financing liabilities	23	**505.2**	525.3
Non-current non-interest-bearing liabilities and provisions	26,28,31	**20.7**	3.1
NON-CURRENT LIABILITIES, TOTAL		**672.6**	691.9
CURRENT LIABILITIES			
Current interest-bearing financing liabilities	24	**258.3**	236.5
Current non-interest-bearing liabilities			
Trade payables and other current liabilities	24,31	**183.5**	203.3
Income tax liabilities	24	**16.4**	24.9
Current provisions	26	**5.7**	4.4
Current non-interest-bearing liabilities, total		**205.7**	232.6
CURRENT LIABILITIES, TOTAL		**464.0**	469.0
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	3	**39.6**	
LIABILITIES, TOTAL		**1 176.3**	1 161.0
EQUITY AND LIABILITIES, TOTAL		**2 061.4**	2 241.2

Includes continuing and discontinued operations

Consolidated cash flow statement

EUR mill.	Note	1.1.–31.12.2017	1.1.–31.12.2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/loss for the period		**−209.4**	−3.2
Adjustments for:			
Depreciation, amortisation and impairment losses		**215.9**	59.2
Gains (-) and losses (+) of disposals of fixed assets and other non-current assets		**0.3**	−1.1
Interest and other financial expenses		**31.8**	23.9
Interest income		**−0.7**	−0.8
Income taxes		**18.7**	12.7
Other adjustments		**11.9**	0.7
Working capital changes:			
Increase (-) /decrease (+) in inventories		**15.5**	−2.8
Increase (-) / decrease (+) in trade and other current receivables		**3.1**	−4.1
Increase (+) / decrease (-) in current liabilities		**−26.4**	−15.5
Interest expenses paid		**−23.6**	−16.6
Interest received from operating activities		**0.6**	0.8
Other financing items from operating activities			−1.4
Income taxes paid from operating activities		**−11.8**	−10.3
Net cash from operating activities		**25.9**	41.5
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible and intangible assets		**−33.7**	−40.2
Proceeds from sale of tangible and intangible assets			7.0
Dividends received from investing activities		**0.0**	0.1
Net cash used in investing activities		**−33.7**	−33.2
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from current liabilities		**246.1**	230.5
Repayment of current liabilities		**−380.6**	−217.9
Proceeds from non-current liabilities		**737.4**	105.7
Repayment of non-current liabilities		**−582.9**	−127.1
Loan arrangement expenses		**−10.4**	
Payment of finance lease liabilities			−0.2
Interest on hybrid bond		**−7.4**	
Net cash used in financing activities		**2.3**	−8.9
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**−5.5**	−0.5
Cash and cash equivalents at the beginning of the period		**20.2**	19.1
Cheque account with overdraft facility		**−5.7**	−4.1
Cash and cash equivalents at the beginning of the period		**14.5**	15.0
Net increase/decrease in cash and cash equivalents		**−5.5**	−0.5
Effects of exchange rate fluctuations on cash held		**−0.2**	0.0
Cash and cash equivalents at the end of the period		**21.0**	20.2
Cheque account with overdraft facility		**−12.2**	−5.7
Cash and cash equivalents at the end of the period	21	**8.8**	14.5

Includes continuing and discontinued operations

Consolidated statement of changes in equity

EUR mill.	Share capital	Share premum fund	Revaluation surplus	Hedging reserve	Reserve for un-restricted equity	Other reserves	Translation differences	Retained earnings	Hybrid bond	**Total**
EQUITY 1.1.2016	144.1	186.1	368.9	0.6	250.4	43.9	−4.3	−27.1	84.3	**1 046.9**
Profit/loss for the period								−3.2		**−3.2**
Changes in revaluation surplus (IAS 16)			38.6							**38.6**
Exchange differences on translating foreign operations 2)							−2.9			**−2.9**
Cash flow hedges 2)				0.8						**0.8**
Total comprehensive income for the period, net of tax			38.6	0.8			−2.9	−3.2		**33.4**
Other changes 1)			−9.2					9.2		
Total transactions with the equity owners			−9.2					9.2		
EQUITY 31.12.2016	144.1	186.1	398.3	1.5	250.4	43.9	−7.2	−21.1	84.3	**1 080.3**

EUR mill.	Share capital	Share premum fund	Revaluation surplus	Hedging reserve	Reserve for un-restricted equity	Other reserves	Translation differences	Retained earnings	Hybrid bond	**Total**
EQUITY 1.1.2017	144.1	186.1	398.3	1.5	250.4	43.9	−7.2	−21.1	84.3	**1 080.3**
Profit/loss for the period								−209.4		**−209.4**
Changes in revaluation surplus (IAS 16)			30.5							**30.5**
Exchange differences on translating foreign operations 2)							−7.2			**−7.2**
Cash flow hedges 2)				−1.6						**−1.6**
Total comprehensive income for the period, net of tax			30.5	−1.6			−7.2	−209.4		**−187.7**
Interest paid on hybrid bond								−7.4		**−7.4**
Other changes 1)			−10.3			−0.1		10.3		
Total transactions with the equity owners			−10.3			−0.1		2.9		**−7.4**
EQUITY 31.12.2017	144.1	186.1	418.6	−0.1	250.4	43.8	−14.5	−227.6	84.3	**885.1**

1) A yearly transfer of the difference between depreciation based on the revalued carrying amount of buildings and depreciation based on the building's original cost.
2) Notes 12,22
Includes continuing and discontinued operations

Notes to the consolidated financial statements

1. Accounting policies used in the consolidated financial statements

Basic information on the company

The Group's parent company is the Finnish public listed company Stockmann plc, which is domiciled in Helsinki; its registered address is Aleksanterinkatu 52, 00100 Helsinki. The Group's primary field of business is retailing. The parent company's shares are listed on the Helsinki exchange (Nasdaq Helsinki Ltd). A copy of the consolidated financial statements is available at www.stockmanngroup.com or from the parent company.

General

Stockmann's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), complying with the IAS and IFRS standards and IFRIC and SIC interpretations in force on 31 December 2017. In the Finnish accounting legislation and the regulations issued pursuant to it, International Financial Reporting Standards (IFRS) refer to the standards and their interpretations that have been approved for application in the EU in accordance with the procedure stipulated in EU regulation (EC) No 1606/2002. The notes to the consolidated financial statements are also in accordance with Finnish accounting and company legislation that supplements IFRS regulations. The information in the financial statements is based on original acquisition costs, unless stated otherwise in the accounting policies. The financial statements are presented in millions of euros.

As from 1 January 2017, the Group has applied the following new and revised standards and interpretations:

Amendments to IAS 7 Disclosure Initiative. The amendments apply to financial periods beginning on or after 1 January 2017. The aim of the amendments is to enable the users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendment to the standard affects the notes to the consolidated financial statements.

Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses, effective in financial periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendment to the standard has no effect on the consolidated financial statements.

Amendments to IFRS 12 under the Annual Improvements to IFRSs 2014–2016 Cycle, apply to financial periods beginning on or after 1 January 2017. In the Annual Improvements process, minor and non-urgent amendments to standards are compiled into a single package and applied once a year. The amendment to the standard has no effect on the consolidated financial statements.

Accounting policies requiring management's judgment and key sources of uncertainty concerning estimates

In preparing the consolidated financial statements in accordance with IFRS, certain estimates and assumptions concerning the future need to be made. The actual amounts can differ from the estimates and assumptions. The estimates and assumptions presented in the financial statements are based on management's best knowledge at the financial statements date. These influence the amounts of assets and liabilities in the statement of financial position, the contingent items presented and the income and expenses for the financial period. In addition, judgment has to be used in applying the accounting policies used in the financial statements.

The overall funding situation has been carefully evaluated by the Board. By considering the ongoing initiatives, estimated operative cash flows and initiatives taken for strengthening working capital, the total analysis supports the financing and sufficiency of liquidity and thus preparation of the financial statements applying the going concern principle.

The most significant areas where management has exercised judgment when applying the accounting policies are related to determining depreciation periods and classifying asset items as held for sale or discontinued operation, as well as in classifying the hybrid loan as equity and joint arrangements as joint operations.

During the financial period, the management used its discretion when classifying the Nevsky Centre shopping centre property as available for sale and two properties that were previously used by Stockmann as investment properties. Following the conclusion of the sale of the Stockmann Delicatessen business operations in Finland to S Group, the Book House property located at Pohjoisesplanadinkatu 39 in Helsinki is no longer used by the Group for its retail or administrative operations, and the Group now holds it for the purpose of gaining rental income and appreciation in the asset's value. The Group classified the Book House property as an investment property in accordance with IAS 40 on 31 December 2017. The Tapiolan Säästötammi property in Espoo, of which Stockmann owns 37.8 per cent, was similarly classified as an investment property on 31 December 2017.

The investment property is recognised at fair value on the balance sheet. The fair value of an investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Investment properties are not depreciated, but any gains or losses due to changes in fair value are recognised through profit or loss for the period during which they arise.

Moreover, the management exercised discretion during the financial period when testing Lindex's and Retail's goodwill for impairment. As a result of the testing, Stockmann recognised a write-down of EUR 150 million on Lindex's goodwill in September 2017.

The principal assumptions concerning the future and the main uncertainties relating to estimates at the end of the reporting period that constitute a significant risk of causing a material change in the carrying amounts of assets and liabilities within the next financial year concern the fair values of properties, inventories and provisions, as well as the impairment testing of goodwill and the Lindex brand. More detailed information on these is provided in notes 14, 15, 16, 19 and 26.

Principles of consolidation

The consolidated financial statements include the parent company, Stockmann plc, as well as all the companies in which the parent company holds, either directly or indirectly, over 50 per cent of the number of votes conferred by the shares or over which the parent company otherwise has control. The criteria for control are fulfilled when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.

Inter-company share ownership within the Group has been eliminated using the acquisition method, according to which the consideration transferred and all the identifiable assets and liabilities of an acquired company are measured at fair values at the date of acquisition. Goodwill is recognised as the amount by which the combined total of the consideration transferred the non-controlling interests in the acquisition and the previous ownership interest exceeds the fair value of the acquired net assets. Intra-Group transactions, receivables, liabilities, unrealised margins and internal distribution of profits are eliminated in the consolidated financial statements. The profit or the loss as well as the comprehensive income for the financial period are distributed to the parent company's owners and to non-controlling interests. Non-controlling interests are presented as an individual item in the Group's equity. Acquired subsidiaries are presented in the consolidated financial statements from the moment that the Group gains control and divested subsidiaries up to the time the control ends. Changes in the parent company's ownership interest in a subsidiary, which do not lead to loss of control, are dealt with as equity transactions.

Joint arrangements in which Stockmann and another party, on the basis of an agreement or the Articles of Association, have rights to the assets and obligations for the liabilities of the joint arrangement are dealt with as joint operations. The shares in real estate companies that fulfil the criteria of being a joint operation in the Group company have been dealt with as joint operations in the consolidated financial statements. The consolidated financial statements include Stockmann's share of the joint operations' income, expenses and items of other comprehensive income, and assets and liabilities, from the date when joint control was obtained up to the date when it ends. The Stockmann Group does not have any joint ventures or associates.

Segment reporting

The Stockmann Group's reportable segments are Lindex which engages in the fashion trade, Stockmann Retail which engages in the department store trade, and the Real Estate segment which manages the properties owned by the Group. Unallocated items include functions serving the entire Group.

The segment information presented by the Group is based on the management's internal reporting, in which the measurement principles for assets and liabilities accord with IFRS regulations. The highest level of operational decision-making is vested in the Group's CEO, who regularly examines the operational performance of the divisions.

Items denominated in foreign currency

The consolidated financial statements are presented in euro, which is the functional and presentation currency of the Group's parent company.

Transactions in foreign currency are recognised in the amounts of each company's functional currency, applying the exchange rate of the date of the transaction. Receivables and liabilities at the financial statements date are translated at the exchange rate of the financial statements date. Exchange differences arising on translation are recognised through profit and loss.

The income statements and statements of other comprehensive income of foreign group companies are translated into euro at the average rate during the financial period, and the statement of financial position at the rate at the financial statements date. The exchange rate difference from translating the income statement and other comprehensive income at the average rate and the statement of financial position at the financial statements date is recognised as a separate item in other comprehensive income. The goodwill arising from the acquisition of foreign operations and the fair value adjustments made in the carrying amounts of the assets and liabilities of such operations in connection with acquisition of foreign operations are treated as assets and liabilities of foreign operations and converted into euro using the exchange rates at the financial statements date. When a foreign subsidiary or joint arrangement is divested in whole or in part, the cumulative translation difference is recognised in the income statement as part of the gain or loss on disposal.

Cumulative translation differences that accrued prior to the date of transition to IFRS are recognised in retained earnings in accordance with the exemption permitted under IFRS 1.

Income recognition principles and revenue

Revenue from the sale of goods is recognised when the significant risks and benefits of ownership have been transferred to the buyer. Most of the Group's income comes from the retail sale of goods that are paid for with cash or credit card. Income is recognised at the time of sale.

For distance sales, provision is made for returns by creating a return accrual, which is based on experience and serves to adjust the sales figures, in the financial statements. Interest on one-time consumer credits in distance retailing is included in the selling price and recognised in revenue.

Income from Loyal Customer cooperation is recognised as revenue. An amount corresponding to the fair value of unused bonus points accumulated by customers is recognised, with a deduction from sales, as short-term interest-free debt for customers. The debt is recognised in the same financial period as the related sale. When a customer uses accumulated points as a payment at a store, the fair value of the points used is recognised as a sale and a reduction of a short-term debt. If bonus points are not used by their expiry date, the fair value of the unused points is recognised as a sale and a reduction of a short-term debt.

Lease income of lease agreements classified as operating leases from investment and other properties is recognised on the income statement as revenue in even instalments over the lease term. Lease income tied to the tenant's revenue will be recognised on the basis of the tenant's actual revenue.

Income from services is recognised when the service has been rendered.

In calculating revenue, items such as indirect taxes and discounts granted as well as the expense corresponding to the fair value of Loyal Customer options have been deducted from sales.

Other operating income

Among items included in other operating income are the sale of property, plant and equipment as well as income received on the sale of a business.

Other operating expenses

Other operating expenses include the sale of property, plant and equipment as well as other expenses related to the actual sale of goods and services. Interest income received on interest-bearing trade receivables is recognised as a reduction in other operating expenses.

Employee benefits

Pension obligations

Pension plans are classified as defined benefit and defined contribution plans. In Stockmann Group's countries of operation, statutory and voluntary pension plans are defined contribution plans.

Payments for defined contribution plans are made to a pension insurance company. Payments made for defined contribution plans are recognised as expenses in the income statement for the financial period to which the debit relates.

Defined benefit pension plans are based on the calculations of authorised actuaries. The pension expenditure based on the work performance during the period and the net interest of the net debt of the defined benefit plan are recognised in the income statement and presented as expenses arising from employee benefits. The net debt of the defined benefit pension plan is entered in the statement of financial position. The Group had no defined benefit pension plans in the 2017 financial year.

Other long-term employee benefits

The Stockmann Group operates a length of service reward system, which comes under other long-term employee benefits. Employees who complete the specified years of service are entitled to extra paid leave. The present value of the obligation arising from this long-term employee benefit at the close of the reporting period is recognised as a liability in the statement of financial position. Items arising from the definition of a liability are recognised in the income statement.

Income taxes

Tax expenses in the income statement comprise taxes based on taxable income for the period and deferred taxes. Taxes based on taxable income for the period are calculated on taxable income using the tax rate that is in force in the country in which the particular Group company is based. The amount of tax is adjusted for any taxes concerning previous periods. Income taxes are presented in the income statement unless the transaction relating to the taxes is presented directly in equity or in the statement of comprehensive income, in which case the tax effect is also stated in equity or in the statement of comprehensive income.

Deferred taxes are calculated on temporary differences between the carrying amount and the tax base. The largest temporary differences arise from the differences between the carrying amounts and tax bases of investment property and other property, plant and equipment, unused tax losses, adjustments based on fair value of assets and liabilities in business combinations and the fair value measurement of derivative contracts. Deferred tax liability on the difference between investment properties' carrying amount and tax base represents the tax effects of the cumulative amount in full corresponding to the carrying amount if the investment property is sold.

Deferred taxes are not recognised on goodwill impairment, which is non-deductible in taxation. Deferred taxes have been calculated by applying the tax rates that are laid down by law or have been accepted in practice by the financial statements date.

Deferred tax liabilities are recognised in full, except on the profit made by the Estonian subsidiary, because the Group is able to determine when a reversal of the temporary difference will occur, and no such reversal will occur in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that taxable profit will arise in the future against which the deferred tax asset can be utilized.

The Group deducts deferred tax assets and liabilities from each other in the event that it has a legally enforceable right to set off tax assets against liabilities, based on taxable income for the period, and the deferred tax assets and liabilities are associated with income taxes collected by the same tax authority, either from the same taxable entity or a different taxable entity, which is going to set off the tax assets against liabilities based on taxable income for the period or realise the receivables and pay the debts at the same time.

Provisions

A provision is recognised when the Group has a legal or factual obligation as a result of a past event and it is probable that a payment obligation will be realised and the amount of the obligation can be estimated reliably.

Goodwill and other intangible assets

The Group's goodwill is the difference between the consideration transferred, measured at fair value, and the identifiable net assets acquired, measured at fair value. Neither goodwill nor the Lindex brand are amortised. The brand is deemed to have an indefinite useful life due to high brand awareness. The goodwill and the brand are measured at original acquisition cost less impairment losses. Other intangible assets include customer relationships, which are measured at fair value at the time of business combination, as well as intangible rights and software that are measured at original acquisition cost. Other intangible assets are amortised on a straight-line basis over their estimated useful lives.

The amortisation periods of intangible assets are:

customer relationships	5 years
software	5–10 years
other intangible rights	5 years

Subsequent expenditure related to intangible assets is capitalised only if the economic benefits of the asset increase as a result of such expenditure. Otherwise, the costs are recorded as expenses in the income statement when they are incurred.

Property, plant and equipment

Land areas, buildings, machinery, and equipment comprise the bulk of property, plant and equipment. Revaluations included in land areas and buildings were part of the carrying amount under the previous accounting standards and have been deemed to constitute part of the acquisition cost under IFRS. Property, plant and equipment also includes modification and renovation costs of leased premises that are due, for example, to the finishing work on the interiors of commercial premises located in leased buildings.

