ANNUAL REPORT **2006**

STOCKMANN

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Contents

Stockmann in brief

Stockmann is a Finnish listed company which was established in 1862 and is engaged in the retail trade. It has about 40 000 shareholders. Customer satisfaction is the central objective of Stockmann's trading in all its areas of business. Stockmann's three divisions are the Department Store Division, Hobby Hall, which is specialized in distance retail, and Seppälä, a chain of fashion stores. Stockmann operates in Finland, Russia, Estonia, Latvia and Lithuania.

Stockmann Group's core values

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

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

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

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

Respect for our people
We respect and value people´s capacity for commitment, taking calculated risks and producing result. We reward success.

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

Cover picture:
The Nevsky Centre shopping mall and department store that will be completed in the heart of St Petersburg in 2008 will be Stockmann's flagship in Russia.

Stockmann Group's growth strategy

The Group's strategic objective is to grow profitably. Over the next few years, growth will be achieved increasingly abroad, particularly in Russia. The objective is that in 2011, international operations will account for about half of the Group's sales and earnings. All the divisions are energetically growing their operations abroad.

The Group's long years of business in Russia and knowledge of the market have opened up franchising as an opportunity, concrete examples of which are the vigorously expanding Bestseller and Nike chains.

Long-term financial targets

	Return on capital employed	EBIT on revenue	Sales growth	Equity ratio
Target set in 2001	Minimum 15%	Minimum 5%	Above industry average	
2001	9.8%	3.6%	Achieved	
2002	12.6%	4.7%	Achieved	
2003	13.2%	4.7%	Achieved	
2004	14.3%	4.9%	Achieved	
Target set in 2005, up to 2010	Minimum 20%	Minimum 8%	Above industry average	Minimum 50%
2005	19.6%	6.7%	Achieved	66.4%
Target set in 2006, up to 2011	22%	10%	Above industry average	Minimum 50%
2006	22.9%	10.0%	In line with industry average	74.5%

Reflecting the change in Stockmann's Group structure, the Board of Directors confirmed in June 2006 the Group's new financial targets up to 2011.

Dividend policy

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

Stockmann's commercial operations


RUSSIA
• 4 department stores
• 17 Seppälä stores
• 14 Bestseller stores
• 2 Nike stores
• 2 speciality stores
• An oddment store
YEKATERINBURG
NIZHNY NOVGOROD
KAZAN
SAMARA
MOSCOW
ROSTOV-ON-DON

Stockmann in 2006

Key figures

		FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	IFRS 2006
Sales	EUR mill.	1 582.3	1 698.6	1 735.0	1 851.3	**1 552.6**
Change in sales	%	2.9	7.4	2.1	6.7	**-16.1**
Revenue	EUR mill.	1 315.3	1 412.7	1 445.0	1 542.6	**1 300.7**
Staff expenses	EUR mill.	184.9	194.9	202.2	218.0	**204.7**
Share of revenue	%	14.1	13.8	14.0	14.1	**15.7**
Operating profit	EUR mill.	61.9	65.7	79.8	103.7	**129.5**
Share of revenue	%	4.7	4.7	5.5	6.7	**10.0**
Profit before taxes	EUR mill.	68.6	74.0	78.9	102.8	**128.9**
Investment in fixed assets	EUR mill.	25.8	40.9	59.0	57.0	**125.5**
Total assets	EUR mill.	752.7	800.8	749.0	761.5	**767.6**
Share capital	EUR mill.	102.8	105.3	106.8	109.0	**111.7**
Market capitalization at December 31	EUR mill.	710.1	955.6	1 140.8	1 761.3	**2 028.6**
Dividend paid	EUR mill.	45.9	123.3	53.0	59.5	**72.1** *
Dividend per share 1)	EUR	0.90	2.35	1.00	1.10	**1.30** *
Earnings per share 1)	EUR	0.97	1.01	1.13	1.44	**1.93**
Earnings per share, diluted 1)	EUR	0.97	1.00	1.11	1.42	**1.90**
Equity ratio	%	69.7	68.3	62.5	66.4	**74.5**
Return on equity	%	9.6	9.6	12.2	15.8	**19.4**
Return on capital employed	%	12.6	13.2	14.8	19.6	**22.9**

1) Adjusted for share issues.

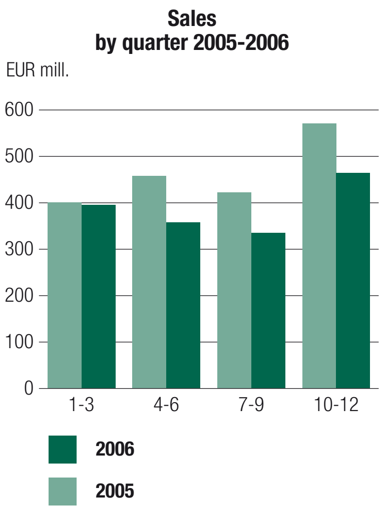
*) Board proposal to the AGM. According to the proposal, a dividend of EUR 1.30 per share will be paid.

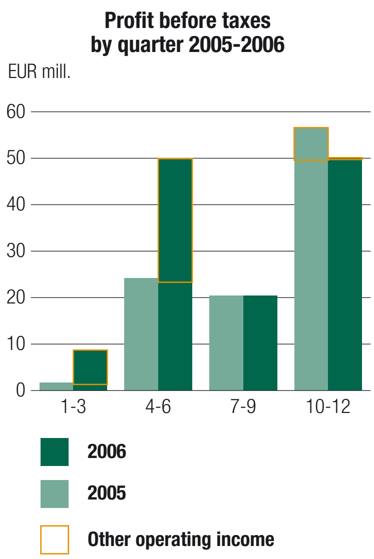
Sales by quarter 2005-2006, EUR mill.

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
Department Store Division	207.0	244.4	228.4	344.3	235.8	270.8	249.0	363.4
Hobby Hall	60.5	42.7	43.9	63.4	52.6	46.2	45.5	55.5
Seppälä	30.0	39.9	40.1	45.1	32.4	40.2	40.2	45.3
Unallocated	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Continuing operations, total	**297.7**	**327.3**	**312.6**	**453.1**	**320.9**	**357.6**	**334.9**	**464.4**
Discontinued operations	102.9	130.6	109.6	117.4	74.8			
Group	400.6	457.9	422.3	570.5	395.7	357.6	334.9	464.4

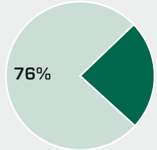
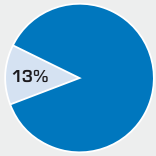
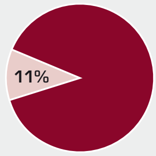
Operating profit by quarter 2005-2006, EUR mill.

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
Department Store Division	0.2	15.2	12.1	37.8	-0.1	22.2	13.1	44.3
Hobby Hall	0.7	0.2	0.9	4.3	1.0	0.6	2.1	3.4
Seppälä	1.3	8.4	6.9	14.5	0.8	7.6	5.4	7.3
Unallocated	-1.1	-1.5	-1.4	-3.3	-1.4	-1.9	-0.9	-3.8
Eliminations	-0.1	0.7	-0.9	0.6	0.6	0.2	0.1	-0.6
Continuing operations, total	**1.0**	**23.1**	**17.5**	**53.9**	**0.8**	**28.7**	**19.8**	**50.6**
Discontinued operations	0.6	1.5	1.9	4.1	7.7	21.9		
Group	1.6	24.6	19.5	58.0	8.5	50.6	19.8	50.6

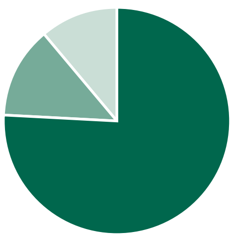




Divisions in short

Divisions and their management	Offerings	Locations	Share of Stockmann's sales
Department Store Division Heikki Väänänen	Offers customers a knowledgeable shopping environment and good service in a congenial atmosphere. The key to Stockmann's success is a unique and broad assortment of good products at competitive prices.	• **Finland:** 7 department stores, 6 Academic Bookstores, 4 Zara stores, 14 Stockmann Beauty stores and an oddment store • **Russia:** 4 department stores, 14 Bestseller stores, 2 Nike stores, 2 speciality stores and an oddment store • **Estonia:** a department store • **Latvia:** a department store	1 119.0 EUR million 
Hobby Hall Raija Saari	Hobby Hall offers an easy, reliable and pleasant alternative for buying quality products at affordable prices. Its offerings consist primarily of household and leisure articles.	• **Finland:** largest mail order sales company and leading online store, 2 stores • **Estonia:** largest mail order sales company, an online store, a store • **Latvia:** largest mail order sales company, an online store • **Lithuania:** a mail order sales company, an online store	199.8 EUR million 
Seppälä Terhi Okkonen	Offers customers women's, men's and children's apparel, shoes and cosmetics at reasonable prices. The collections are based on Seppälä's own product design and own brands. Seppälä's expertise rests on the correct combination of basic and trendy products.	Finland's and Estonia's most extensive chain of fashion stores • **Finland:** 126 stores • **Russia:** 17 stores • **Estonia:** 14 stores • **Latvia:** 9 stores • **Lithuania:** 4 stores	158.1 EUR million 