Property, plant and equipment are measured in the statement of financial position at their original acquisition cost less accumulated depreciation and any impairment losses. The acquisition cost of self-constructed assets includes materials and direct labor. If the item of property, plant and equipment is comprised of several components having useful lives of differing length, the components are treated as separate items. Subsequent costs concerning the item are recognised as a part of the acquisition cost when they increase the future useful life of the asset. Other costs, such as normal maintenance and repair measures, are recognised in the income statement as expenses when they are incurred.

Land areas and buildings in own use have been carried on the balance sheet at the revalued amount in accordance with standard IAS 16 paragraph 31. Land areas and buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The depreciation charge from revalued amount of buildings for each period is recognised in profit and loss. Revaluation is carried out regularly so that the carrying amount of land areas and buildings does not deviate substantially from the fair value at the close of the reporting period. If the carrying amount of land areas and buildings increases as a result of revaluation, the increase is disclosed in items of other comprehensive income and the accumulated increase is disclosed in the revaluation surplus in equity. However, if the increase cancels out the reduction resulting from the revaluation, which has earlier been entered in the income statement, the increase is also entered in the income statement. If the carrying amount of the asset decreases as a consequence of revaluation, the decrease is entered in the income statement. However, the decrease is presented in items of other comprehensive income up to the revaluation surplus amount. The difference between depreciation based on the revalued carrying amount of buildings and depreciation based on the buildings' original cost is transferred yearly from the revaluation surplus to retained earnings.

Straight-line depreciation is recognised on property, plant and equipment in accordance with each item's useful life. Land areas are not depreciated.

The depreciation periods for property, plant and equipment are:

buildings and structures	20–50 years
modification and renovation costs of leased premises	5–20 years
machinery and equipment	4–10 years
IT equipment and lightweight store fixtures and equipment	3–5 years

Investment property

When the Group holds a land area or building for lease income and appreciation in value rather than using it for its own retail or administrative purposes, the property is classified as an investment property in accordance with IAS 40.

An investment property is initially valued at acquisition cost. The acquisition cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The acquisition cost of a self-constructed investment property is the acquisition cost accumulated at the date that construction or development is completed. IAS 16 is applied to the investment property up until the day of completion and IAS 40 is applied as of the day of completion.

The Stockmann Group applies the fair value model to its investment properties. The fair value of an investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of an investment property reflects the actual market state and circumstances on the balance sheet date but does not include any transaction costs that would arise in connection with the sale or other transfer.

The fair value of investment properties is determined by professionally qualified and independent external valuers for all market areas by property. The revaluation of properties at fair value is based on the market standards valid at each valuation date, which have been defined by the International Valuation Standard Committee.

Investment properties are not depreciated, but any gains or losses due to changes in fair value are recognised through profit or loss for the period during which they arise. Gains or losses arising from changes in the fair value of investment properties must be recognised separately in profit or loss.

When a property in the Group's own use becomes an investment property recognised at fair value on the balance sheet, IAS 16 will be applied up to the date on which the property's purpose of use changes.
The difference between the property's carrying value and its fair value at that period will be recognised in the statement of comprehensive income. Depreciation and any impairment losses will be recognised for the property up to the date on which a property in the Group's own use becomes an investment property recognised at fair value on the balance sheet.

Following the conclusion of the sale of the Stockmann Delicatessen business operations in Finland to S Group, the Book House property located at Pohjoisesplanadinkatu 39 in Helsinki is no longer used by the Group for its retail or administrative operations, and the Group now holds it for the purpose of gaining rental income and appreciation in the asset's value. The Group classified the Book House property as an investment property in accordance with IAS 40 on 31 December 2017. The Tapiolan Säästötammi property in Espoo, of which Stockmann owns 37.8 per cent, was similarly classified as an investment property on 31 December 2017.

Borrowing costs

If preparing an asset item for its intended use necessarily requires a significantly long period of time after its acquisition, construction or manufacture, any borrowing costs directly arising from the asset item are included in the acquisition cost of the asset item. Other borrowing costs are recognised as expenses.

Impairment of assets

The carrying amounts of asset items are assessed regularly to determine whether there is any indication that an asset may be impaired. If there are indications of impairment, the recoverable amount of the asset is determined. Goodwill and the brand are allocated to cash-generating units and they are tested annually to determine any impairment. An impairment loss is recognised when the value of the asset item or cash-generating unit in the statement of financial position is greater than its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss on a cash-generating unit is allocated first as a reduction to the goodwill of the cash generating unit and thereafter it is allocated to reduce the unit's other asset items on an equal percentage basis.

The recoverable amount of intangible and tangible assets is defined as the higher of its fair value less costs to sell and its value in use. In determining value in use, the estimated future cash flows are discounted to their present value based on discount rates that reflect the average capital costs before taxes of the cash generating unit in question.

An impairment loss on property, plant and equipment as well as other intangible assets, except for goodwill, is reversed if a change has occurred in the estimates used in determining the recoverable amount of the asset item. An impairment loss is not, however, reversed beyond what the carrying amount of the asset would have been if no impairment loss had been recognised in previous years.

Leases

In accordance with IAS 17 Leases, lease agreements in which the Group assumes substantially all the risks and rewards incident to ownership of the asset are classified as finance lease agreements. Assets acquired under finance lease agreements, less accumulated depreciation, are recognised in property, plant and equipment or in intangible assets, and the obligations under the agreement are recognised in interest bearing liabilities. Lease payments under a finance lease agreement are split between interest expenses and a reduction in lease liabilities.

Finance lease agreements in accordance with IAS 17 are recognised in the statement of financial position and they are measured at an amount which, at the inception of the lease, is equal to the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Depreciation according to plan is recognised on assets obtained through a finance lease and any impairment losses are recognised. Items of property, plant and equipment are depreciated according to the Group's depreciation periods or if shorter, over the lease term.

Lease agreements in which the economic risks and rewards incident to ownership remain with the lessor are treated as other leases. Lease payments received and paid on the basis of other lease agreements are recognised as income or expenses in the income statement.

Inventories

Inventories are measured at the lower of acquisition cost and net realisable value. In normal operations the net realisable value is the estimated obtainable selling price less the estimated costs incurred in bringing the product to a finished condition and the estimated necessary selling costs.

The inventories rate and the potential decline of the net realisable value below the acquisition cost are estimated regularly and if necessary an impairment is recognised for inventories. Lindex recognises a provision for obsolete inventories, which is a percentage of the acquisition price of the goods in the stores. A provision for obsolete inventories is not recognised at Lindex's central warehouse as all the goods are transported from the central warehouse to the stores. Stockmann Retail recognises a provision for obsolete inventories, which is a percentage of the acquisition price of the slow moving goods in the central warehouse and department stores.

The value of inventories is determined using the weighted average cost method or the retail method and it includes all the direct costs of the purchase. The acquisition cost of inventories does not include borrowing costs.

Assets held for sale and discontinued operations

Asset items under the heading 'Non-current assets held for sale and discontinued operations' are measured in accordance with IFRS 5 at the lower of their carrying amount and fair value less estimated selling costs. When an asset item is classified within non-current assets as held for sale or a disposal group, it is not depreciated. A non-current asset held for sale or asset items included in a disposal group are presented in the statement of financial position separately from other asset items. Likewise, liabilities connected with a disposal group are presented as a separate item in the statement of financial position.

An assessment of the possible sale of the Nevsky Centre shopping centre property is under way, and the company is negotiating with potential buyers. Nevsky Centre is classified as available for sale in the consolidated financial statements.

A discontinued operation is a part of the Group that has been disposed of or classified as held for sale and that fulfils the criteria for classification as a discontinued operation in accordance with IFRS 5. The earnings of discontinued operations are presented as a separate item in the statement of comprehensive income.

Stockmann sold the Stockmann Delicatessen business operations in Finland to three of S Group's regional cooperatives and to SOK on 31 December 2017. The Stockmann Delicatessen business operations in Finland have been reported as discontinued operations in the consolidated financial statements.

Financial instruments

Financial instruments are classified under IAS 39 into the following groups: loans and other receivables, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets and other liabilities.

Loans and other receivables are non-derivative financial assets whose related payments are fixed or determinable and which are not quoted in active markets. They are measured at amortised cost. They are included in either current or non-current assets in the statement of financial position, as appropriate. Loans or other receivables are deemed non-current assets if they mature after more than 12 months. Trade receivables are recognised at their fair value in the statement of financial position on initial recognition. The amount of doubtful accounts is estimated on the basis of experience. Doubtful accounts are recognised in the income statement as an impairment loss by recognising the difference between the original value of each group of receivables and the discounted recoverable amount.

All investments except for shares classified as available-for-sale financial assets are included in the group 'financial assets at fair value through profit or loss'. The items in the group are measured at fair value using market prices on the financial statements date, present value methods for cash flows or other appropriate valuation models. Changes in fair value are recognised through profit or loss.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for-sale or are not classified in another group. They are included in non-current assets, except those which are to be held for less than 12 months from the financial statements date, in which case they are included in current assets. This category includes the Group's investments in shares, and they are measured at fair value. The fair value of publicly quoted shares is the market price at the financial statements date. Changes in fair value are recognised in the fair value reserve under equity in the statement of comprehensive income.

Changes in fair value are transferred from equity to the income statement when the investment is sold or when its value has declined such that an impairment loss must be recognised on the investment. Unlisted shares are stated at cost if their fair values cannot be measured reliably. If the fair value of an investment in shares is substantially or permanently lower than the acquisition cost, an impairment loss is recognised.

Purchases and sales of financial assets are recognised at the trade date, which is the day when the company made a commitment to purchase or sell the asset item. An item belonging to financial assets is derecognised from the statement of financial position when the company relinquishes the contractual rights to the item, the rights expire or the company loses control over the item.

Interest-bearing liabilities are classified as other liabilities and are measured at fair value based on the consideration originally recognised in the accounts. Transaction costs are included in the original carrying amount of interest-bearing liabilities. Subsequently, interest-bearing liabilities are measured at amortised cost using the effective interest method. Non-current liabilities fall due in 12 or more months and current liabilities have a maturity of less than 12 months.

Derivative financial instruments are classified as financial assets or liabilities at fair value through profit or loss, and changes in their fair value are recognised through profit or loss, except for derivatives to which hedge accounting for cash flow hedges is applied and which meet the criteria for hedge accounting defined in IAS 39.

The fair value of interest rate swaps is defined on the basis of the present value of future cash flows, applying market prices at the financial statements date. Changes in the fair value of interest rate swaps are recognised in financial income and expenses in the income statement. At the financial statements date, the Group did not have any outstanding interest rate swaps.

The fair value of currency forwards and currency swaps is calculated by measuring them at their market prices at the financial statements date. The fair value of currency options is calculated using the Black-Scholes model. The results of the measurement of currency derivatives are recognised through profit or loss, except for currency derivatives to which hedge accounting for cash flow hedges as defined in IAS 39 is applied.

Hedge accounting is applied to certain currency derivatives that are used in hedging forecast foreign currency denominated sales and purchases and which meet the hedge accounting requirements of IAS 39.
The hedged cash flow must be highly probable and ultimately affect profit or loss. Changes in the fair value of

derivative contracts taken out to hedge cash flows are recognised in the statement of comprehensive income and presented in the fair value reserve under equity, and any ineffective component is recognised through profit or loss. Cumulative changes in fair value in equity are recognised in items adjusting sales or purchases through profit or loss in the same period as that in which the forecast transactions covered by hedge accounting are recognised in the income statement. If a hedged cash flow is no longer expected to be realized, the related fair value change that has been recognised for the hedging instrument directly to equity is transferred to the income statement.

Hedge accounting is applied to certain foreign currency-denominated loans that hedge foreign currency denominated net investments in foreign operations. Changes in the fair value of the hedging instrument are recognised in the statement of comprehensive income and presented in the translation difference in shareholders' equity. Gains and losses from the hedging of net investments that are recognised in translation differences are transferred to the income statement when the net investment is disposed of in full or in part.

The hedging relationship between the hedged item and the hedging instrument is documented at the inception of the hedge. The documentation includes identification of the hedging instrument and the hedged item, the nature of the risk being hedged, the objectives of risk management and calculations of hedge effectiveness. The hedging relationship must be effective, and the effectiveness is reviewed both at the inception of the hedge and subsequently. Effectiveness testing is carried out at each financial statements date.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current bank deposits as well as other current, highly liquid investments with a maturity of no more than three months at the date of acquisition. The fair values of cash and cash equivalents are assumed to approximate to their carrying amounts because of their short maturities.

The account with an overdraft facility, which is payable on demand and is part of the Group's cash management, is presented as a part of cash and cash equivalents in the cash flow statement.

Hybrid bond

A hybrid bond is an instrument which is presented under equity in the consolidated financial statements. A hybrid bond is subordinated to the company's other debt obligations, but has seniority over other equity items. The yield on a hybrid bond is paid if the Group distributes a dividend. If no dividend is distributed, the Group will make a separate decision on whether to pay the yield. Unpaid yields are accumulated. The holders of a hybrid bond do not possess the same rights as shareholders concerning control or voting at General Meetings of shareholders.

Treasury shares

If Stockmann Plc or its subsidiaries buy back the company's own shares, equity is reduced by an amount equal to the consideration paid, including transaction costs, less tax. If the acquired shares are sold or transferred as consideration, the consideration received, less tax, is recognised in equity.

Dividends payable

The dividend payout proposed by the Board of Directors has not been recognised in the financial statements. Dividends are recognised on the basis of a resolution passed by a General Meeting of the shareholders.

Application of new or revised IFRS standards and interpretations

The Group adopts each standard and interpretation as from the date it becomes effective or, if the effective date is not the first day of the financial period, as from the beginning of the next financial period. IASB has published the following new or revised standards and interpretations, which the Group has not yet applied.

IFRS 15 Revenue from Contracts with Customers, which applies to financial periods beginning on or after 1 January 2018. The new standard replaces the current IAS 18 and IAS 11 standards and related interpretations. IFRS 15 provides a five-step model outlining the amount and the timing of revenue recognition. According to the new standard, revenue is recognised as control is passed, either over time or at a point in time. The standard also increases the number of disclosures required.

The Group has assessed the effects of the new standard on its future consolidated financial statements. Most of the Group's revenue comes from the retail sale of goods that are paid for with cash or credit card, and the revenue is recognised at the time of sale as control is transferred to the buyer. In connection with the Group's loyal customer programmes or sales campaigns, customers may receive benefits from which a separate performance obligation or variable consideration included in the transaction price in accordance with IFRS 15 may arise. The new standard will change the timing of the allocation of such sales, but its effects will not be significant. The current practice of a return accrual, which is based on experience in distance retailing and serves to adjust the sales figures and acquisition cost, is considered to correspond to the recognition principles of the new standard.

The Group will apply the standard retrospectively using the transition method in accordance with IFRS 15 C3 (b), according to which the cumulative effect of applying IFRS 15 will be recognised as an adjustment to retained earnings in the opening balance on 1 January 2018, but the adjustment will not have a material effect on the Group's equity. The comparison year will not be adjusted as the new standard will be applied to contracts that are not completed at initial application of IFRS 15.

IFRS 9 Financial instruments and amendments made to the standard, which applies to financial periods beginning on or after 1 January 2018. IFRS 9 replaces the current IAS 39. The new standard includes revised guidelines for the recognition and measurement of financial instruments. The standard also contains a new accounting model for expected credit losses that is applied in determining the impairment recognised for financial assets. The standard's requirements related to general hedge accounting have also been revised. IAS 39's requirements for recognition and derecognition of financial instruments have been retained. The standard has no material effect on the consolidated financial statements.

The Group has assessed the effects of the new standard on its future consolidated financial statements. Financial assets will be divided on the basis of the Group's business model into three classifications: assets measured at amortised cost, which include loans and other receivables; assets measured at fair value through other comprehensive income, which include present available-for-sale financial assets that pass the cash flow characteristics test; and assets measured at fair value through profit or loss. The Group's financial liabilities will be divided into two classifications: liabilities measured at amortised cost, which include loans and other debts; and liabilities measured at fair value through profit or loss.

According to IFRS 9, impairment on financial assets must be recognised on the basis of expected credit losses instead of realised losses, as was the case with IAS 39. The standard includes a simplified model for recognising impairment on trade and lease receivables. In the Stockmann Group, the new policy for recognising an impairment provision will apply to the recognition of credit losses on trade and lease receivables. The amount of future credit losses is estimated on the basis of experience and recognised through profit or loss as a percentage of all outstanding trade receivables. The new standard will change the timing of the allocation of credit losses, but its effects will not be significant.

IFRS 9 simplifies the hedge accounting model, but places new qualification criteria for hedge accounting, emphasising its application to reflect risk management activities. The new standard removes the requirement to perform a quantitative assessment of a hedge's effectiveness retrospectively, as well as the effectiveness requirement of 80–125%, and instead introduces the option of using a qualitative assessment to measure effectiveness. The amendment will not have a significant effect on the Group's future financial statements.

The Group will apply the standard retroactively as of 1 January 2018 using practical expedients, and the comparison information will not be adjusted.

IFRS 16 Leases, which applies to financial periods beginning on or after 1 January 2019. The new standard replaces IAS 17 and the related interpretations. The IFRS 16 standard requires lessees to recognise leases on the balance sheet as a lease payment liability and as the right-of-use assets. The recognition in the balance sheet is very similar to the accounting of finance lease agreements according to IAS 17. There are two recognition exemptions, concerning short-term leases with a maximum lease term of 12 months and leases where the value of the underlying assets is a maximum of USD 5,000. Lessor accounting will remain substantially unchanged from the current IAS 17.

The Group estimates that the new standard will have a significant effect on the Group's assets and liabilities, as well as its key figures. The Group will apply the standard retroactively using the transition method in accordance with paragraph C5 (b), according to which the cumulative effect of application will be recognised as an adjustment to retained earnings in the opening balance on 1 January 2019, and the comparison information will not be adjusted.

At the time the standard is initially applied, the lease liability will be recognised at the present value of the minimum lease payments payable on the basis of leases, discounted using the incremental borrowing rate. The amount of lease liability will be included in the acquisition cost of property, plant and equipment at the date of initial application. A single discount rate will be applied to all leases that are in a similar economic environment. Leases with a lease term of 12 months or less from the date of initial application will not be included in the lease liability recognised on this date. Any initial direct costs will be excluded from the value of property, plant and equipment. Hindsight may be used in determining the lease term and the use of options to extend or terminate the lease at the date of initial application. On 31 December 2017, the minimum lease payments payable on the basis of leases for the Group's business premises and payments on lease agreements totalled EUR 687.5 million (note 29).

The reporting of leases in accordance with the new standard will also have a significant effect on the consolidated income statement. Upon lease commencement, a lessee recognises the following through profit or loss: the interest on the lease liability, which is calculated using the discount rate at the lease commencement date; and variable lease payments that are not included in the lease liability. In the case of property, plant and equipment, depreciation and any impairment losses for the period are recognised through profit or loss.

Amendments to IFRS 2 Share-based Payment - Clarification and Measurement of Share-based Payment Transactions, which applies to financial periods beginning on or after 1 January 2018. The amendments clarify the accounting for certain types of arrangements. The amendments concern three areas: valuation of cash-settled payments, share-based payments with tax at source deducted and changing cash-settled share-based payments to equity-settled share-based payments. The amendment to the standard has no effect on the consolidated financial statements. The standard had not been approved for application in the EU on 31 December 2017.

Interpretation of IFRIC 22, Foreign Currency Transactions and Advance Consideration, which applies to financial periods beginning on or after 1 January 2018. When a foreign currency advance consideration related to an asset, expense or income is received or paid, IAS 21 The Effects of Changes in Foreign Exchange Rates does not provide an opinion on the date of the transaction, for the purpose of determining the exchange rate. The interpretation clarifies that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the prepayment asset or deferred income liability arising from the advance consideration. If a transaction is made up of several advance considerations, the date of the transaction is determined separately for each individual consideration. The amendment to the standard has no effect on the consolidated financial statements. The standard had not been approved for application in the EU on 31 December 2017.

Amendments to IAS 40 Investment Property – Transfers of Investment Property, which applies to financial periods beginning on or after 1 January 2018. The amendments clarify that changes in the intentions of the management alone is not enough to indicate a change in use of the investment property. The examples of a change in use listed in the standard have also been changed so that they also refer to a property under construction as well as a completed property. The amendment to the standard has no effect on the consolidated financial statements. The standard had not been approved for application in the EU on 31 December 2017.

The Annual Improvements to IFRSs 2014–2016, which for IFRS 12 applies to financial periods beginning on or after 1 January 2017, and for IFRS 1 and IAS 28 for financial periods beginning on or after 1 January 2018. In the Annual Improvements process, minor and non-urgent amendments to standards are compiled into a single package and applied once a year. The amendments cover three standards. The effects of the amendments vary by standard, but they are not significant. The standard had not been approved for application in the EU on 31 December 2017.

IFRIC 23 Uncertainty over Income Tax Treatments, effective in financial periods beginning on or after 1 January 2019. The interpretation clarifies accounting for situations where an entity's tax treatment is pending approval by a taxation authority. An entity has to consider whether it is probable that the taxation authority will accept the tax treatment that it has used. When doing so, the entity is to assume that the taxation authority will have full knowledge of all relevant information when examining the tax treatment. The amendment to the standard has no effect on the consolidated financial statements. As at 31 December 2017, the standard had not yet been approved for application in the EU.

Amendments to IFRS 9 Prepayment Features with Negative Compensation, effective in financial years beginning on or after 1 January 2019. The amendments allow certain financial instruments with symmetric prepayment options to be measured at amortised cost. The amendment to the standard has no effect on the consolidated financial statements. As at 31 December 2017, the standard had not yet been approved for application in the EU.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures, effective in financial periods beginning on or after 1 January 2019. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendment to the standard has no effect on the consolidated financial statements. As at 31 December 2017, the standard had not yet been approved for application in the EU.

Annual Improvements to IFRSs 2015–2017 Cycle, effective in financial periods beginning on or after 1 January 2019. In the Annual Improvements process, minor and non-urgent amendments to standards are compiled into a single package and applied once a year. The amendments cover the IFRS 3, IFRS 11, IAS 12 and IAS 23 standards. The amendments will have no effect on the consolidated financial statements. As at 31 December 2017, the standard had not yet been approved for application in the EU.

2. Segment information

Operating segments

Stockmann Group's reportable segments are Lindex, Stockmann Retail, and Real Estate. Segments are divisions of the Group that are managed and monitored as separate units selling different products and services. The segment information presented by the Group is derived from the management's internal reporting, in which management's assessment of the profitability of the segments is based on monitoring of the segments' operating profits, and in which the measurement principles for assets and liabilities accord with IFRS regulations.

Lindex

The Lindex fashion chain has a total of 490 stores in 18 countries and the online store. Lindex's mission is to offer inspiring affordable fashion. Its range of women's wear, lingerie, children's wear and cosmetics consists of a variety of concepts.

Stockmann Retail

Stockmann has eight department stores in three countries and the Stockmann online store. These department stores offer an extensive and high-quality product range, a good price/quality ratio and excellent customer service expertise in a high-quality international shopping environment. Stockmann Retail also included the Hobby Hall distance retailing business in Finland until it was sold at the year-end 2016.

Real Estate

The Real Estate division comprises the properties owned by the Group in Helsinki, St Petersburg, Tallinn and Riga. These properties are used by the Stockmann department stores and external tenants.

Information on market areas

In addition to Finland, the Group operates in two geographical regions: Sweden and Norway as well as Baltics, Russia, and other countries.

Operating segments, EUR mill. *

Revenue	2017	2016
Lindex	606,0	633,2
Stockmann Retail	410,2	508,3
Real Estate	67,1	60,1
Segments, total	1 083,3	1 201,5
Unallocated	0,0	0,0
Eliminations	-27,5	-25,8
Group total	1 055,9	1 175,7

* Comparison figures related to the income statement have been restated due to the food operations in Finland being classified as discontinued operations

Operating profit/loss	2017	2016
Lindex	13,4	54,9
Stockmann Retail	-20,6	-39,1
Real Estate **	29,0	21,1
Segments, total	21,8	36,9
Unallocated	-20,2	-8,6
Goodwill impairment	-150,0	
Group total	-148,4	28,3
Financial income	0,7	0,8
Financial expenses	-31,8	-23,9
Consolidated profit/loss before taxes	-179,5	5,2

** Operating result of Real Estate includes fair value changes on investment properties of EUR 3.7 million (EUR -0.3 million)

Depreciation and amortisation	2017	2016
Lindex	20,5	19,9
Stockmann Retail	14,9	12,9
Real Estate	23,2	21,6
Segments, total	58,6	54,3
Unallocated	7,3	3,0
Goodwill impairment	150,0	
Group total	215,9	57,3

Capital expenditure	2017	2016
Lindex	22,6	17,7
Stockmann Retail	5,7	21,2
Real Estate	4,9	5,3
Segments, total	33,2	44,1
Unallocated	1,5	0,1
Group, total	34,7	44,2

Assets	2017	2016
Lindex	830,0	1 008,9
Stockmann Retail	189,1	217,2
Real Estate	786,4	947,9
Segments, total	1 805,5	2 174,0
Unallocated	71,3	67,2
Non-current assets classified as held for sale	184,6	
Group, total	2 061,4	2 241,2

Information on market areas, EUR mill. *

Revenue	2017	2016
Finland	402,6	504,4
Sweden** and Norway	474,7	503,4
Baltic countries, Russia and other countries	178,6	167,9
Group total	1 055,9	1 175,7
Finland, %	38,1	42,9
International operations, %	61,9	57,1

* Comparison figures related to the income statement have been restated due to the food operations in Finland being classified as discontinued operations

Operating profit/loss	2017	2016
Finland	-34,0	-39,2
Sweden** and Norway	20,5	59,5
Baltic countries, Russia and other countries	15,2	7,9
Market areas total	1,6	28,3
Goodwill impairment	-150,0	
Group total	-148,4	28,3

Non-current assets	2017	2016
Finland	791,3	801,0
Sweden and Norway	668,3	843,6
Baltic countries, Russia and other countries	298,5	297,2
Group, total	1 758,1	1 941,7
Finland, %	45,0	41,3
International operations, %	55,0	58,7

** Includes the sales of goods and services to the franchising partners in Central Europe and Middle East

3. Non-current assets classified as held for sale and discontinued operations

Stockmann sold on 31 December 2017 Stockmann Delicatessen's business operations in Finland to three S Group's regional cooperatives and SOK. The Delicatessen's business operations in Finland have been classified as discontinued operations in the financial statements for the year ended 31 December 2017 as well as comparison figures in 2016. Discontinued operations are presented separately from continuing operations in the consolidated income statement.

The investigation of a divestment of the Nevsky Centre shopping center property is in progress. As of 31 March 2017 Nevsky Centre is classified as an asset held for sale on separate line in the balance sheet.

Assets held for sale and discontinued operations EUR mill.	2017	Restated 2016
Discontinued operations		
Profit/loss for the financial period from discontinued operations		
Income	118,7	140,6
Expenses	129,5	150,9
Profit/loss before and after taxes *	–10,8	–10,3
Profit/loss relating to the sales of discontinued operations after income tax *	–0,5	14,6
Result from discontinued operation	–11,3	4,3
Cash flows from discontinued operations		
Cash flow from operations	–9,6	–8,8
Cash flow from investments	–0,9	1,8
Cash flow total	–10,5	–7,1
Other assets classified as held for sale and the relating liabilities		
Intangible assets and property, plant and equipment	183,0	
Other receivables	0,9	
Cash and cash equivalents	0,7	
Other liabilities	39,6	
Net assets	145,0	

* Profit/loss for the year 2017 includes the result of Delicatessen food operations in Finland and the result related to the sale of it. Profit/loss for the year 2016 is restated and includes also one-month result of the Department store operations in Russia and the result related to the sale of it.

4. Revenue

EUR mill.	2017	2016
Sales of goods	985,3	1 114,2
Rental income and service charges	70,5	61,5
Total	1 055,9	1 175,7
Investment property rentals and service charges	22,6	19,5

Investment property rentals income and service charges relate to Nevsky Centre in Russia. More information on the investment properties is given in note 16.

5. Other operating income

EUR mill.	2017	2016
Gain on sale of property, plant and equipment	0,0	1,3
Total	0,0	1,3

6. Fair value changes

EUR mill.	2017	2016
Fair value gain on investment property	7,3	
Fair value loss on investment property	–3,7	–0,3
Fair value changes on investment properties, total	3,7	–0,3

Information on the investment properties is given in note 16.

7. Gross margin

EUR mill.	2017	2016
Revenue	1 055,9	1 175,7
Raw material and consumables used	467,0	520,3
Gross profit	588,8	655,4
Gross margin, % of revenue	55.8%	55.7%

8. Wages, salaries and other employee benefits expenses

EUR mill.	2017	2016
Wages and salaries	183,6	210,5
Pension expenses, defined contribution plans	18,1	22,5
Other employee benefits expenses	34,6	37,4
Total	236,2	270,4

Information on management's employee benefits is given in note 33, Related party transactions.

9. Depreciation, amortisation and impairment losses

EUR mill.	2017	2016
Intangible assets	12,4	11,3
Buildings and constructions	23,2	22,2
Investment properties		–0,8
Machinery and equipment	24,5	23,3
Modification and renovation costs for leased premises	0,9	1,2
Depreciation and amortisation, total	60,9	57,3
Intangible assets	5,0	
Goodwill	150,0	
Impairment losses, total	155,0	
Depreciation, amortisation and impairment losses, total	215,9	57,3

10. Other operating expenses

EUR mill.	2017	2016
Site expenses	175,8	185,6
Marketing expenses	44,1	53,2
Goods handling expenses	6,0	13,5
Credit losses	0,8	0,3
Voluntary social security	4,3	4,6
Direct maintenance expenses of investment property	2,5	2,3
Other expenses	55,3	40,7
Total	288,8	300,3

Fees to the auditors

EUR mill.	2017	2016
Auditing	0,4	0,4
Certificates and statements	0,0	0,1
Tax advisory	0,2	0,3
Other services	0,1	0,1
Total	0,7	0,9

Services, other than audit services, rendered by KPMG Oy Ab to Stockmann Group companies totalled EUR 201 thousand in 2017. The services included tax services (EUR 150 thousand) and other services (EUR 51 thousand).

11. Financial income and expenses

Financial income

EUR mill.	2017	2016
Dividend income on available-for-sale investments	0,0	0,1
Interest income on bank deposits, other investments and currency derivatives	0,6	0,7
Change in fair value of financial assets at fair value through profit or loss	0,1	
Total	0,7	0,8

Financial expenses

EUR mill.	2017	2016
Interest expenses on financial liabilities measured at amortised cost	-22,9	-17,5
Write-off related to the investment in Cooperative	-3,8	
Impairment loss on loan receivables	-3,5	-5,0
Adjustments to earlier recognised interests related to tax audits	3,0	
Expenses on early redemptions	-2,0	
Change in fair value of financial assets at fair value through profit or loss		-0,2
Foreign exchange differences	-2,6	-1,2
Total	-31,8	-23,9

Financial income and expenses, total

EUR mill.	2017	2016
Financial income and expenses, total	-31,1	-23,1

12. Income taxes

EUR mill.	2017	2016
Income taxes for the financial period	-5,0	-10,1
Income taxes from previous financial periods	1,0	-4,8
Change in deferred tax liability/assets	-14,7	2,2
Total	-18,7	-12,7

Reconciliation between the income tax expense in the income statement and the Group's tax expense at the Finnish tax rate of 20%

EUR mill.	2017	2016
Profit before taxes	-179,5	5,2
Income taxes at current tax rate	35,9	-1,0
Income taxes from previous financial periods	1,0	-4,8
Tax-exempt income	0,0	0,8
Differing tax rates of foreign subsidiaries	-1,5	-0,4
Non-deductible expenses	-40,3	-4,6
Change of deferred tax related to revaluation of Nevsky Centre property	-12,8	
Unrecognised deferred tax assets from losses in taxation	-5,7	-2,7
Effect of change in the tax base to deferred taxes	0,8	
Reverse of deferred tax relating to previous financial periods	4,1	
Income taxes in the income statement	-18,7	-12,7

The Stockmann Group has received tax reassessment decisions from the Swedish tax authorities for years 2013, 2014 and 2015. According to decisions, a Group company Stockmann Sverige AB is requested to pay EUR 16.1 million in additional taxes, including punitive tax increases and related interest. Stockmann considers the decisions unfounded and has appealed against them. The total additional tax is booked in the financial statements and result for the periods for 2015-2017, of which EUR 4.7 million was recognised to the income statement 2017.

The Board of Adjustment in Finland reached its decision on Stockmann's claim for rectification relating to the earlier Finnish Tax Administration's decision on additional taxes for the years 2009–2011 and related interest of total EUR 10.3 million. According to the Board of Adjustment's decision, the additional tax and including interest is EUR 2.6 million and Stockmann returned EUR 5.6 million taxes and EUR 2.1 million related interest to its income statement in 2017.

13. Earnings per share

Earnings per share are calculated by dividing the profit for the period attributable to the parent company's shareholders less the tax-adjusted interest on hybrid bond by the weighted average number of shares outstanding during the financial period. The outstanding shares do not include treasury shares held by the Group. In calculating earnings per share adjusted for dilution, the dilutive effect resulting from conversion of all share options into shares is taken into account in the average weighted number of shares. Options have a dilutive effect when the subscription price of the options is lower than the share's fair value. The fair value of the share is based on the average price of the shares during the period.

EUR	2017	2016
Profit/loss for the period attributable to the equity holders of the parent company	-209 439 063	-3 196 896
Accrued interest on the hybrid bond	-6 587 500	-6 570 981
Tax effect	1 317 500	1 314 196
Net effect	-5 270 000	-5 256 785
	-214 709 063	-8 453 681
Share issue-adjusted number of outstanding shares, weighted average, thousands	72 048 683	72 048 683
From continuing operations (undiluted and diluted)	-2,82	-0,18
From discontinued operations (undiluted and diluted)	-0,16	0,06
From the period result (undiluted and diluted)	-2,98	-0,12

14. Intangible assets

Goodwill

EUR mill.	2017	2016
Acquisition cost 1.1.	735,6	764,7
Translation difference +/–	–21,8	–29,1
Acquisition cost 31.12.	713,8	735,6
Impairment losses for the financial period	–150,0	
Accumulated impairment losses 31.12.	–150,0	
Carrying amount 1.1.	735,6	764,7
Carrying amount 31.12.	563,8	735,6

Trademark

EUR mill.	2017	2016
Acquisition cost 1.1.	95,5	99,3
Translation difference +/–	–2,8	–3,8
Acquisition cost 31.12.	92,7	95,5
Accumulated amortisation 1.1.	–0,3	–0,3
Translation difference +/–	0,0	0,0
Accumulated amortisation 31.12.	–0,3	–0,3
Carrying amount 1.1.	95,2	98,9
Carrying amount 31.12.	92,4	95,2

Impairment testing

The Stockmann Group's reportable segments under IFRS 8, fashion chain Lindex and Stockmann Retail for department store business, are cash-generating units. Their accumulated cash flows are largely independent of the cash flows accumulated by the other classes or groups of assets. In Stockmann Group, asset items are tested for impairment when preparing the financial statements or if there are indications that assets may be impaired. For the purposes of impairment testing, on 31 December.2017 EUR 538.8 million of goodwill was allocated to the Lindex and EUR 25 million of goodwill to Stockmann Retail.

The Lindex trademark of EUR 92.4 million is allocated in its entirety to the Lindex segment. The Lindex brand is deemed to have an indefinite useful life due to high brand awareness. The Lindex brand has existed more than 60 years and the Group will continue to use the brand both in its present markets and when the Lindex product range and business model are introduced into new markets.

The impairment test during the financial year

As there were indications during the financial year that the value of Lindex's asset items in the statement of financial position was greater than Lindex's recoverable amount of the assets, the recoverable amount of the assets in Lindex was determined on 30 September 2017 using the same principles as in the financial statements 31 December 2016 and 31 December 2017. As a result of the impairment test, an impairment loss of EUR 150 million was recognised in the income statement on 30 September 2017. The main assumptions behind the impairment during the financial year were related to the weakened market situation of fashion trade and declined revenue and profitability of the Lindex segment.

The impairment test on 31 December 2017

Goodwill allocated to both Lindex and Stockmann Retail was tested on 31 December 2017. Following the impairment loss recognised during the financial year in Lindex CGU, the recoverable amount of goodwill is equal to the carrying amount of EUR 538.8 million. Based on the impairment testing carried out, there is no need for additional impairment entry.

Main assumptions and variables used in the calculation of the value-in-use

In the impairment testing, the cash flow forecasts for Lindex and the Stockmann Retail are based on market-area forecasts and are approved by management. The cash flow forecasts cover a five-year period and also have an effect on the terminal period. Long-term forecasts, which were updated during the financial year, take into account changes in the economy compared with the previous year. Lindex's cash flows beyond this management-approved forecast period were extrapolated using a steady 1.7 per cent growth rate and Stockmann Retail's cash flows beyond approved forecast period were extrapolated using a steady 1.5 per cent growth rate.