Sales by market*

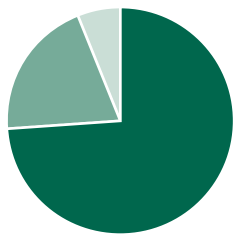


- 76% Finland
- 13% Russia
- 11% Baltic countries

Sales by sector*

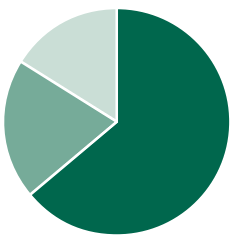
- 49% Fashion
- 18% Food
- 15% Home
- 12% Leisure
- 6% Books, publications, stationery

Distribution of operating profit* by division



- 74% Department Store Division
- 20% Seppälä
- 6% Hobby Hall

Distribution of operating profit by market



- 64% Finland
- 20% Russia
- 16% Baltic countries

* Continuing operations

Major events in 2006

January

- Jussi Kuutsa, M.Sc. (Econ.), head of the Department Store Division's International Operations was appointed Stockmann Group's Development Director for International Operations and a member of the Management Committee effective January 10, 2006.
- Stockmann sold the shares outstanding in its subsidiary Stockmann Auto Oy Ab to Veho Group Oy Ab, the Volkswagen-Audi business to Kesko, and the Turku and Espoo dealerships to SOK. Title to Stockmann Auto and the divested businesses passed to the buyers on March 1, 2006. Stockmann launched wide-ranging loyal customer cooperation together with Veho and now offers its loyal customers Veho's entire range of marques.
- Stockmann signed an agreement with the Inditex Group of Spain, owner of the Zara brand, under which it sold the entire shares outstanding in its subsidiary ZAO Stockmann-Krasnoselskaya, engaged in the Zara business in Russia, to Inditex. The deal closed at the end of June, when the State Antimonopoly Committee of the Russian Federation approved it. Under the agreement, the business has been carried on for the account of Inditex as from January 1, 2006. Stockmann will continue the Zara business in Finland.
- Stockmann entered into an agreement under which it leased space in IKEA's Mega III Shopping Centre, which was under construction, for the fourth full-scale Stockmann department store in Moscow as well as store premises for a Seppälä and a Bestseller franchise store. The new Mega East department store along with the Seppälä and Bestseller stores opened their doors to customers in February 2007.
- Stockmann's Loyal Customer programme celebrated 20 years in business. To honour the occasion, the company published Kellon alla (Under the Clock), a book of customers' reminiscences about Stockmann.

February

- The Stockmann Group's Board of Directors appointed Jukka Naulapää, LL.M., company lawyer and member of the Management Committee, Director, Legal Affairs, as from 8 February 2006.

March

- The Annual General Meeting approved the Board of Directors' proposal on the granting of new share options to Loyal Customers on the basis of purchases made in 2006 and 2007. The subscription periods for shares to be subscribed for with the stock options are in May 2008, 2009 and 2010. The stock options are offered to Loyal Customers as a benefit that rewards them for patronage and at the same time improves Stockmann's competitive position.
- Stockmann's operations in Russia expanded for the first time outside Moscow and St Petersburg, when Seppälä's and Bestseller's stores were opened in Kazan. Later in 2006, operations also expanded to Nizhny Novgorod and Yekaterinburg, where Seppälä and Bestseller stores were likewise opened.

April

- CM-Urakointi Oy was chosen as the general contractor for "The All-Time Stockmann" enlargement project at the Helsinki department store.
- Stockmann's department stores in Moscow ran Crazy Days for the first time, and they were a huge success. Crazy Days, which were now run at all the Stockmann department stores in Finland, Russia, Estonia and Latvia, again racked up record sales figures.
- Stockmann's new Logistics Centre in Moscow became operational. The Logistics Centre is located in Kulon, a suburb that offers good access to Stockmann's department stores, and the centre has been dimensioned to accommodate 7-8 department stores.