Main variables used in the value-in-use calculation:

1. Volume growth, which is based on an estimate of the sales growth at existing department stores, stores and online stores.
2. Profitability improvement based on the growth in gross margin ratio.
3. Discount rate, which is determined using the weighted average cost of capital, based on the optimal finance structure or the average finance structure of industry peers (reflects the total cost of equity and debt). The components of the discount rate are
    - market-specific risk-free rate
    - market risk premium
    - business-specific beta, which is a measure of the market's view of the unit's risk premium
    - cost of debt
    - debt-to-equity ratio, which corresponds to the capital structure in retail industry

    Management has determined components of discount rate so that a market-specific risk-free rate, a market risk premium and a business-specific beta are consistent with external sources of information and a cost of debt reflects past experience and existing loan terms of the Group.

The discount rate determined is a pre-tax rate. The discount rate of Lindex is based on the market interest rate and country-specific risk pertaining to Sweden and Finland; the discount rate used for Lindex is 7.3 per cent (8.1% in 2016). The discount rates of Stockmann Retail are based on the market interest rate in Finland and country-specific risk. The discount rate used for the Stockmann Retail is 7.3 per cent (8.0% in 2016.) The discount rates are overall lower than in the 2016 testing due to changes in market based input data.

Sensitivity in the determining of the recoverable amount

There is no buffer between the carrying amount of Lindex and the recoverable amount determined in the testing and thus any negative change in main variables may alone or in combination cause additional impairment.

In the impairment testing the recoverable amount of Stockmann Retail is more than 50 percent bigger than the carrying amount of the non-current assets and the working capital in the balance sheet. However due to the challenging competition and general economic situation affecting consumers' purchasing behaviour and purchasing power, any changes in the variables used can lead to a situation in which the recoverable amount Stockmann Retail would be less than the segment's carrying amount which leads to need for impairment.

A sensitivity analysis was carried out on Stockmann Retail using downside scenarios. The scenarios involved reducing either the sales growth from the level given in the management's estimates, or raising the discount rate. If the sales growth of Stockmann Retail were on the average 0.6 percentage point less than forecasted during the forecasting period also reflecting to the value of the terminal period, or if the discount rate were increased by 5 percentage point, the combined total of the carrying amount of the non-current assets and the working capital would exceed the recoverable amount of the unit. Based on the impairment testing carried out, there is no need for impairment entries.

Intangible rights

EUR mill.	2017	2016
Acquisition cost 1.1.	85,8	89,2
Translation difference +/–	–0,8	–1,0
Increases 1.1.–31.12.	7,1	3,7
Decreases 1.1.–31.12.	–10,1	–10,5
Transfers between items 1.1.–31.12.	6,5	4,3
Transfers to non-current assets classified as held for sale	0,0	
Acquisition cost 31.12.	88,4	85,8
Accumulated amortisation and impairment losses 1.1.	–40,5	–40,5
Translation difference +/–	0,6	0,2
Amortisation on disposals	6,8	10,7
Accumulated amortisation on transfers to non-current assets classified as held for sale	0,0	
Write-downs	–5,0	
Amortisation for the financial period	–11,9	–10,8
Accumulated amortisation and impairment losses 31.12.	–49,9	–40,5
Carrying amount 1.1.	45,3	48,7
Carrying amount 31.12.	38,5	45,3

Other intangible assets

EUR mill.	2017	2016
Acquisition cost 1.1.	8,3	8,7
Translation difference +/–	–0,5	–0,3
Decreases 1.1.–31.12.		–0,2
Acquisition cost 31.12.	7,8	8,3
Accumulated amortisation 1.1.	–7,3	–7,5
Translation difference +/–	0,4	0,2
Amortisation on disposals		0,1
Amortisation for the financial period	–0,2	–0,2
Accumulated amortisation 31.12.	–7,0	–7,3
Carrying amount 1.1.	1,0	1,2
Carrying amount 31.12.	0,8	1,0

Other intangible assets, finance lease

EUR mill.	2017	2016
Acquisition cost 1.1.	3,2	3,2
Acquisition cost 31.12.	3,2	3,2
Accumulated amortisation 1.1.	–1,0	–0,7
Amortisation for the financial period	–0,3	–0,3
Accumulated amortisation 31.12.	–1,3	–1,0
Carrying amount 1.1.	2,2	2,5
Carrying amount 31.12.	1,9	2,2

Advance payments and construction in progress

EUR mill.	2017	2016
Acquisition cost 1.1.	3,7	1,9
Increases 1.1.–31.12.	3,3	6,2
Decreases 1.1.–31.12.		–0,1
Transfers between items 1.1.–31.12.	–6,5	–4,3
Acquisition cost 31.12.	0,6	3,7
Carrying amount 1.1.	3,7	1,9
Carrying amount 31.12.	0,6	3,7

EUR mill.	2017	2016
Intangible assets, total	698,0	883,1

In 2017, advance payments for intangible assets and construction in progress included the following significant items:

- development of ICT systems

In 2016, advance payments for intangible assets and construction in progress included the following significant items:

- development of ICT systems
- development of Stockmann.com online store

15. Property, plant and equipment

Land and water

EUR mill.	2017	2016
Acquisition cost including the fair value valuations 1.1.	114,3	140,4
Fair value change from revaluation of the real estates 31.12.	3,2	4,9
Decreases 1.1.–31.12.		–1,0
Reclassification to investment property	–13,6	–30,0
Acquisition cost 31.12.	103,9	114,3
Carrying amount 1.1.	114,3	140,4
Carrying amount 31.12.	103,9	114,3

Share of the fair value valuation was EUR 86.5 million (EUR 94.1 million).

Buildings and constructions

EUR mill.	2017	2016
Acquisition cost including the fair value valuations 1.1.	804,6	929,4
Fair value change from revaluation of the real estates 31.12.	34,9	43,4
Translation difference +/–	0,0	0,0
Increases 1.1.–31.12.	0,0	0,0
Decreases 1.1.–31.12.	–2,6	–2,7
Reclassification to investment property	–99,8	–173,2
Transfers between items 1.1.–31.12.	4,3	7,8
Acquisition cost 31.12.	741,4	804,6
Accumulated depreciation 1.1.	–149,9	–151,6
Translation difference +/–	0,0	0,0
Depreciation on disposals	2,6	1,8
Reclassification to investment property	16,6	22,2
Depreciation for the financial period	–23,2	–22,3
Accumulated depreciation 31.12.	–153,9	–149,9
Carrying amount 1.1.	654,8	777,8
Carrying amount 31.12.	587,6	654,8

Share of the fair value valuation was EUR 365.1 million (EUR 395.3 million).

Land areas and buildings have been carried on the balance sheet at the revalued amount in accordance with standard IAS 16. Revaluation is carried out regularly so that the carrying amount of land areas and buildings does not deviate substantially from the fair value at the close of the reporting period. The valuation is carried out by authorised property valuers in each market based on ten years discounted cash flows. The weighted average market yield requirement used in the fair value calculation of all properties including investment property was 5.6 per cent (5.7 per cent). In the fair value hierarchy the valuation of land areas and buildings is categorised within level 3.

Revaluation is made according to standards determined by the International Valuation Standard Committee. Independent valuers calculate the fair value for each land area and building using the data provided by Stockmann:

- revenue and operating profit of real estate business including rent income and maintenance expenses of properties
- budget of the real estate business
- rent agreements in force
- investment history of properties
- calculations of investments for new tenants
- a ten years plan for improvements of properties

The revaluation is made annually or whenever there is any sign that the fair value differs from the carrying amount of land areas and buildings. Several independent professional valuers make valuations and Stockmann Real Estate reviews them and presents recommended fair values to Stockmann Board. The Board evaluates valuations and confirms fair values which are used in the revaluation.
Straight-line depreciation is recognised on building in accordance with useful life. Land areas are not depreciated.

Machinery and equipment

EUR mill.	2017	2016
Acquisition cost 1.1.	262,2	226,4
Translation difference +/-	-6,0	-0,3
Increases 1.1.-31.12.	16,3	14,4
Decreases 1.1.-31.12.	-12,1	-8,6
Transfers between items 1.1.-31.12.	9,4	30,2
Transfers to non-current assets classified as held for sale	-6,9	
Acquisition cost 31.12.	262,9	262,2
Accumulated depreciation 1.1.	-181,2	-163,2
Translation difference +/-	5,2	-0,9
Depreciation on disposals	7,3	8,0
Accumulated depreciation on transfers to non-current assets classified as held for sale	6,4	
Depreciation for the financial period	-24,5	-25,2
Accumulated depreciation 31.12.	-186,7	-181,2
Carrying amount 1.1.	81,0	63,2
Carrying amount 31.12.	76,2	81,0

Modification and renovation costs of leased premises

EUR mill.	2017	2016
Acquisition cost 1.1.	37,5	39,3
Translation difference +/-	0,0	0,0
Increases 1.1.-31.12.	0,1	0,4
Decreases 1.1.-31.12.	-2,9	-4,5
Transfers between items 1.1.-31.12.	1,4	2,2
Acquisition cost 31.12.	36,0	37,5
Accumulated depreciation 1.1.	-31,3	-33,8
Translation difference +/-	0,0	0,0
Depreciation on disposals	0,6	3,7
Depreciation for the financial period	-0,9	-1,2
Accumulated depreciation 31.12.	-31,6	-31,3
Carrying amount 1.1.	6,1	5,5
Carrying amount 31.12.	4,4	6,1

Advance payments and construction in progress

EUR mill.	2017	2016
Acquisition cost 1.1.	8,7	29,3
Translation difference +/-	0,0	
Increases 1.1.-31.12.	7,9	20,3
Decreases 1.1.-31.12.	-0,1	-0,4
Transfers between items 1.1.-31.12.	-15,1	-40,5
Transfers to non-current assets classified as held for sale	-0,2	
Acquisition cost 31.12.	1,2	8,7
Carrying amount 1.1.	8,7	29,3
Carrying amount 31.12.	1,2	8,7

EUR mill.	2017	2016
Property, plant and equipment, total	773,2	864,9

In 2017, advance payments for plant, property and equipment and construction in progress included the following significant items:

- modification and renovation costs for department stores and real estate premises

In 2016, advance payments for plant, property and equipment and construction in progress included the following significant items:

- building and modification costs of Tapiola department store in Finland
- equipment investments of the distribution centre in Finland
- modification and renovation costs for other department stores and real estate premises in Finland

16. Investment property

EUR mill.	2017	2016
Fair value at 1.1.	181,0	
Reclassification from land	13,6	30,0
Reclassification from buildings	83,3	151,0
Fair value valuation	3,7	0,5
Transfers to non-current assets held for sale	-181,0	
Other changes		-0,6
Fair value at 31.12.	100,5	181,0

Share of the fair value valuation was EUR 80.6 million (EUR 31.9 million).

When the Group holds a land area or building for lease income and appreciation in value rather than using it for its own retail or administrative purposes, the property is classified as an investment property in accordance with IAS 40.

The Stockmann Group applies the fair value model to its investment properties. The fair value of an investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of an investment property reflects the actual market state and circumstances on the balance sheet date but does not include any transaction costs that would arise in connection with the sale or other transfer. The fair value of investment properties is determined by professionally qualified and independent external valuers for all market areas by property.

The revaluation of properties at fair value is based on the market standards valid at each valuation date, which have been defined by the International Valuation Standard Committee. Independent valuers calculate the fair value for each land area and building using the data provided by Stockmann:

- revenue and operating profit of real estate business including rent income and maintenance expenses of properties
- budget of the real estate business
- rent agreements in force

- investment history of properties
- calculations of investments for new tenants
- a ten years plan for improvements of properties

The weighted average market yield requirement used in the fair value calculation of all properties including properties valued according to IAS 16 was 5.6 per cent. In the fair value hierarchy the valuation of land areas and buildings is categorised within level 3.

Since the sale of the Stockmann Delicatessen's business operations, the Book House property in Helsinki on Pohjoisesplanadinkatu 39 has no longer used by the Group for its own retail or administrative purposes; instead it is being held for lease income and appreciation in value. Therefore, the Group classified the Book House as an investment property in accordance with IAS 40 on 31 December 2017. Also Tapiolan Säästötammi property in Espoo of which Stockmann owns 37.8 per cent is classified as an investment property on 31 December 2017.

The investigation concerning the divestment of Nevsky Centre shopping centre in St. Petersburg is on-going. As of 31 March 2017 Nevsky Centre is classified as an asset held for sale on separate line in the balance sheet.

17. Joint arrangements

Joint operations

The Group has a 37.8% shareholding in Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab. The real estate company is based in Espoo. The joint operation is not essential for Stockmann.

The Group has a 67% shareholding in real estate company SIA Stockmann Centrs, which entitles the company to 63% control of the real estate company's premises, so the Group has a 63% involvement in the joint operation. SIA Stockmann Centrs owns a shopping centre property in Latvia. Stockmann's share of the joint operation covers the commercial premises of Stockmann's department store in Latvia. The joint operation is essential for Stockmann.

The share corresponding to the Group's ownership of both the assets and liabilities and income and expenses of the joint operation is included in the Group's consolidated financial statements.

Assets and liabilities of joint operations

EUR mill.	2017	2016
Non-current assets excluding fair value valuations	15,3	16,0
Current assets	0,6	0,5
Non-current liabilities	2,8	5,3
Current liabilities	0,2	0,2

Fair valued real estates totalled EUR 46.2 million (EUR 46.2 million).

Income and expenses of joint operations

EUR mill.	2017	2016
Income	3,2	3,3
Expenses	1,3	2,0

18. Available-for-sale investments

EUR mill.	2017	2016
Carrying amount 1.1.	5,5	5,4
Translation difference +/-	-0,1	0,3
Sale of shares	0,0	-0,2
Write-off related to the investment in Cooperative	-3,8	
Transfers to non-current assets held for sale	-1,4	0,0
Total	0,3	5,5

Available-for-sale investments are investments in shares of unlisted companies. The fair value of the shares is determined by techniques based on the management's judgment.

19. Inventories

EUR mill.	2017	2016
Raw material and consumables	162,2	180,7
Advance payments for inventories	0,0	0,0
Total	162,2	180,7

The value of inventories has been written off by EUR 5.4 million for obsolete assets (EUR 7.5 million).

20. Current receivables

EUR mill.	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Interest-bearing trade receivables	2,2	2,2	1,6	1,6
Non-interest-bearing trade receivables	15,9	15,9	14,3	14,3
Receivables based on derivative contracts	5,3	5,3	7,5	7,5
Other receivables	27,1	27,1	4,0	4,0
Prepayments and accrued income	31,3	31,3	32,9	32,9
Income tax receivables	3,6	3,6	0,0	0,0
Current receivables, total	85,4	85,4	60,3	60,3

The carrying amount of trade receivables corresponds to their fair value. The maximum amount of the credit risk for trade receivables and other current receivables is their carrying amount.

Interest-bearing trade receivables of EUR 2.2 million consist of one-time credits on distance retail sales in 2017 (EUR 1.6 million). Interest income on these receivables is included in the selling price and recognised in revenue instead of interest income.

Other receivables include in 2017 receivables of EUR 24.7 million from sales of business operations. The payment was received in January 2018.

Prepayments and accrued income

EUR mill.	2017	2016
Prepaid rents	17,3	18,1
Receivable from credit card co-operation	2,8	2,0
Periodised indirect employee expenses	2,7	3,8
Periodised ICT expenses	1,7	1,8
Others	6,9	7,3
Total	31,3	32,9

21. Cash and cash equivalents

EUR mill.	2017	2016
Cash on hand and at banks	21,0	18,5
Short term deposits		1,7
Total	21,0	20,2

Cash and cash equivalents in the Cash Flow Statement

EUR mill.	2017	2016
Cash and cash equivalents	21,0	20,2
Overdraft facilities	−12,2	−5,7
Total	8,8	14,5

22. Equity

EUR mill.	Number of shares	Share capital	Share premium fund	Invested unrestricted equity fund	Total
Dec. 31, 2015	72 048 683	144,1	186,1	250,4	580,6
Dec. 31, 2016	72 048 683	144,1	186,1	250,4	580,6
Dec. 31, 2017	72 048 683	144,1	186,1	250,4	580,6

Share capital

The share capital of Stockmann plc is divided into Series A and Series B shares. The minimum number of Series A shares is 18 000 000 and the maximum number is 80 000 000 and the minimum number of Series B shares is 18 000 000 and the maximum number is 100 000 000.

The minimum share capital of Stockmann plc according to the Articles of Association is EUR 75.0 million and the maximum share capital is EUR 300.0 million. The par value of the shares is EUR 2.00 per share. All the shares issued have been fully paid in.

Total amount of registered shares 31 December 2017

pcs	2017	2016
Series A shares	30 530 868	30 530 868
Series B shares	41 517 815	41 517 815
Total	72 048 683	72 048 683

Voting right differences between Series A and B shares

Each Series A share confers the right to cast ten (10) votes at general meetings and each Series B share one (1) vote.

Conversion of Shares

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 written demand concerning conversion of the company's shares must be made to the company's Board of Directors in the manner specified in the Articles of Association.

Redemption obligation

A shareholder whose proportion of all the company’s shares or the number of votes conferred by the shares either alone or together with other shareholders reaches or exceeds 33 1/3 per cent or 50 per cent is liable, at the demand of the other shareholders, to redeem their shares in the manner specified in the Articles of Association.

Share premium fund

The share premium fund contains cash payments in excess of the nominal value that were received from share subscriptions, less the transaction costs.

Revaluation surplus

Stockmann has applied the revaluation model as prescribed by the IAS 16 standard to its properties. The increase in the carrying amount as a result of revaluation, net of tax liability, is recognised in the revaluation surplus in equity.

Invested unrestricted equity fund

The invested unrestricted equity fund contains other equity-like investments and the share subscription price, less transaction costs, to the extent that this is not entered in share capital under a specific decision.

Translation differences

The translation differences reserve comprises the translation differences on equity that have arisen in consolidating the financial statements of foreign subsidiaries and translation differences arisen in consolidating net investment in foreign currencies.

Other funds

EUR mill.	2017	2016
Reserve fund	0,1	0,2
Hedging reserve	-0,1	1,5
Other funds	43,7	43,7
Total	43,8	45,4

Other funds comprise

- a reserve fund, which contains an amount transferred from unrestricted shareholders' equity on the basis of local regulations.
- a hedging reserve, which contains changes in fair value of derivatives that are used to hedge cash flows, less the deferred tax liability.
- other funds formed from unrestricted shareholders' equity in accordance with a decision by the Annual General Meeting, and which are distributable equity.

Hybrid bond

Total equity includes EUR 85 million hybrid bond issued in December 2015. The hybrid bond recognised in equity is EUR 84.3 million due to issuing expenses. The coupon rate of the bond is 7.75 per cent per annum until 31 January 2020. Stockmann can postpone interest payment, if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it earliest on 31 January 2020. The hybrid bond is unsecured and subordinated to the company's other debt obligations. A holder of hybrid bond notes has no shareholder rights. The accrued non - recognised interest on the bond was EUR 6.0 million at 31 December 2017 (2016: EUR 6.8 million). The accrued interest of EUR 6.6 million was paid out in January 2018.

Dividends

After the balance sheet date, the Board of Directors proposed on 13 February 2018 that no distribution of funds will take place for 2017.

Share option programmes

Stockmann had a share option programme 2010 for key employees in the Stockmann Group. It ended in March 2017.

Changes in share options during the financial period

	2017 Number of Options	Subscription price as weighted average EUR/share	Turnover weighted share price during subscription period EUR/share	2016 Number of Options	Subscription price as weighted average EUR/share	Turnover weighted share price during subscription period EUR/share
Key employee share options 2010 Series B						
Outstanding at the beginning of the period				273 000		
Expired during the period				273 000		
Outstanding at the end of the period						
Key employee share options 2010 Series C						
Outstanding at the beginning of the period	279 400			279 400		
Expired during the period	279 400					
Outstanding at the end of the period				279 400		
Options, total						
Outstanding at the beginning of the period	279 400			552 400		
Expired during the period	279 400			273 000		
Outstanding at the end of the period				279 400		

23. Non-current liabilities, interest-bearing

EUR mill.	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Bond issues	247,0	245,8	149,7	153,4
Loans from financial institutions	257,1	257,3	373,7	374,4
Other liabilities	1,2	1,2	1,9	1,9
Total	505,2	504,2	525,3	529,7

The carrying amount of bond issues, loans from financial institutions and other liabilities has been calculated using the effective interest method, and fair value has been defined using the discounted cash flow method by discounting at the market interest rate at the balance sheet date.

24. Current liabilities

EUR mill.	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Loans from financial institutions	108,5	108,6		
Current account with overdraft facility	12,2	12,2	5,7	5,7
Other interest-bearing liabilities	137,6	137,7	230,7	231,3
Trade payables	68,6	68,6	69,7	69,7
Other current liabilities	42,7	42,7	41,3	41,3
Accruals and prepaid income	71,6	71,6	93,8	93,8
Derivative contract liabilities	6,3	6,3	2,9	2,9
Income tax liability	16,4	16,4	24,9	24,9
Total	464,0	464,2	469,0	469,6
of which interest-bearing	258,3	258,5	236,5	237,0

The fair value of loans from financial institutions and issued commercial papers has been defined using the discounted cash flow method by discounting at the market interest rate at the balance sheet date. The fair value of other current liabilities corresponds to their carrying amount.

Accruals and prepaid income

EUR mill.	2017	2016
Personnel expenses	45,4	54,3
Periodised purchases	9,1	14,4
Customer bonus schemes/Loyalty program MORE	5,1	5,5
Interest and other financial expenses	1,8	5,5
Accrued site expenses	1,6	1,9
Reserve for returns	1,5	1,8
Investments		2,2
Others	7,1	8,2
Total	71,6	93,8

25. Reconciliation of liabilities arising from financing activities

EUR mill.	1.1.2017	Cash flows from loans	Non-cash changes from loans		Cash flows from loan arrangement expenses	Non-cash changes from loan arrangement expenses	31.12.2017
			The effect of changes in foreign exchange rates	Transfer between items			
Non-current liabilities, interest-bearing	525,3	154,5	-17,9	-149,7	-8,1	1,2	505,2
Current liabilities, interest-bearing	230,7	-134,4		149,7	-2,3	2,4	246,1
Cheque account with overdraft facility	5,7	6,4					12,2
Total liabilities from financing activities	**761,8**	**26,5**	**-17,9**	**0,0**	**-10,4**	**3,6**	**763,6**

Loan arrangement expenses are included in cash flows from financing activities in the cash flow statement. The cheque account with overdraft facility is a part of the cash and cash equivalents in the statement of cash flow.

26. Provisions

EUR mill.	2017	2016
Non-current provisions		
Provision for onerous contracts		
Provision for onerous contracts 1.1.	2,8	4,2
Increase in provisions	17,1	
Used provisions	-2,8	-1,4
Carrying amount 31.12.	17,1	2,8
Other provisions		
Carrying amount 1.1.	0,2	0,3
Used provisions	0,0	-0,1
Carrying amount 31.12.	0,2	0,2
Non-current provisions total	17,2	3,0

EUR mill.	2017	2016
Current provisions		
Restructuring provision		
Carrying amount 1.1.	2,3	
Increase in provisions	2,6	2,3
Used provisions	-2,3	
Carrying amount 31.12.	2,6	2,3
Provision for onerous contracts		
Carrying amount 1.1.	1,0	1,5
Increase in provisions	3,0	
Used provisions	-1,0	-0,5
Carrying amount 31.12.	3,0	1,0
Other provisions		
Carrying amount 1.1.	1,1	1,0
Used provisions	-1,1	-0,2
Transfers from other items		0,4
Carrying amount 31.12.	0,0	1,1
Current provisions total	5,7	4,4

Provisions include expenses related to discontinued operations and restructuring in accordance with Group strategy.

27. Deferred tax assets and deferred tax liabilities

Changes in deferred tax assets 2017

EUR mill.	1.1.2017	Recognised in income statement	Translation difference	31.12.2017
Confirmed losses	34,6	-4,1	0,0	30,5
Measurement of derivatives and other financial instruments at fair value	0,0	0,0		
Difference between carrying amounts and tax bases of property, plant and equipment	2,0		-0,5	1,5
Financial lease	0,0	0,1		0,2
Other temporary differences	1,7	-0,6	0,0	1,0
Total	38,3	-4,6	-0,5	33,2

Changes in deferred tax assets 2016

EUR mill.	1.1.2016	Recognised in income statement	Translation difference	31.12.2016
Confirmed losses	40,5	-5,9	0,0	34,6
Measurement of derivatives and other financial instruments at fair value	0,0	0,0		0,0
Difference between carrying amounts and tax bases of property, plant and equipment	3,5	-1,5	0,0	2,0
Financial lease		0,0		0,0
Other temporary differences	1,3	0,2	0,2	1,7
Total	45,2	-7,1	0,2	38,3

Changes in deferred tax liabilities 2017

EUR mill.	1.1.2017	Recognised in income statement	Recognised in equity	Translation difference	Liabitilies related to assets classified as held for sale	31.12.2017
Cumulative depreciation differences	26,7	–3,5		–0,2		23,0
Difference between carrying amount and tax bases of prop., plant and equip.	6,9	0,2		–0,1		7,0
Measurement at fair value of intangible and tangible assets	127,8	14,1	7,5	–0,5	–33,2	115,8
Other temporary differences	2,2	–0,7	–0,4	–0,1		0,9
Total	163,6	10,1	7,1	–0,9	–33,2	146,7

Changes in deferred tax liabilities 2016

EUR mill.	1.1.2016	Recognised in income statement	Recognised in equity	Translation difference	Liabitilies related to assets classified as held for sale	31.12.2016
Cumulative depreciation differences	33,6	–6,7		–0,3		26,7
Difference between carrying amount and tax bases of prop., plant and equip.	8,5	–1,6		0,0		6,9
Measurement at fair value of intangible and tangible assets	119,7	–0,9	9,7	–0,7		127,8
Other temporary differences	1,9	0,0	0,2	0,0		2,2
Total	163,9	–9,2	9,9	–0,9		163,6

Losses in taxation on which deferred tax assets have not been recognised in financial year amount to EUR 28.5 million (EUR 22.6 million). In accordance with IAS 12 paragraph 52 A, deferred tax liabilities have not been recorded on the accumulated distributable earnings, EUR 32.9 million (EUR 31.0 million), of the Estonian subsidiary.

28. Carrying amounts and fair values of financial assets and liabilities classified according to IAS 39, and hierarchical classification of fair values

The Group uses the following hierarchy of valuation techniques to determine and disclose the fair value of financial instruments:
Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets.
Level 2: The valuation techniques use as input data quoted market prices which are regularly available from stock exchanges, brokers or pricing services. Level 2 financial instruments are: over-the-counter derivative contracts which are classified either for recognition at fair value on the income statement or as hedging instruments.
Level 3: Techniques, which require most management's judgment.
There were no transfers between the levels during the financial year.

Financial assets, EUR mill.	Level	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Derivative contracts, hedge accounting applied	2	0,5	0,5	2,0	2,0
Financial assets at fair value through profit or loss					
Derivative contracts, hedge accounting not applied					
Currency derivatives	2	4,8	4,8	5,5	5,5
Financial assets at amortised cost					
Non-current receivables		3,0	3,0	7,2	7,2
Current receivables, interest-bearing		2,2	2,2	1,6	1,6
Current receivables, non-interest-bearing		74,3	74,3	51,1	51,1
Cash and cash equivalents		21,0	21,0	20,2	20,2
Available-for-sale financial assets	3	0,3	0,3	5,5	5,5
Financial assets, total		106,1	106,1	93,2	93,2

Financial liabilities, EUR mill.	Level	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Derivative contracts, hedge accounting applied	2	0,7	0,7	0,1	0,1
Financial assets at fair value through profit or loss					
Derivative contracts, hedge accounting not applied					
Currency derivatives	2	5,6	5,6	2,7	2,7
Electricity derivatives	1	0,2	0,2	0,2	0,2
Financial liabilities at amortised cost					
Non-current interest-bearing liabilities	2	505,2	504,2	525,3	529,7
Current liabilities, interest-bearing	2	258,3	258,5	236,5	237,0
Current liabilities, non-interest-bearing		177,2	177,2	200,4	200,4
Financial liabilities, total		947,2	946,3	965,1	970,1

In the balance sheet, derivative contracts are included in the following categories: Non-current and current receivables, non-interest-bearing and non-current and current liabilities, non-interest-bearing.

Financial assets on level 3 are investments to shares of unlisted companies. The fair value of the shares is determined by techniques based on the managements' judgment. Profits or losses from the investments are recorded to other operating income or expenses in the income statement, because acquisition and divestment decisions on the investments are made for business reasons. The following calculation illustrates changes in financial assets valuated at fair value during the reporting period.

Change in fair value of available-for-sale assets, EUR mill.	2017	2016
Carrying amount 1.1.	5,5	5,4
Translation difference +/-	-0,1	0,3
Sale of shares	0,0	-0,2
Write-off related to the investment in Cooperative	-3,8	
Transfers to non-current assets held for sale	-1,4	0,0
Total	0,3	5,5

29. Operating leases

Group as lessee

Minimum lease payments on the basis of binding lease agreements on commercial premises

EUR mill.	2017	2016
Within one year	129,3	127,8
Within 1-5 years	331,4	318,1
In five years or more	224,3	263,1
Total	685,1	708,9

Lease payments

EUR mill.	2017	2016
Within one year	0,7	0,7
Within 1-5 years	1,4	0,9
In five years or more	0,3	
Total	2,4	1,6

Group as lessor

The main properties owned by Stockmann are the properties of the Helsinki department store and the Book Building located in Helsinki, Finland, the Nevsky Centre shopping centre property located in St. Petersburg, Russia and the department store properties of Tallinn, Estonia. Stockmann is the majority owner in a real estate company, which owns the Stockmann department store building in Riga. The area of these properties is 142 000 square metres, 42 per cent of which consists of the Finnish properties. Approximately 46 per cent of the gross leasable gross area of the properties is used by Stockmann Retail and the remaining area is used by external tenants.

30. Contingent liabilities

Mortgages given as collateral for liabilities and commitments

	2017			2016		
EUR mill.	Debt at the year end	Collaterals	Fair value of the assets	Debt at the year end	Collaterals	Fair value of the assets
Loans from credit institutions	631,0	1 800,0				
Other commitments	0,0	1,7		0,0	1,7	
Total	631,0	1 801,7	972,5	0,0	1,7	

Other collaterals given for own liabilities

EUR mill.	2017	2016
Guarantees	2,9	5,3
Electricity commitments	1,6	
Liabilities of adjustments of VAT deductions made on investments to immovable property	12,7	15,4
Total	17,2	20,6

Contingent liabilities, total

EUR mill.	2017	2016
Mortgages	1 801,7	1,7
Guarantees	2,9	11,4
Electricity commitments	1,6	
Liabilities of adjustments of VAT deductions made on investments to immovable property	12,7	15,4
Total	1 818,9	28,5

Electricity commitments relate to agreements to buy electricity for certain price in years 2018-2020.

Interest on the hybrid bond

On 17 December 2015, Stockmann issued a hybrid bond of EUR 85 million. The accrued non-recognised interest on the bond was EUR 6.0 million at 31 December 2017 (EUR 6.8 million in 2016). More information about the hybrid bond is provided in Note 22.

Investments in real estate

Certain group companies are required to adjust the VAT deductions made on real estate investments completed in 2008–2017 if the VAT-liable use of the real estate decreases during the adjustment period. The last adjustment year is 2027, and the maximum liability is EUR 12.7 million (EUR 15.4 million in 2016).

31. Derivative contracts

Nominal values of derivative contracts

EUR mill.	2017	2016
Currency forwards	55,8	54,9
Total	55,8	54,9
Currency swaps	750,0	414,4
Electricity forwards	1,4	1,8
Total	751,4	416,3

Fair value of derivative contracts 2017

Derivative contracts, hedge accounting applied

EUR mill.	Positive	Negative	Net
Currency forwards	0,5	–0,7	–0,1
Total	0,5	–0,7	–0,1

Derivative contracts, hedge accounting not applied

EUR mill.	Positive	Negative	Net
Currency swaps	4,8	–5,6	–0,8
Electricity forwards		–0,2	–0,2
Total	4,8	–5,7	–1,0

Fair value of derivative contracts 2016

Derivative contracts, hedge accounting applied

EUR mill.	Positive	Negative	Net
Currency forwards	2,0	–0,1	1,9
Total	2,0	–0,1	1,9

Derivative contracts, hedge accounting not applied

EUR mill.	Positive	Negative	Net
Currency swaps	5,5	–2,7	2,9
Electricity forwards		–0,2	–0,2
Total	5,5	–2,8	2,7

All the derivatives that are open on the balance sheet date, 31 December 2017, fall due in one year.

Currency swaps and forwards have been measured at fair value using market prices on the balance sheet date. Changes in the fair values of currency derivatives are recognised either in equity or in the profit and loss depending on whether hedge accounting has been applied to them. Currency derivative contracts did not result in hedge accounting-related ineffectiveness that was to be recorded through profit and loss in 2017. The fair values of electricity derivatives are based on market prices on the balance sheet date and the changes in the fair values are recognised in the profit and loss.

32. Financial instruments subject to netting arrangements

The Group has entered into derivative transactions under agreements that include a master netting arrangement. The agreements stipulate that in certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated and only a single net amount is payable in settlement of all transactions.

The agreements do not meet the criteria for offsetting in the statement of financial position.

The following table sets out the amounts of recognised financial instruments that are subject to the above agreements.

December 31, 2017

Financial assets, EUR mill.	Carrying amount	Items under netting arrangements	Net
Currency derivatives, hedge accounting applied	0,5	−0,4	0,1
Currency derivatives, hedge accounting not applied	4,8	−2,5	2,3
Financial assets, total	5,3	−2,9	2,4

Financial liabilities, EUR mill.			
Currency derivatives, hedge accounting applied	−0,7	0,4	−0,3
Currency derivatives, hedge accounting not applied	−5,6	2,5	−3,1
Electricity derivatives, hedge accounting not applied	−0,2		−0,2
Financial liabilities, total	−6,5	2,9	−3,6

December 31, 2016

Financial assets, EUR mill.	Carrying amount	Items under netting arrangements	Net
Currency derivatives, hedge accounting applied	2,0	−0,1	1,9
Currency derivatives, hedge accounting not applied	5,5	−2,6	2,9
Financial assets, total	7,5	−2,7	4,8

Financial liabilities, EUR mill.			
Currency derivatives, hedge accounting applied	−0,1	0,1	
Currency derivatives, hedge accounting not applied	−2,7	2,6	−0,1
Electricity derivatives, hedge accounting not applied	−0,2		−0,2
Financial liabilities, total	−3,0	2,7	−0,3

33. Related party transactions

Members of the Board of Directors and Management Team belong to the Group's related party, as well as the parent company, subsidiaries and joint operations.

Members of the Board of Directors and Management Team belonging to the Group's related party during financial year 2017:

- Jukka Hienonen, Chairman of the Board of Directors
- Kaj-Gustaf Bergh, Member of the Board of Directors
- Torborg Chetkovich, Member of the Board of Directors until 23 March 2017
- Esa Lager, Member of the Board of Directors as of 23 March 2017
- Susanne Najafi, Member of the Board of Directors
- Leena Niemistö, Vice Chairman of the Board of Directors and Member of the Board of Directors
- Michael Rosenlew, Member of the Board of Directors
- Per Sjödell, Member of the Board of Directors
- Dag Wallgren, Member of the Board of Directors
- Lauri Veijalainen, CEO
- Mikko Huttunen, Director, Human Resources
- Kai Laitinen, CFO as of 1 August 2017
- Ingvar Larsson, Managing director, Lindex until 21 August 2017
- Nora Malin, Director, Corporate Communications
- Jukka Naulapää, Director, Legal affairs
- Petteri Naulapää, CIO
- Maiju Niskanen, Director, Store Operations
- Susanna Ottila, Director, Delicatessen
- Elisabeth Peregi, interim CEO, Lindex as of 21 August 2017
- Anna Salmi, Chief Customer Officer
- Björn Teir, Director, Real Estate
- Tove Westermark, Director, Supply Chain

Members of the Board of Directors and Management Team belonging to the Group's related party during financial year 2016:

- Jukka Hienonen, Chairman of the Board of Directors as of 15 March 2016
- Kaj-Gustaf Bergh, Chairman of the Board of Directors until 15 March 2016, Member of the Board of Directors
- Torborg Chetkovich, Member of the Board of Directors
- Susanne Najafi, Member of the Board of Directors as of 15 March 2016
- Kari Niemistö, Member of the Board of Directors until 15 March 2016
- Leena Niemistö, Vice Chairman of the Board of Directors and Member of the Board of Directors as of 15 March 2016
- Michael Rosenlew, Member of the Board of Directors as of 15 March 2016
- Per Sjödell, Member of the Board of Directors
- Charlotta Tallqvist-Cederberg, Member of the Board of Directors until 15 March 2016
- Carola Teir-Lehtinen, Member of the Board of Directors until 15 March 2016
- Dag Wallgren, Member of the Board of Directors
- Per Thelin, CEO until 4 April 2016
- Lauri Veijalainen, CFO until 4 April 2016, interim CEO from 4 April to 12 September 2016, CEO as of 12 September 2016
- Mikko Huttunen, Director, Human Resources as of 15 August 2016
- Ingvar Larsson, Managing director, Lindex
- Nora Malin, Director, Corporate Communications
- Jukka Naulapää, Director, Legal affairs
- Petteri Naulapää, CIO
- Maiju Niskanen, Director, Store Operations as of 1 July 2016
- Susanna Ottila, Director, Delicatessen as of 13 June 2016
- Jouko Pitkänen, Director, Stockmann Retail until 13 June 2016
- Anna Salmi, Chief Customer Officer as of 28 October 2016
- Björn Teir, Director, Real Estate
- Tove Westermark, Director, Supply Chain as of 13 June 2016

The relationships between the company's parent company and subsidiaries are shown in notes to the parent company's financial statements, under the header "Shares and participation”.