June

- Reflecting the change in the Group's structure, the Board of Directors confirmed the Group's new financial targets up to 2011. The objective is for the Group's return on capital employed to reach 22 per cent in 2011, with an operating profit margin of 10 per cent. The other financial targets – an equity ratio of at least 50 per cent and sales growth that outpaces the market average – are unchanged. The Board of Directors estimates that in 2011, international operations will account for about half of the Group's sales and earnings.
- The Finnish Direct Marketing Association chose Hobby Hall for the Direct Marketer of the Year award. The rules specify that the award goes to a company that has shown long-term, innovative and systematic efforts and a new creative approach to direct marketing.

August

- Stockmann signed a preliminary agreement on opening Moscow's fifth full-scale Stockmann department store in leased premises in the Metropolis Shopping Centre that is to be built near the city's centre on the north side. The objective is to open the department store in 2008.
- Stockmann entered into a cooperation agreement with Nike of Russia on setting up Nike stores in Russia. The first Stockmann-operated Nike stores will be opened early in 2007 in St Petersburg. Stockmann's objective is to open a number of Nike stores in Russia over the next few years.

September

- In Finland, Russia and the Baltic countries, Seppälä launched Be Your Own Supermodel, a blockbuster campaign in which anybody could enter as a candidate model. The idea was to play down the glamour aspect of fashion and to make stylish, trendy attire a part of everyone's daily life.
- Hobby Hall won the "Contact Center of the Year" award at the Contact Center 2006 conference, the largest such event in the Nordic countries. The award was made on the basis of an extensive survey conducted by the market research company Taloustutkimus Oy.
- Stockmann was chosen as a component of the Kempen / Smaller Europe SRI sustainable development index that is maintained by the Dutch investment companies Kempen Capital Management and SNS Asset Management. The companies in the index are considered to meet high ethical, social and environmental protection criteria in carrying out their operations. In February 2007, the index comprised 139 companies from 15 countries.

October

- Construction works on Stockmann's Nevsky Centre mall in the centre of St Petersburg got under way. On the basis of competitive bids, OOO Kitai Stroi, the Russian subsidiary of China State Construction Engineering Corporation, was chosen as the general contractor. The Nevsky Centre mall and the Stockmann department store that will be sited there are scheduled to open in autumn 2008.
- Stockmann's CEO, Hannu Penttilä, was elected as president of IADS (International Association of Department Stores) for the next two-year term of office. IADS, which is headquartered in Paris, is a cooperation organization of 22 department store companies operating around the world.
- The Tapiola department store marked 25 years in business. Located in the heart of the Tapiola garden city, the department store has been enlarged several times, and in terms of sales volume, it now ranks as Finland's third largest department store.
- Hobby Hall opened online shopping to Latvians.

An annual summary of Stockmann's stock exchange and financial press releases in 2006 is available on the company's website at www.stockmann.com.

Information for shareholders

Annual General Meeting

The 2007 Annual General Meeting of the shareholders of Stockmann plc will be held on Tuesday, March 20, 2007, at 4.00 p.m. in the Finlandia Hall at the address Karamzininkatu 4, Helsinki.

Registrations for the meeting must be received no later than on March 14, 2007, at 4.00 p.m., telephone *+358 9 121 4020* or the company's website *www.stockmann.com*.

Those shareholders are entitled to participate in the Annual General Meeting, who have been entered on March 9, 2007, as shareholders in the Shareholder Register kept by Finnish Central Securities Depository Ltd.

A shareholder shall have the right to have a matter which falls under the jurisdiction of the Annual General Meeting handled at a General Meeting of the Shareholders if he presents a written request therefore to the Board of Directors early enough for the matter to be included in the notice to convene the meeting.

Payment of dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.30 per share be paid for the 2006 financial year. The dividend decided by the Annual General Meeting will be paid to a shareholder who on the record date for dividend payment, March 23, 2007, has been entered in the Shareholder Register kept by Finnish Central Securities Depository Ltd. The Board proposes to the Annual General Meeting that the dividend be paid on March 30, 2007.