The following transactions were carried out with related parties:

Management's employee benefits

Emoluments

Employee benefits of the Chief Executive Officer and other members of the Management Committee, EUR 2017	Chief Executive Officer	Other members of the Management Committee	Total
Short-term employee benefits	716 721	2 536 434	3 253 155
Other long-term employee benefits		62 204	62 204
Employee benefits total	716 721	2 598 638	3 315 359

Remunerations to the Board of Directors, EUR 2017	Fixed annual remuneration *	Remuneration based on participation	Total
Hienonen Jukka	76 000	14 000	90 000
Bergh Kaj-Gustaf	38 000	6 500	44 500
Chetkovich Torborg **		2 200	2 200
Lager Esa	38 000	9 000	47 000
Najafi Susanne	38 000	6 000	44 000
Niemistö Leena	49 000	7 000	56 000
Rosenlew Michael	38 000	10 700	48 700
Sjödell Per	38 000	6 500	44 500
Wallgren Dag	38 000	12 500	50 500
Remunerations to the Board of Directors total	353 000	74 400	427 400

Fees and remunerations to key personnel total, EUR	3 742 759

* paid in 30 167 company shares and cash

** resigned from the Board of Directors on 23 March 2017

Employee benefits of the Chief Executive Officer and other members of the Management Committee, EUR 2016	Chief Executive Officer	Other members of the Management Committee	Total
Short-term employee benefits	815 590	2 205 297	3 020 887
Post-employment benefits	420 000		420 000
Other long-term employee benefits	20 999	38 733	59 732
Employee benefits total	1 256 589	2 244 030	3 500 619

Remunerations to the Board of Directors, EUR 2016	Fixed annual remuneration *	Remuneration based on participation	Total
Hienonen Jukka	76 000	11 700	87 700
Bergh Kaj-Gustaf	38 000	7 500	45 500
Chetkovich Torborg	38 000	8 800	46 800
Najafi Susanne	38 000	5 500	43 500
Niemistö Kari **		1 500	1 500
Niemistö Leena	49 000	5 500	54 500
Rosenlew Michael	38 000	7 800	45 800
Sjödell Per	38 000	6 000	44 000
Tallqvist-Cederberg Charlotta **		1 500	1 500
Teir-Lehtinen Carola **		1 700	1 700
Wallgren Dag	38 000	11 500	49 500
Remunerations to the Board of Directors total	353 000	69 000	422 000

Fees and remunerations to key personnel total, EUR			3 922 619

* paid in 34 091 company shares and cash
** resigned from the Board of Directors on 15 March 2016

Management's pension commitments

The CEO Lauri Veijalainen's retirement age is determined in accordance with Finnish employment pension legislation. The CEO's pension will accrue on the basis of the Employees' Pensions Act. No voluntary insurance contribution was paid in 2017 (EUR 20 999 in 2016).

The retirement age of the Management Team members is 63 or 65 or determined in accordance with Finnish employment pension legislation, depending on the particular executive agreement in question. In 2017 two of the Management Team members had voluntary defined contribution pension insurances taken by the company. The costs of the insurances in 2017 amounted to EUR 62 204 (EUR 38 733 in 2016).

Other related party transactions

In 2017 the Board members were paid other compensations EUR 61 945 (EUR 61 253 in 2016).

34. Financial risk management

The Group's financing and the management of financial risks are handled on a centralised basis within Stockmann plc's Treasury function in accordance with the policy adopted by the Board of Directors.

The objective of financial risk management is to ensure reasonable financing for the Group in all circumstances and to reduce the effects of market risks on the Group's profit and balance sheet. Group Treasury, which reports to the Chief Financial Officer of Stockmann plc, manages financial exposures and executes hedging strategies at Group level. Treasury also acts as the internal bank of the Stockmann Group. Treasury acts in accordance with more detailed guidelines setting out the principles of managing financial risks as well as the management of liquidity and financing. The divisions have separate instructions for hedging their foreign exchange exposure.

The Group's main financial risks are currency risk, interest rate risk, financing and liquidity risk, credit and counterparty risk and electricity price risk.

The financial risks in the balance sheet and the financial risks connected with commercial cash flows as well as the chosen hedging strategies are reported to the Board of Directors quarterly and to Group Management monthly. The overall funding situation has been carefully evaluated by the Board. By considering the ongoing initiatives, estimated operative cash flows and initiatives taken for strengthening working capital, the total analysis supports the financing and sufficiency of liquidity.

Currency risk

The Group's currency risk consists of sales and purchases made in foreign currency as well as balance sheet items and also foreign-currency-denominated net investments in units abroad.

Transaction risk

Stockmann's transaction risk derives from the currency flows connected with sales and purchases of the Group's business units as well as from loans and receivables denominated in foreign currency. The most important sales currencies during 2017 were the euro, the Swedish krona, and the Norwegian krone. The primary purchasing currencies were the euro, the United States dollar, and the Swedish krona. In 2017, non-EUR sales accounted for 45 per cent of the Group's entire sales, including the food operations in Finland, which have been reported as discontinued operations (2016: 42 per cent excluding retail Russia that was divested in February 2016). Purchases with a transaction risk made up 47 per cent of the Group's purchases, including the food operations in Finland (2016: 37 per cent excluding retail Russia). In addition the Group has purchases in foreign currency without a transaction risk, mainly local purchases in Sweden. In 2017 these purchases accounted for 3 per cent of the Group's total purchases (2016: 3 per cent).

The business units are responsible for forecasting future net cash flows denominated in foreign currency and for managing the currency risk connected with them. The management of currency risk related to operational cash flows is based on cash flow forecasts for the coming 6 months. The hedging period is generally a maximum of 6 months and the degree of hedging for individual currencies can vary in the range of 0–100%. Contracted cash flows can be hedged for longer periods.

Currency derivatives that are used to hedge forecasted cash flows are classified as cash flow hedges as defined by IAS 39. All outstanding contracts that are classified as cash flow hedges will mature during the first 7 months of 2018. The gain/loss of these hedge instruments will affect the Group's operating profit in the same period during which the forecasted hedged items affect profit, which is approximately 4 months after maturity. Information about the fair value of these hedges is provided in Note 31. The table below shows the distribution of currency for outstanding derivatives hedging cash flows. For each derivative, the amounts are shown for both the bought and the sold currency.

Foreign exchange derivatives hedging cash flows

EUR mill	2017	2016
USD	55,9	56,9
SEK	–31,0	–23,0
NOK	–13,8	–18,2
EUR	–11,0	–13,7

Sensitivity Analysis, cash flow hedges, effect on equity after tax

2017 EUR mill	USD	SEK	NOK
Change + 10 %	–4,0	–0,8	1,0
Change - 10 %	4,8	1,0	–1,2

2016 EUR mill	USD	SEK	NOK
Change + 10 %	–4,0	–1,0	1,3
Change - 10 %	4,9	1,2	–1,6

The majority of the outstanding derivatives hedging cash flows relate to Lindex. The functional currency of Lindex is the Swedish krona. At year-end, the outstanding cash flow hedges in US dollars covered approximately 66% of the Stockmann Group's estimated net USD flows for the coming 6 months.

Foreign subsidiaries are financed primarily in local currency, whereby the foreign subsidiary does not incur significant transaction risk other than from sales and purchases in foreign currency. Group Treasury is managing the currency risk of the foreign-currency-denominated receivables and liabilities in Stockmann's balance sheet. The degree of hedging can vary in the range of 0 – 100%.

The following table shows the Group's transaction exposure including foreign-currency-denominated assets and liabilities as well as outstanding derivatives hedging these items. Future forecasted cash flows and derivatives hedging forecasted cash flows are not included.

The Group's transaction exposure

2017, EUR mill	SEK	GBP	RUB	NOK	CZK	USD	PLN
Receivables	776,7	0,0	15,2	4,7		2,7	
Loans from financial institutions		–0,1		–0,6		–1,0	
Trade payables and other current liabilities	–106,0	0,0		–0,2	–0,1	–14,7	
Foreign currency exposure in the balance sheet	670,7	–0,1	15,2	3,9	–0,1	–13,0	
Foreign exchange derivatives hedging balance sheet items	–683,2	–3,4		–7,2	–11,7	11,4	–1,9
Foreign currency loans hedging the net investment	19,8						
Net position in the balance sheet	7,4	–3,5	15,2	–3,4	–11,9	–1,7	–1,9

2016, EUR mill	SEK	GBP	RUB	NOK	CZK	USD	PLN
Receivables	869,7	12,7	29,8	13,6	36,0	4,8	10,3
Loans from financial institutions	–369,7	–0,1		–1,0		–0,3	
Trade payables and other current liabilities	–92,2			–0,2	–0,1	–15,6	
Foreign currency exposure in the balance sheet	407,8	12,6	29,8	12,4	35,9	–11,1	10,3
Foreign exchange derivatives hedging balance sheet items	–337,3	–9,2		–13,1	–31,5	10,1	–8,7
Foreign currency loans hedging the net investment	2,4						
Net position in the balance sheet	72,9	3,4	29,8	–0,7	4,4	–1,0	1,6

A 10 % strengthening or weakening of the euro against other currencies would create the following effect in profit after tax. The sensitivity analysis is based on the exposures in the table above.

Sensitivity Analysis, effect on income statement after tax

2017 EUR mill	SEK	GBP	RUB	NOK	CZK	USD	PLN
Change + 10 %	–0,5	0,2	–1,1	0,2	0,8	0,1	0,1
Change - 10 %	0,6	–0,3	1,4	–0,3	–1,0	–0,1	–0,2

2016 EUR mill	SEK	GBP	RUB	NOK	CZK	USD	PLN
Change + 10 %	–5,3	–0,2	–2,2	0,0	–0,3	0,1	–0,1
Change - 10 %	6,4	0,3	2,6	–0,1	0,4	–0,1	0,1

Translation risk

The Stockmann Group incurs translation risk when the financial statements of foreign subsidiaries are translated into euro amounts in the consolidated financial statements.

For foreign-currency-denominated net investments, the effects of changes in foreign exchange rates appear as the translation difference in the Group's equity. Stockmann hedges translation risk for equity selectively by means of loans in foreign currency or with derivatives. When making hedging decisions any effect the hedging measure may have on the Group's earnings, balance sheet and cash flows as well as hedging costs are taken into account.

The following table shows how a 10% change of the euro against the Group companies' functional currencies would affect the Group's equity. The sensitivity analysis includes effects from the translation of foreign-currency-denominated net investments into euro and from loans and derivatives hedging net investments.

Sensitivity Analysis, effect on equity

2017 EUR mill	SEK	RUB
Change + 10 %	–7,0	–12,8
Change - 10 %	8,5	15,7

2016 EUR mill	SEK	RUB
Change + 10 %	–14,9	–12,7
Change - 10 %	18,2	15,5

Interest rate risk

Fluctuations in the level of interest rates affect the Group's interest expenses and interest income. The Group has large Swedish Krona-denominated assets originating from the acquisition of Lindex. These assets are financed with debt swapped to Swedish Krona. Thus, Stockmann is mainly exposed to fluctuations in Swedish interest rates. The objective of the Group's management of interest rate risk is to reduce the uncertainty to which Stockmann's earnings may be subjected due to changes in the level of interest rates. 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 duration of the loan and investment portfolio is a maximum of five years. Interest rate derivatives can be used in managing interest rate risk. At the balance sheet date, 31 December 2017, Stockmann's interest-bearing loans and bank receivables had a duration of 15.6 months. Interest rate derivatives were not in use.

Interest terms of the Group's interest bearing liabilities and bank receivables at 31 December 2017:

Interest rate adjustment, period, EUR mill	< 1 month	1–12 months	1–3 years	3–5 years	Total
Bond Issues				247,0	247,0
Loans from financial institutions		365,7			365,7
Other interest bearing liabilities	186,2	85,5			271,7
Total	186,2	451,3		247,0	884,5
Cash and bank receivables	–21,0				–21,0
Total	165,2	451,3		247,0	863,5

Interest terms of the Group's interest bearing liabilities and bank receivables at 31 December, 2016:

Interest rate adjustment, period, EUR mill	< 1 month	1–12 months	1–3 years	3–5 years	Total
Bond Issues			149,7		149,7
Loans from financial institutions	5,0	368,7			373,7
Other interest bearing liabilities	54,4	183,9			238,3
Total	59,4	552,6	149,7		761,8
Cash and bank receivables	–20,2				–20,2
Total	39,2	552,6	149,7		741,5

A rise of one percentage point in market interest rates would have an imputed effect on Stockmann's profit after taxes up to EUR -3.2 million (2016: EUR -3.3 million) at the balance sheet date, 31 December 2017. A decline of one percentage point in market interest rates would have only a very minor effect on Stockmann's profit after taxes, since almost all relevant market interest rates already are below zero and Stockmann can't benefit from rates below zero. At the balance sheet date there were no items that are recognised directly in equity.

Electricity price risk

Stockmann and Lindex hedge the price risk affecting future electricity procurements. In accordance with the financial policy, the degree of hedging of future electricity prices is a maximum of 100% for the coming three years. At the balance sheet date, 31 December 2017, a change of 10 percentage points in the market price of electricity has no material impact on Stockmann's profit and equity after taxes.

Financing and liquidity risk

Financing risk is defined as the risk of not being able to meet payment obligations as a result of insufficient liquid funds or difficulties in finding financing. In order to minimize financing risk, the Group's financing need for the coming years is covered by long-term committed credit facilities. The Group also has to maintain a sufficiently large liquidity reserve. The liquidity reserve must be at least an amount corresponding to an average month's operational cash disbursements. Cash and cash equivalents as well as unused committed and uncommitted credit facilities may be included in the liquidity reserve.

At the end of the year Stockmann had committed credit facilities totaling EUR 852 million, of which EUR 624 million was utilized for financing and EUR 3 million for bank guarantees and Letters of Credit. In addition to this, Stockmann has uncommitted credit facilities amounting to EUR 603 million. Of these facilities, EUR 140 million was drawn.

Stockmann's financing mainly includes bank loans, credit facilities, corporate bonds and a commercial paper programme. Addidionally, Stockmann also has a hybrid bond, which is treated as equity in the company's consolidated financial statements.

In November, Stockmann refinanced its long-term committed credit facilities. The new committed credit facility is a secured syndicated facility amounting to EUR 609 million, split between term loans and revolving credit facilities. Most of the financing will mature in January 2021, with EUR 109 million due in March 2018. Stockmann has also agreed to prepay EUR 150 million of term loans by no later than January 2019. Stockmann has initiated processes for investigating the divestments of both Nevsky Centre in St. Petersburg and Book House in Helsinki. The new credit facilities replace the EUR 700 million bilateral credit facilities signed with six banks in December 2013. In

December Stockmann issued senior secured notes in principal amount of EUR 250 million. The notes will mature in January 2022 and carry a fixed interest of 4.75 per cent per annum. The proceeds have been used for the early redemption of the notes that were due 2018 and the refinancing of other existing financial indebtedness.

The new notes are listed on Nasdaq Helsinki. The new syndicated facility as well as the new notes are secured by property mortgage and a pledge over certain shares. In addition, a share pledge related to the Nevsky Centre property is granted for the new credit facilities. The new facilities include financial covenants related to equity ratio and leverage. The financial covenants will be tested for the first time on 30 June 2018.

In December 2015 Stockmann issued a hybrid bond of EUR 85 million. The bond has no maturity but Stockmann may exercise an early redemption option earliest on January 2020 in case all committed loan facilities have been paid first. The coupon rate of the bond is 7.75% per annum. The hybrid bond is treated as equity in the consolidated financial statements prepared in accordance with IFRS. More information about the hybrid bond is provided in Note 22.

Short term credit facilities include a domestic commercial paper program of EUR 600 million as well as bank overdraft facilities. Borrowing within the commercial paper program amounted to EUR 137 million at year-end.

Cash and bank receivables as well as unused committed credit facilities

EUR mill	2017	2016
Cash and bank receivables	20,2	20,2
Credit facility, due in 2017		
Credit facility, due in 2018		
Credit facility, due in 2019		295,0
Credit facility, due in 2020		
Credit facility, due in 2021 +	224,6	
Overdraft facilities	1,4	1,5
Total	246,2	316,7

The unused committed credit facilities EUR 224.6 million due in 2021+ cannot be used for the repayment of term loan EUR 109 million due in March 2018 and for the agreed prepayment of EUR 150 million no later than January 2019.