Changes in name and address

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

Financial information on Stockmann

Stockmann will publish the following financial reports in 2007:

- January-March Quarterly Report April 26, 2007
- January-June Quarterly Report August 9, 2007
- January-September Quarterly Report October 24, 2007

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

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

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

Investor Relations:

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

Report and release requests:

STOCKMANN, Corporate Communications,
P.O. Box 147, FI-00381 Helsinki, Finland
Telephone +358 9 121 3089
Fax +358 9 121 3153
e-mail info@stockmann.com

Information on Stockmann for investors

Up-to-date information about Stockmann on the Group's website www.stockmann.com.
According to information we have received, the analysts mentioned below follow Stockmann on their own initiative. The list may be incomplete. Stockmann does not assume responsibility for analysts' assessments.

ABN AMRO Bank N.V.
Jari Räisänen
Pohjoisesplanadi 37 A
00100 Helsinki
Tel. +358 9 228 321

Carnegie Investment Bank AB, Finland Branch
Tia Lehto
Eteläesplanadi 12
00130 Helsinki
Tel. +358 9 6187 1236

Deutsche Bank AG, Helsinki Branch
Pontus Grönlund
Kaivokatu 10 A
00100 Helsinki
Tel. +358 9 2525 2552

eQ Bank Ltd
Robert Liljequist
Mannerheiminaukio 1 A
00100 Helsinki
Tel. +358 9 6817 8654

Evli Bank Plc
Mika Karppinen
Aleksanterinkatu 19 A
00100 Helsinki
Tel. +358 9 476 690

FIM Securities Ltd
Kim Gorschelnik
Pohjoisesplanadi 33 A
00100 Helsinki
Tel. +358 9 613 4600

Handelsbanken Capital Markets
Maria Wikström
Aleksanterinkatu 11 A
00100 Helsinki
Tel. +358 10 444 2425

Kaupthing Bank Oyj
Mika Metsälä
Pohjoisesplanadi 37 A
00100 Helsinki
Tel. +358 9 478 4000

Mandatum Securities Ltd
Kalle Karppinen
Unioninkatu 22
00130 Helsinki
Tel. +358 10 236 4794

Merrill Lynch
Scott Cagehin
Merrill Lynch Financial Centre
London EC1A 1HQ
Puh. +44 20 7996 1266

OKO Bank plc
Kimmo Stenvall
Teollisuuskatu 1 B
00510 Helsinki
Tel. +358 10 252 4561

SEB Enskilda
Jutta Rahikainen
Eteläesplanadi 12
00100 Helsinki
Tel. +358 9 6162 8713

Standard & Poor's
Stellan Hellström
Box 1753
111 87 Stockholm
Tel. +46 8 5450 6963

Structural change and on-target strategy abroad bring record earnings

The growth in private consumption continued its strong momentum in all the Stockmann Group's market areas. In the Baltic countries and Russia, growth clearly outpaced the Finnish market.

Two major structural changes took place within the Stockmann Group during the year. The vehicle business was transferred to new owners as from the beginning of March 2006, and the Zara-business in Russia was sold right at the beginning of January 2006. Because of the structural change, aggregate sales diminished by 16 per cent and were EUR 1 553 million.

Sales from continuing operations nevertheless grew by EUR 87 million, or 6 per cent.

Sales from continuing operations grew by 2 per cent in Finland and 25 per cent abroad. Sales by the units abroad rose to 24 per cent of sales generated by the Group's continuing operations.

Consolidated profit before taxes increased by more than a quarter to EUR 129 million, which is far and away the Group's best-ever result. As a result of divesting the Zara business and the vehicle trade, the earnings figure includes about EUR 34 million of income from sources other than ordinary operations. Earnings from continuing operations also improved.

Of the Group's divisions, the Department Store Division and Hobby Hall improved their previous year's result. Earnings generated by Seppälä's ordinary operations diminished, but remained at a high level on an international yardstick.

It was especially gratifying that the Group's strategy, based on strong organic growth in overseas market areas, now also generated earnings. Thanks to its intense rate of expansion, the Group has reached a critical mass in its operations abroad such that all the earnings from already well-established units no longer go towards covering the costs of expansion. About 36 per cent of Group-wide earnings came from abroad. Although half of these profits are the result of non-recurring capital gains, the improved earnings trend demonstrates that the strategy chosen is the correct one.