Cash flows based on agreements in financial liabilities, including financing costs, at 31 December 2017:

EUR mill	Carrying amount	2018	2019	2020	2021	2022+	Total
Bonds	247,0	-6,9	-11,9	-11,9	-11,8	-255,9	-298,5
Loans from financial institutions	365,6	-115,4	-154,5	-3,7	-114,8		-388,4
Other interest-bearing liabilities	151,0	-150,1	-1,2	-0,2			-151,5
Trade payables and other current liabilities	186,2	-186,2					-186,2
Total	949,8	-458,6	-167,6	-15,8	-126,6	-255,9	-1 024,5
Derivatives							
FX Derivatives	6,2						
Assets		561,2					561,2
Liabilities		-567,1					-567,1
Electricity Derivatives	0,2						
Net cash flow		-0,2					-0,2
Total	6,4	-6,1					-6,1

Cash flows based on agreements in financial liabilities, including financing costs, at 31 December 2016:

EUR mill	Carrying amount	2017	2018	2019	2020	2021+	Total
Bonds	149,7	–5,1	–155,1				–160,1
Loans from financial institutions	373,7	–11,8	–10,7	–376,5			–399,0
Other interest-bearing liabilities	238,3	–237,2	–0,2	–1,9			–239,3
Trade payables and other current liabilities	200,4	–200,4					–200,4
Total	962,1	–454,4	–166,0	–378,4			–998,8
Derivatives							
FX Derivatives	2,8						
Assets		177,3					177,3
Liabilities		–179,9					–179,9
Electricity Derivatives	0,2						
Net cash flow		–0,1	–0,1				–0,2
Total	3,0	–2,7	–0,1				–2,8

Credit and counterparty risk

Trade receivables as well as receivables based on investments and derivative contracts expose the Group to credit risk. The counterparty risk associated with investments is managed by means of counterparty limits approved by the Board of Directors. Derivative contracts are entered into only with counterparties that are judged to be highly creditworthy and financially solid. Cash assets are invested in financial instruments that are judged to be liquid and to have a low risk. At the balance sheet date, 31 December 2017, the Group's liquid assets consisted mainly of deposits in banks, with a very short maturity. The Group does not incur major credit risk relating to commercial trade receivables because its outstanding receivables consist of a large amount of small receivables, and customers are primarily private individuals whose creditworthiness has been checked.

Ageing of trade receivables

EUR mill.	2017	2016
Trade receivables not due	14,5	14,3
Trade receivables fallen due in 1–30 days	2,1	0,8
Trade receivables fallen due in 31–60 days	0,6	0,1
Trade receivables fallen due in 61–90 days	0,1	0,1
Trade receivables fallen due in 91–120 days	0,1	0,0
Trade receivables fallen due in over 120 days	0,7	0,6
Total	18,1	15,9

The carrying amount of trade receivables corresponds to the amount invoiced to customers less allowances for expected credit losses. Allowances for expected credit losses are based on periodic review of age analysis of the outstanding amounts and allowance rates depending on the number of days that a trade receivable is past due. The allowance rates are probability-weighted and based on historical credit loss experience. In 2017 allowances for expected credit losses of EUR 0.3 million were recognized on trade receivables (2016: EUR 0.2 million), the impairment charge being mainly made for trade receivables fallen due in over 180 days.

Management of the capital structure

The Group's objective in managing the capital structure is an efficient capital structure that ensures the Group's operating fundamentals in the capital markets in all conditions irrespective of volatility in the sector. Although the Group does not have a public credit rating issued by a credit rating agency, the objective is to maintain the same type of capital structure as do other retailers who have a good credit rating. The Group monitors the trend in its capital structure by measuring the proportion of equity to total capital (equity ratio). As a result of the acquisition of Lindex the Group has Swedish Krona-denominated assets which are hedged by Swedish Krona-denominated external loans and/or forwards. The fluctuations of the Swedish Krona have impact on the total assets and liabilities equally.

The strategic goal is to have an equity ratio amounting to at least 40 per cent. The ratio of equity to total capital at 31 December 2017 was 43.0 per cent (at 31 December 2016 48.3 per cent).

35. Events after the balance sheet

On 2 January 2018, Stockmann announced that it is investigating a possible divestment of its Book House property. The Stockmann-owned Book House property in Helsinki city centre is now entirely in external partners' use after Stockmann Delicatessen's business operations were transferred to S Group on 31 December 2017.

On 23 January 2018, Stockmann announced that the company is continuing its efficiency measures with a target of annual cost savings of EUR 8 million at a minimum, to be implemented mainly by the end of 2018. A provision of approximately EUR 2 million will be recognised due to restructuring in the first quarter of 2018.

Stockmann plc
Income Statement, FAS

	Note	1.1.–31.12.2017 EUR	% of Rev.	1.1.–31.12.2016 EUR	% of Rev.
REVENUE	2	457 825 004,03	100,0	565 283 461,51	100,0
Other operating income	3	6 452 801,26	1,1	12 138 109,64	2,1
Materials and services					
Materials and consumables:					
Purchases during the financial year		–241 899 633,09		–311 690 416,00	
Change in inventories, increase (+), decrease (-)		–8 126 889,51		–11 243 825,25	
Materials and services, total		–250 026 522,60	44,2	–322 934 241,25	57,1
Wages, salaries and employee benefits	4	–91 800 558,79	16,2	–127 499 064,51	22,6
Depreciation, amortisation and reduction in va	5	–32 369 755,60	5,7	–26 604 502,85	4,7
Other operating expenses	6	–125 635 936,92	22,2	–138 566 762,42	24,5
		–499 832 773,91	88,4	–615 604 571,03	108,9
OPERATING PROFIT (LOSS)		–35 554 968,62	–6,3	–38 182 999,88	–6,8
Financial income and expenses	7	–75 744 014,09	–13,4	–11 664 854,17	–2,1
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		–111 298 982,71	–19,7	–49 847 854,05	–8,8
Appropriations	8	41 788 099,32	7,4	46 295 442,79	8,2
Income taxes					
For previous financial years		5 615 618,39			
Income taxes, total		5 615 618,39	1,0		
PROFIT (LOSS) FOR THE PERIOD		–63 895 265,00	–11,3	–3 552 411,26	–0,6

Stockmann plc
Balance sheet, FAS

ASSETS	Note	31.12.2017 EUR	31.12.2016 EUR
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		26 042 812,54	36 164 460,04
Other long-term expenditure		423 768,43	499 114,06
Advance payments and projects in progress		502 033,23	3 674 281,49
Intangible assets, total		26 968 614,20	40 337 855,59
Property, plant, equipment	10		
Land and water		13 435 033,59	13 435 033,59
Buildings and constructions		278 968 828,98	284 548 889,29
Machinery and equipment		37 085 932,19	39 323 077,80
Modification and renovation expenses for leased premises		3 481 601,79	5 232 294,16
Other tangible assets		54 601,65	54 769,84
Advance payments and construction in progress		964 432,87	8 360 232,35
Property, plant, equipment, total		333 990 431,07	350 954 297,03
Investments	11		
Shares in Group companies		215 686 260,39	176 392 674,58
Other shares and participations		760 443,74	8 028 858,74
Investments, total		216 446 704,13	184 421 533,32
NON-CURRENT ASSETS, TOTAL		577 405 749,40	575 713 685,94
CURRENT ASSETS			
Inventories			
Materials and consumables		54 594 598,70	62 721 488,21
Inventories, total		54 594 598,70	62 721 488,21
Non-current receivables			
Loan receivables from Group companies		776 772 193,74	874 705 095,85
Loan receivables from others		1 669 862,43	5 167 362,43
Non-current receivables, total		778 442 056,17	879 872 458,28
Current receivables	12		
Trade receivables		9 039 375,63	9 750 876,97
Receivables from Group companies		28 446 575,83	6 495 635,85
Other receivables		24 725 218,05	33 195,16
Prepayments and accrued income		23 141 354,48	16 849 922,20
Current receivables, total		85 352 523,99	33 129 630,18
Cash in hand and at banks	13	8 212 659,78	6 667 278,60
CURRENT ASSETS, TOTAL		926 601 838,64	982 390 855,27
ASSETS, TOTAL		1 504 007 588,04	1 558 104 541,21

Stockmann plc
Balance sheet, FAS

EQUITY AND LIABILITIES	Note	31.12.2017 EUR	31.12.2016 EUR
EQUITY	14-15		
Share capital		144 097 366,00	144 097 366,00
Premium fund		186 346 445,72	186 346 445,72
Reserve for invested unrestricted equity		255 735 789,28	255 735 789,28
Other funds		43 728 921,17	43 728 921,17
Retained earnings		-234 805 218,10	-231 252 806,84
Net profit (loss) for the financial year		-63 895 265,00	-3 552 411,26
EQUITY, TOTAL		331 208 039,07	395 103 304,07
ACCUMULATED APPROPRIATIONS	16	79 151 036,24	94 914 135,56
PROVISIONS	17	20 100 288,74	7 133 732,04
LIABILITIES			
Non-current liabilities			
Hybrid bond		85 000 000,00	85 000 000,00
Bonds		250 000 000,00	150 000 000,00
Loans from credit institutions		262 000 000,00	374 696 414,56
Accrued expenses and prepaid income	18	3 392 896,00	
Liabilities to Group companies		132 370 814,37	102 321 803,58
Non-current liabilities, total		732 763 710,37	712 018 218,14
Current liabilities	19-20		
Loans from credit institutions		112 266 780,63	1 251 417,14
Advances received		607 920,45	818 533,16
Trade payables		32 628 772,98	33 548 030,44
Liabilities to Group companies		3 419 469,44	2 771 130,72
Other payables		156 514 822,33	249 717 580,68
Accrued expenses and prepaid income		35 346 747,79	60 828 459,26
Current liabilities, total		340 784 513,62	348 935 151,40
LIABILITIES, TOTAL		1 073 548 223,99	1 060 953 369,54
EQUITY AND LIABILITIES, TOTAL		1 504 007 588,04	1 558 104 541,21

Stockmann plc
Cash flow statement

	2017 EUR	2016 EUR
CASH FLOW FROM OPERATING ACTIVITIES		
Profit (loss) for the financial year	-63 895 265,00	-3 552 411,26
Adjustments for:		
Depreciation and amortisation according to plan	27 369 755,60	25 658 793,70
Non-current assets write-offs	5 000 000,00	945 709,15
Other non-cash income and expenses	4 878 448,50	-9 482 493,98
Financial income and expenses	75 744 014,09	11 664 854,17
Appropriations	-41 788 099,32	-46 295 442,79
Income taxes	5 615 618,39	
Changes in working capital:		
Increase (-) / decrease (+) of current receivables	15 135 541,92	-589 110,84
Increase (-) / decrease (+) of inventories	3 864 024,99	4 941 645,15
Increase (+) / decrease (-) of current non-interest bearing liabilities	-23 444 459,63	-19 956 527,80
Interest and other financial expenses paid from operating activities	-33 240 826,92	-16 335 736,24
Interest received from operating activities	475 068,42	758 163,69
Direct income taxes paid	-969 469,17	
CASH FLOW FROM OPERATING ACTIVITIES	-25 255 648,13	-52 242 557,05
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-8 936 106,54	-23 683 595,44
Proceeds from disposal of tangible and intangible assets		2 780 971,15
Additions to holdings in Group companies	-100 293 585,81	2 500,00
Proceeds from disposal of subsidiary shares		788 860,83
Proceeds from disposal of other investments	35 000,00	824 699,00
Dividends received from investing activities		102 788,30
NET CASH FROM INVESTING ACTIVITIES	-109 194 692,35	-19 183 776,16
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (-)/decrease (+) of loan receivables	100 934 243,52	18 133 006,70
Proceeds from (+)/ repayments of (-) short-term loans	-131 534 443,37	-13 403 895,75
Proceeds from long-term loans	843 369 617,12	230 337 180,12
Repayments of long-term loans	-666 402 258,33	-162 601 912,94
Loan arrangement expenses	-10 371 437,28	
NET CASH FROM FINANCING ACTIVITIES	135 995 721,66	72 464 378,13
Change in cash in hand and at banks, increase (+) / decrease (-)	1 545 381,18	1 038 044,92
Cash in hand and at banks in the beginning of the financial year	6 667 278,60	5 629 233,68
Cash in hand and at banks at the end of the financial year	8 212 659,78	6 667 278,60

Notes to the parent company financial statements

1. Accounting principles

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

Gains and losses on foreign exchange in financial operations are entered as net amounts under other financial income or other financial expenses.

Revenue
Revenue 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 and charges for services rendered to subsidiaries.

Income taxes
The direct taxes entered in the profit and loss account are the taxes corresponding to net profit for the financial year as well as taxes payable for prior periods or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

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

Depreciation according to plan is based on the original cost and the estimated useful life of intangible and tangible assets as follows:

Intangible assets	3 – 10 years
Goodwill	5 years
Modification and renovation expenses of leased premises	5 – 10 years
Buildings	20 – 50 years
Machinery and equipment	3 – 10 years

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

Inventories
In the valuation of inventories the principle of lowest value has been used, i.e. the inventories have been entered in the balance sheet at the lowest of acquisition cost or a lower repurchase price or the probable market price. The value of inventories is determined using the weighted average cost method and it includes all the direct costs of the purchase.

Derivative instruments
Derivative agreements made to hedge against foreign exchange rate risk are valued at market value. Exchange and interest rate differences related to derivative agreements have been entered on an accrual basis as financial income and expenses.

2. Revenue by segment

EUR	2017	2016
Retail	438 652 320,89	548 740 114,82
Real Estate	19 172 683,14	16 543 346,69
Total	457 825 004,03	565 283 461,51

3. Other operating income

EUR	2017	2016
Compensation for services to Group companies	6 401 407,60	11 455 445,00
Other capital gains	29 702,75	653 689,94
Other operating income	21 690,91	28 974,70
Total	6 452 801,26	12 138 109,64

4. Wages, salaries and employee benefits expenses

EUR	2017	2016
Salaries and remuneration paid to the CEO and his deputy	716 721,35	1 235 590,00
Salaries and remuneration paid to the Board of Directors	427 400,00	422 000,00
Other wages and salaries	71 980 753,59	97 970 026,98
Wages during sick leave	2 285 334,10	3 256 872,91
Pension expenses	13 328 754,20	17 551 787,43
Other employee benefits expenses	3 061 595,55	7 062 787,19
Total	91 800 558,79	127 499 064,51

Personnel, average	2 456	3 314

Management pension liabilities

CEO Lauri Veijalainen's retirement age is determined in accordance with Finnish employment pension legislation. The CEO's pension will accrue on the basis of the Employees' Pensions Act. No voluntary insurance contribution was paid in 2017 (EUR 20 999 in 2016). The retirement age of the Management Team members is 63 or 65 or determined in accordance with Finnish employment pension legislation, depending on the particular executive agreement in question. In 2017 two of the Management Team members had voluntary defined contribution pension insurances taken by the company. The costs of the insurances in 2017 amounted to EUR 62 204 (EUR 38 733 in 2016).

5. Depreciation, amortisation and reduction in value

EUR	2017	2016
Intangible rights	13 477 951,03	9 000 839,49
Modification and renovation expenses for leased premises	893 648,06	1 221 003,26
Buildings and constructions	9 639 728,62	9 422 289,26
Machinery and equipment	8 358 427,89	6 960 370,84
Total	32 369 755,60	26 604 502,85

6. Other operating expenses

EUR	2017	2016
Site expenses	66 040 967,56	71 425 299,29
Marketing expenses	19 664 533,52	24 752 120,49
ICT expenses	16 462 272,97	16 755 979,07
Goods handling expenses	6 918 122,28	13 843 553,73
Voluntary indirect employee expenses	1 621 794,05	1 744 350,36
Credit losses	739 735,15	−2 386 984,12
Staff leasing expenses	5 046 178,10	8 201 198,86
Other expenses	9 142 333,29	4 231 244,74
Total	125 635 936,92	138 566 762,42

Auditors' fees

EUR	2017	2016
Auditing	115 000,00	125 000,00
Tax advisory	150 286,25	144 305,10
Other services	51 350,00	58 900,00
Total	316 636,25	328 205,10

7. Financial income and expenses

EUR	2017	2016
Other dividend income		102 788,30
Interest income from Group companies	28 340 753,92	24 333 170,47
Interest income from parties outside the Group	451 261,23	518 385,36
Interest expenses to Group companies	-4 068 845,56	-2 416 402,10
Interest and other financial expenses to parties outside the Group	-29 450 712,62	-24 502 060,49
Adjustments to earlier recognised interests related to tax audits	2 957 538,21	
Expenses on early redemptions	-1 993 760,71	
Impairment of loan receivables and investments	-71 763 117,75	-7 241 944,22
Foreign exchange gains and losses (net)	-217 130,81	-2 458 791,49
Total	-75 744 014,09	-11 664 854,17

8. Appropriations

EUR	2017	2016
Change in depreciation reserve	15 763 099,32	35 755 442,79
Received Group contributions	26 025 000,00	10 540 000,00
Total	41 788 099,32	46 295 442,79

Non-current assets

9. Intangible assets

Intangible rights

EUR	2017	2016
Acquisition cost 1 January	56 408 273,11	63 395 460,06
Increases	90 721,55	215 557,17
Transfers between items	6 497 177,86	4 262 024,47
Decreases	-10 064 536,09	-11 464 768,59
Acquisition cost 31 December	52 931 636,43	56 408 273,11
Accumulated amortisation 1 January	20 243 813,07	22 705 674,29
Accumulated amortisation on reductions	-6 832 940,21	-11 462 700,71
Write-downs	5 000 000,00	
Amortisation for the financial year	8 477 951,03	9 000 839,49
Accumulated amortisation 31 December	26 888 823,89	20 243 813,07
Book value 31 December	26 042 812,54	36 164 460,04

Other capitalised long-term expenditure

EUR	2017	2016
Acquisition cost 1 January and 31 December	716 422,36	716 422,36
Decreases	-10 653,51	
Acquisition cost 31 December	705 768,85	716 422,36
Accumulated amortisation 1 January	217 308,30	142 888,54
Accumulated amortisation on reductions	-10 653,51	
Amortisation for the financial year	75 345,63	74 419,76
Accumulated amortisation 31 December	282 000,42	217 308,30
Book value 31 December	423 768,43	499 114,06

Advance payments and projects in progress

EUR	2017	2016
Acquisition cost 1 January	3 674 281,49	1 814 860,05
Increases	3 324 929,60	6 227 041,91
Transfers between items	-6 497 177,86	-4 262 024,47
Decreases		-105 596,00
Acquisition cost 31 December	502 033,23	3 674 281,49
Book value 31 December	502 033,23	3 674 281,49

Intangible assets, total	26 968 614,20	40 337 855,59

10. Tangible assets

Land and water

EUR	2017	2016
Acquisition cost 1 January	7 536 683,01	7 536 683,01
Acquisition cost 31 December	7 536 683,01	7 536 683,01
Revaluations 1 January and 31 December	5 898 350,58	5 898 350,58
Book value 31 December	13 435 033,59	13 435 033,59

Buildings and constructions

EUR	2017	2016
Acquisition cost 1 January	357 478 905,11	352 955 744,26
Increases	40 378,18	–10 391,22
Transfers between items	4 019 290,13	7 751 883,97
Decreases	–2 625 397,11	–3 218 331,90
Acquisition cost 31 December	358 913 176,31	357 478 905,11
Accumulated depreciation 1 January	99 460 725,42	91 842 747,91
Accumulated depreciation on reductions	–2 625 397,11	–1 804 311,75
Depreciation for the financial year	9 639 728,62	9 422 289,26
Accumulated depreciation 31 December	106 475 056,93	99 460 725,42
Revaluations 1 January and 31 December	26 530 709,60	26 530 709,60
Book value 31 December	278 968 828,98	284 548 889,29

Machinery and equipment

EUR	2017	2016
Acquisition cost 1 January	54 107 819,76	31 003 186,16
Increases	291 443,80	248 430,63
Transfers between items	9 037 534,53	29 935 116,59
Decreases	–10 106 851,68	–7 078 913,62
Acquisition cost 31 December	53 329 946,41	54 107 819,76
Accumulated depreciation 1 January	14 784 741,96	14 674 265,97
Accumulated depreciation on reductions	–6 898 987,42	–6 849 894,85
Depreciation for the financial year	8 358 259,68	6 960 370,84
Accumulated depreciation 31 December	16 244 014,22	14 784 741,96
Book value 31 December	37 085 932,19	39 323 077,80

Modification and renovation expenses for leased premises

EUR	2017	2016
Acquisition cost 1 January	6 436 816,03	6 952 930,38
Increases	61 072,71	358 116,50
Transfers between items	1 346 761,39	2 214 381,20
Decreases	–2 847 800,95	–3 088 612,05
Acquisition cost 31 December	4 996 849,18	6 436 816,03
Accumulated depreciation 1 January	1 204 521,87	3 146 550,47
Accumulated depreciation on reductions	–507 576,99	–3 088 612,05
Depreciation for the financial year	818 302,51	1 146 583,45
Accumulated depreciation 31 December	1 515 247,39	1 204 521,87
Book value 31 December	3 481 601,79	5 232 294,16

Other tangible assets

EUR	2017	2016
Acquisition cost 1 January	54 769,84	54 769,84
Decreases	–168,19	
Acquisition cost 31 December	54 601,65	54 769,84
Book value 31 December	54 601,65	54 769,84

Advance payments and construction in progress

EUR	2017	2016
Acquisition cost 1 January	8 360 232,35	28 991 864,21
Increases	7 007 786,57	19 657 830,86
Transfers between items	–14 403 586,05	–39 901 381,76
Decreases		–388 080,96
Acquisition cost 31 December	964 432,87	8 360 232,35
Book value 31 December	964 432,87	8 360 232,35

Tangible assets, total	333 990 431,07	350 954 297,03

Revaluations included in balance sheet values

EUR	2017	2016
Land and water	5 898 350,58	5 898 350,58
Buildings	26 530 709,60	26 530 709,60
Total	32 429 060,18	32 429 060,18

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.

11. Investments

Investments in Group companies

EUR	2017	2016
Acquisition cost 1 January	176 392 674,58	177 278 536,39
Increases	100 293 585,81	
Decreases		–885 861,81
Impairments*	–61 000 000,00	
Book value 31 December	215 686 260,39	176 392 674,58

* 2017: Impairment of Lindex business operations

Other shares and participations

EUR	2017	2016
Acquisition cost 1 January	8 028 858,74	10 458 905,98
Decreases	–5 297,25	–188 103,02
Impairments	–7 263 117,75	–2 241 944,22
Book value 31 December	760 443,74	8 028 858,74

Investments, total	216 446 704,13	184 421 533,32

12. Current receivables

Trade receivables

EUR	2017	2016
Interest-bearing trade receivables	2 184 196,93	1 571 551,44
Non-interest bearing trade receivables	6 855 178,70	8 179 325,53
Total	9 039 375,63	9 750 876,97

Receivables from Group companies

EUR	2017	2016
Group contribution receivables	26 025 000,00	3 980 000,00
Trade receivables	2 412 940,52	2 373 137,29
Prepayments and accrued income	8 635,31	82 498,56
Other current receivables		60 000,00
Total	28 446 575,83	6 495 635,85

Other receivables

EUR	2017	2016
Receivable from sales of business operations	24 706 293,24	
Other receivables	18 924,81	33 195,16
Total	24 725 218,05	33 195,16

Essential items in prepayments and accrued income

EUR	2017	2016
Derivative receivables	4 501 491,09	4 636 099,71
Periodised indirect employee expenses	2 656 801,09	3 798 405,63
Receivable from credit card co-operation	2 787 555,23	1 960 448,71
Periodised loan arrangement expenses	8 420 973,29	1 782 585,64
Periodised ICT expenses	1 668 183,24	1 769 591,12
Receivables from suppliers	1 469 472,66	1 065 035,98
Periodised rental and leasing expenses	165 255,79	819 774,70
Taxes and customs duties receivable	276 997,98	412 826,75
Receivable from trademark co-operation	500 000,00	
Other prepayments and accrued income	694 624,12	605 153,96
Total	23 141 354,49	16 849 922,20

13. Cash in hand and at banks
Cash in hand and at banks comprise bank deposits and cash in hand.

14. Changes in equity

Share capital

EUR	2017	2016
Series A shares 1 January	61 061 736,00	61 106 432,00
Conversion to Series B shares		–44 696,00
Series A shares 31 December	61 061 736,00	61 061 736,00
Series B shares 1 January	83 035 630,00	82 990 934,00
Conversion from Series A shares		44 696,00
Series B shares 31 December	83 035 630,00	83 035 630,00
Share capital, total	144 097 366,00	144 097 366,00
Premium fund 1 January and 31 December	186 346 445,72	186 346 445,72
Reserve for invested unrestricted equity 1 January and 31 December	255 735 789,28	255 735 789,28
Other funds 1 January and 31 December	43 728 921,17	43 728 921,17
Retained earnings 1 January and 31 December	–234 805 218,10	–231 252 806,84
Net profit (loss) for the financial year	–63 895 265,00	–3 552 411,26
Equity, total	331 208 039,07	395 103 304,07

Breakdown of distributable funds 31 December

EUR	2017	2016
Funds	299 464 710,45	299 464 710,45
Retained earnings	–234 805 218,10	–231 252 806,84
Net profit (loss) for the financial year	–63 895 265,00	–3 552 411,26
Total	764 227,35	64 659 492,35

15. Parent company's shares

Par value EUR 2.00	shares	shares
Series A shares (10 votes each)	30 530 868	30 530 868
Series B shares (1 vote each)	41 517 815	41 517 815
Total	72 048 683	72 048 683

16. Accumulated appropriations
The accumulated appropriations comprise accumulated depreciation difference.

17. Provisions
Other provisions

EUR	2017	2016
Rental commitments and closing cost of discontinued stores		4 472 616,04
Business restructuring cost	20 100 288,74	2 661 116,00
Total	20 100 288,74	7 133 732,04

18. Essential items in accruals and prepaid income, non-current

EUR	2017	2016
Accrued site expenses	2 142 626,00	
Accrued it expenses	1 250 270,00	
Total	3 392 896,00	

19. Current liabilities

EUR	2017	2016
Interest-bearing liabilities	251 316 308,32	232 592 075,12
Non-interest-bearing liabilities	89 468 205,30	116 343 076,28
Total	340 784 513,62	348 935 151,40

Liabilities to Group companies

EUR	2017	2016
Trade payables	367 323,95	269 834,18
Other liabilities, interest-bearing	1 423 056,50	624 285,53
Other liabilities, non-interest-bearing	339 776,56	339 776,56
Accrued liabilities	1 289 312,43	1 537 234,45
Total	3 419 469,44	2 771 130,72

20. Essential items in accruals and prepaid income, current

EUR	2017	2016
Accrued personnel expenses	13 672 225,07	22 125 199,72
Accrued interest and other financial expenses	8 167 198,29	12 338 075,54
Income tax payable		10 850 991,78
Periodised purchases of stock items	3 772 864,76	4 730 708,26
Derivative payables	5 544 885,03	2 659 943,13
Payables for investments		2 151 280,00
Accrued site expenses	1 584 785,72	1 887 389,00
Reserve for returns	669 600,00	1 034 015,58
Other accrued expenses and prepaid income	1 935 188,92	3 050 856,25
Total	35 346 747,79	60 828 459,26

21. Security pledged

Mortgages given as collateral for liabilities and commitments

EUR	2017	2016
Loans from credit institutions	624 266 780,63	
Mortgages given	1 801 681 800,00	1 681 800,00
Book value of the assets	400 078 832,52	
Guarantees	300 000,00	300 000,00
Security pledged on behalf of the company, total	1 801 981 800,00	1 981 800,00

Security pledged on behalf of other parties

EUR	2017	2016
Guarantees		6 164 419,01
Total		6 164 419,01

Security pledged on behalf of Group companies

EUR	2017	2016
Rent guarantees	8 460 395,46	6 000 595,97
Other guarantees	33 375 630,39	33 375 630,39
Total	41 836 025,84	39 376 226,36

Security pledged, total

EUR	2017	2016
Mortgages	1 801 681 800,00	1 681 800,00
Guarantees	42 136 025,84	45 840 645,38
Total	1 843 817 825,84	47 522 445,38

22. Other commitments

EUR	2017	2016
Leasing commitments	1 401 725,42	1 236 091,65
Electricity commitments	1 587 989,90	
Rental commitments	380 822 937,12	420 843 901,45
Total	383 812 652,44	422 079 993,10

Investments in real estate

The company is required to adjust the VAT deductions made on real estate investments completed in 2008-2017, if the VAT-liable use of the real estate decreases during the adjustment period. The last adjustment year is 2027, and the maximum liability is EUR 12 736 119. In 2016 the maximum liability was EUR 15 350 797.

Pension liabilities

The pension liabilities of the parent company are insured with outside pension insurance companies. The pension liabilities are fully covered.

23. Shares and participations

Group companies

Parent company holdings	Shareholding %	Voting rights %
Stockmann AS, Tallinn	100	100
SIA Stockmann, Riga	100	100
SIA Stockmann Centrs, Riga	63	63
Stockmann Security Services Oy Ab, Helsinki	100	100
Oy Suomen Pääomarahoitus - Finlands Kapitalfinans Ab, Helsinki	100	100
Stockmann Sverige AB, Stockholm	100	100
Oy Hullut Päivät-Galna Dagar Ab, Helsinki	100	100

Holdings of subsidiaries	Shareholding %	Voting rights %
Stockmann Security Oy, Helsinki	100	100
OOO Stockmann Stp Centre, St Petersburg	100	100
TOV Stockmann, Kiev	100	100
AB Lindex, Gothenburg	100	100
AB Lindex holdings of subsidiaries		
Lindex Sverige AB, Gothenburg	100	100
Lindex AS, Oslo	100	100
Lindex Oy, Helsinki	100	100
Lindex Oü Eesti, Tallinn	100	100
SIA Lindex Latvia, Riga	100	100
UAB Lindex Lithuania, Vilnius	100	100
Lindex s.r.o., Prague	100	100
AB Espevik, Alingsas	100	100
Lindex H.K. Ltd, Hong Kong	99	99
Shanghai Lindex Consulting Company Ltd, Shanghai	100	100
Lindex Financial Services AB, Gothenburg	100	100
Lindex India Private Ltd, New Delhi	100	100
It will be fit AB, Gothenburg	100	100
Lindex GmbH, Dusseldorf	100	100
Lindex Slovakia s.r.o., Bratislava	100	100
Lindex PL Sp.z.o.o., Warsaw	100	100
Lindex UK Fashion Ltd, London	100	100

Joint operations	Shareholding %
Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab, Espoo	37,8
SIA Stockmann Centrs, Riga	63

The shares of joint operations are presented in consolidated accounts so that instead of shares, assets and liabilities of joint operations are consolidated in proportion to the Group's interest in the companies.

Other companies

Parent company holdings	Shareholding %
Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab, Espoo	37,8
Tuko Logistics Osuuskunta, Kerava	10,0
Others	n/a

Board proposal for disposal of distributable funds and net result of the financial year

The parent company's distributable funds according to the balance sheet at 31 December 2017 were EUR 0.8 million.

According to the parent company's balance sheet at 31 December 2017, the distributable funds at disposal of the Annual General Meeting comprise:

reserve for invested unrestricted equity	255 735 789,28
contingency fund	43 728 921,17
retained earnings	-234 805 218,10
loss for the financial year	-63 895 265,00
	764 227,35

The Board of Directors proposes that the net result of financial year 2017 will be carried further in the retained earnings and that no distribution of funds will take place.

Helsinki, 13 February 2018

Signatures of the Board of Directors and the CEO to the Board report on operations and the financial statements:

BOARD OF DIRECTORS

Jukka Hienonen

Kaj-Gustaf Bergh Esa Lager Susanne Najafi Leena Niemistö

Michael Rosenlew Per Sjödell Dag Wallgren

CEO

Lauri Veijalainen

Our auditor's report has been issued today.

Helsinki, 20 February 2018

Henrik Holmbom
Authorised Public Accountant

Marcus Tötterman
Authorised Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Stockmann plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stockmann plc (business identity code 0114162-2) for the year ended 31 December 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

— the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 10 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of goodwill and trademark / parent company investment in Lindex
(Refer to notes 1 and 14 to the consolidated financial statements and notes 7 and 11 to the parent company financial statements)

— The goodwill and the trademark balances carried in the consolidated statement of financial position totalled € 656 million as of 31 December 2017. The goodwill and the trademark allocated to the Lindex segment amounted to € 631 million and the goodwill allocated to the Retail segment € 25 million, respectively.

— During 2017 an impairment of € 150 million of Lindex goodwill was recognized in the consolidated income statement. An impairment of € 61 million for the investment in Lindex was recognized in the parent company income statement.

— Impairment testing of the cash-generating units (Lindex and Retail) performed by the management relies on estimates of value in use.

— Determining the key assumptions about the cash flow projections underlying the impairment calculations requires the management to make judgements for example in respect of sales growth, profitability and discount rate. Due to the uncertainty related to the projections used in the testing, and the significance of the carrying amounts involved, the valuation of goodwill and trademark was deemed to be

— Our analysis considered valuation of goodwill and the trademark in the Consolidated Financial Statements and the Parent company investment in Lindex. We assessed the impairment recognized during 2017 and the year-end impairment testing.

— We involved KPMG valuation specialists and our audit procedures included, among others:

  — We challenged the appropriateness of the key assumptions used in the impairment calculations.

  — We compared the key assumptions used in the impairment calculations, such as cash flows forecasts, discount rates and growth estimates, to the forecasts determined by the Group, market data derived from external sources and to Stockmann's own historical data from the previous financial years.

  — We tested the arithmetical accuracy of the impairment calculations.

  — We considered the disclosures in respect of impairment testing, including an assessment of the appropriateness and the adequacy of the information a key audit matter.

— The cash-generating units may not perform in line with the expectations and forecasts, and therefore, there is a risk that the carrying amounts of goodwill and the trademark exceed their recoverable amounts. At the year-end 2017 the parent company's market capitalisation was below the carrying amount of the net assets of the Group attributable to shareholders.

provided on the key assumptions and the sensitivity analyses.

Valuation of properties
(Refer to notes 1, 3, 15 and 16 to the consolidated financial statements)

— In the consolidated financial statements, Stockmann measures both the owner-occupied properties and the investment properties it owns at fair value. Fair values are determined on the basis of valuations by external authorised property valuers. The fair value of the properties in the consolidated statement of financial position totalled € 973 million as of 31 December 2017.

— Revaluing owner-occupied properties and determining fair values of the investment properties involve estimation uncertainty, in respect of forecasting and discounting future cash flows, and the management's subjective estimates.

— The valuation of the property holdings is affected by the assumptions used that involve significant amount of management judgement. The key assumptions relate to, among others:

  — estimates on net rental income

  — future capital expenditures

— We made an overall assessment of the principles and the methodologies used in determining fair values. Given the nature of the calculations we also involved KPMG valuation specialists to assess the appropriateness of the fair values of the properties as determined by Stockmann. Our audit procedures included, among others:

  — We assessed the appropriateness of the valuation models and the key assumptions used, through comparing them to market data derived from external sources, for example.

  — We considered the appropriateness and the adequacy of the information provided in the disclosures on fair value measurement of the properties.

Monitoring and valuation of inventories
(Refer to notes 1 and 19 to the consolidated financial statements)

- Stockmann carries out its business through a wide network of department and fashion stores, both in Finland and abroad. This increases the importance of functional IT systems, internal controls and management monitoring to ensure the accuracy of inventory balances and the appropriate valuation of inventories.
- The Group sells fashion goods and other goods being subject to changing consumer demands and fashion trends.
- Valuation of inventories involves management judgement. Such judgements include the management's estimates of future sales of inventory items, among others. Therefore, the write-downs recognised on inventories may subsequently prove insufficient.

Our audit procedures included, among others:

- We assessed the appropriateness of the inventory control process and reports used by the management for monitoring purposes.
- In respect of the Group's inventory-related IT systems, associated system access controls and IT security, we assessed the control environment and the effectiveness of system-based controls.
- We attended physical inventory counts at selected locations and assessed the appropriateness of the stock taking processes in the Group's central warehouses.
- We performed data analysis to test the accuracy of inventory pricing and the reliability of calculations used for inventory valuation purposes.
- We assessed the principles applied for inventory valuation and the adequacy of the write-downs recognised.

Financing
(Refer to notes 1 and 34 to the consolidated financial statements)

- In 2017 Stockmann has entered into a new loan agreement and refinanced its previous loan facilities. In addition Stockmann issued new senior security notes and made an early redemption of the previous notes outstanding.
- The interest bearing debt totalled € 764 million as of 31 December 2017.

- We have considered the new financing agreements and other related documentation.
- We have assessed the terms of the financing agreements and the impacts on classification and recognition in relation to the accounting principles and the accounting standards applied in the consolidated financial statements.
- In addition, we have assessed the appropriateness of the disclosures provided on the financing arrangements and interest bearing debt in the consolidated financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

KPMG Oy Ab or auditors representing the audit firm have served as auditors of Stockmann plc for an uninterrupted period of at least 30 years. The undersigned were appointed as auditors by the Annual General Meeting in spring 2015, and have uninterruptedly served for three years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 20 February 2018

HENRIK HOLMBOM
Authorised Public Accountant, KHT

MARCUS TÖTTERMAN
Authorised Public Accountant, KHT