Readjusted financial targets

In the space of a short time, Stockmann's Board of Directors reassessed the Group's long-term financial targets. The previous targets had been reached, and the structural change that had now been carried out led to a new need for a review after the low-margin vehicle business was divested. In accordance with new targets extending up to 2011, the Group's return on capital employed should be 22 per cent by that time, with an operating profit margin of 10 per cent. Sales should outpace the market and the equity ratio remain at a minimum of 50 per cent.

In 2006, the return on capital employed already reached 22.9 per cent, partly as a result of non-recurring capital gains, and the operating profit margin rose to 10.0 per cent. Owing to the intense rate of investment over the next few years, these figures will decline somewhat. The targets now set thus remain challenging, despite the hefty results racked up last year. The equity ratio in 2006 was a whopping 74.5 per cent.

The department stores report improved earnings abroad, Seppälä fills out its international footprint and Hobby Hall lifts earnings

The Department Store Division reported a marked improvement on the previous year's record earnings. Above all, the department stores in Estonia, Latvia and Russia improved their earnings significantly. In Finland, the department store that was opened in the extension to the Jumbo Shopping Centre in Vantaa in October 2005 exceeded its target for its first full year of operations and its result was in the black. Competition in Finland has hotted up a great deal over the past year and a half, especially in the Helsinki metropolitan area, where the implantation of new shopping centres has brought a total of about 170 000 square metres of new retail space. The enlargement and refurbishment works that got under way at the department store in Helsinki impeded sales less than expected.

Seppälä pushed ahead with its rapid process of internationalization by opening new stores in Russia, Latvia and Lithuania. Towards the end of the year, 16 stores were already operating in Russia, the most distant of which were in the new Stockmann cities of Kazan, Nizhny Novgorod and Yekaterinburg. All in all, there are now 43 stores abroad, of which 14 are in Estonia, 9 in Latvia and 4 in Lithuania. There are 126 stores in Finland. The costs resulting from the expansion of operations and the tough competition situation in the Finnish market cut into Seppälä's earnings. Seppälä's operating profit margin on ordinary operations was 16 per cent, and its return on capital employed was 92 per cent.

Hobby Hall continued to improve its earnings, as it did a year earlier. This was accomplished in part deliberately at the cost of volumes by trimming unprofitable sales and recasting marketing campaigns. Hobby Hall also expanded its international presence by opening an online shopping site in Latvia, too. The company is relaunching operations in the Lithuanian market in the first part of 2007. Fixed locations will not be established in Lithuania, but operations will be handled via Latvia. Following test marketing carried out in Russia, the objective is for Hobby Hall to start operations there too in the latter part of 2007.

Growth thrust moves ahead

The Group has a number of major investment projects under way, all of which aim to ensure that the fundamentals for future growth are in place. The enlargement and rejuvenation project at the main department store in Helsinki, "The All-time Stockmann," is moving ahead on schedule and is slated for full completion by summer 2010. Plans call for placing the new car park and part of the new retail space in operation already by the end of 2008. As the project has progressed, the total cost estimate for the enlarged areas has firmed up at about EUR 145 million, in addition to which repair and reconditioning measures connected with maintenance of the old department store will be carried out before the project reaches completion.

Construction works on another project with investment costs of nearly the same size got started in St Petersburg towards the end of 2006. The final result of the project will be a shopping centre, to be erected on a Stockmann-owned plot in the heart of St Petersburg, which will have about 50 000 square metres of retail space, half of which will be allocated for Stockmann's own commercial use, whilst the other half will be leased to tenants. The Stockmann Nevsky Centre, which will be completed in time for the Christmas market in 2008, will be an important springboard for the company's future operations in Russia.

In February 2007, the fourth Stockmann department store in Moscow will be opened on the east side of town in the Mega East Shopping Centre, which is owned by Ikea. Seppälä outlets and stores in the Bestseller franchising chain are naturals for a location in the shopping centre. An agreement has also been reached with the owners of the Metropolis Shopping Centre, on opening a fifth department store in Moscow in 2008.

Seppälä is continuing its expansion in the Russian and Baltic market by opening stores at a rate of about 10-15 a year. More stores belonging to the Bestseller franchising chain are also to be opened in Russia. With Nike, its new partner in cooperation, Stockmann will open its first stores in Russia in February 2007.

Ukraine, with its population of nearly 50 million people, has been identified as a completely new and interesting market area for Stockmann's business concepts. At present, the company is evaluating the possibilities of launching Seppälä operations in Ukraine before the end of 2007.

Ensuring resources for growth

The Stockmann Group is growing energetically in all its present market areas and in new ones too. Thanks to the good earnings trend and the company's very high equity ratio, the financial resources for growth are on a sound basis. Pivotally important, however, will be the personnel resources for realizing this growth in practice: the women and men who have taken the Group's core values to heart, have a command of foreign languages and will contribute in a crucial way to realizing our strategy successfully. A paramount objective is to make use of the staff working in the organizations of the different countries where Stockmann operates and who have the potential to move into positions in middle and top management. These people will be groomed as versatile leaders who are capable of taking on supervisors' duties in different countries and in varying projects.

Sticking to paying good dividends

The Group's good earnings trend has given it a stable dividend-paying capacity. Stockmann intends to continue this policy in the future despite rising capital expenditures. The Board of Directors is proposing that the dividend for 2006 be raised to EUR 1.30 per share. Because of subscriptions made with share options, the total number of shares outstanding has risen to about 55.7 million shares. The trend in the share price has also been good, though this year it has slightly trailed the OMX Helsinki Cap index. The company's market capitalization at the close of the year was EUR 2.0 billion, or 15 per cent greater than at the end of the previous year.

Outlook for 2007

We estimate that the trend in the operating environment in all our market areas will remain positive in 2007. In the past year, substantial non-recurring items were included in consolidated earnings owing to the disposal of businesses. Stockmann's target is for sales and earnings from continuing operations in 2007 to come in ahead of the previous year, stripping out these non-recurring items.

My warm thanks go to our customers for the confidence they have shown in us and to our staff across the entire Group for a job well done in 2006.

Helsinki, February 8, 2007

Hannu Penttilä

Board of Directors and auditors

Lasse Koivu

Erkki Etola

Eva Liljeblom

Kari Niemistö

Christoffer Taxell

Carola Teir-Lehtinen

Henry Wiklund

Ann-Christin Pilviö

Tero Pekanpalo

Board of Directors and auditors

CHAIRMAN
Lasse Koivu **
(b. 1943), B.Sc.(Econ.).
Member of the Board since 1991.
SHARES: B 6 621

VICE CHAIRMAN
Erkki Etola **
(b. 1945), M.Sc.(Eng.), managing director, Oy Etola Ab. Member of the Board since 1981.
SHARES: A 1 841 676, B 995 359

Eva Liljeblom **
(b. 1958), D.Sc.(Econ.), professor, Svenska Handelshögskolan. Member of the Board since 2000.
SHARES: A 243, B 3 179

Kari Niemistö *
(b. 1962), M.Sc.(Econ.), managing director, Selective Investor Oy Ab. Member of the Board since 1998.
SHARES: A 2 801 876, B 967 020

Christoffer Taxell *
(b. 1948), LL.M., ministeri[1]. Member of the Board since 1985.
SHARES: A 2 250, B 4 580

Carola Teir-Lehtinen **
(b. 1952), M.Sc., Senior Vice President, Corporate Communications, Fortum Corporation. Member of the Board since 2004.
SHARES: B 2 418

Henry Wiklund *
(b. 1948), kamarineuvos[1], managing director, Svenska litteratursällskapet i Finland rf. Member of the Board since 1993.
SHARES: A 720, B 4 247

Personnel representatives on the Board April 1, 2006 – March 31, 2007
At meetings of the Board of Directors, personnel representatives have the right to attend and to speak. They are not members of the Board of Directors.

Ann-Christin Pilviö
(b. 1971), Administration Manager, the department store in Jumbo shopping centre, Vantaa. Personnel representative on the Board, elected by Stockmann's senior salaried employees.

Tero Pekanpalo
(b. 1969), stock worker, chief shop steward, Hobby Hall. Personnel representative on the Board, elected by the Group Council.

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

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

DEPUTY AUDITOR
KPMG Oy Ab

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

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

Management Committee

Hannu Penttilä

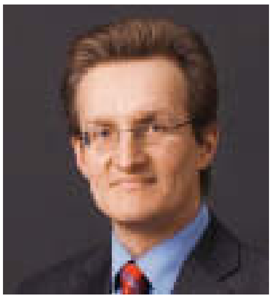
Heikki Väänänen

Pekka Vähähyyppä

Raija Saari

Terhi Okkonen

Jussi Kuutsa



Jukka Naulapää

Management Committee

Hannu Penttilä
(b. 1953), LL.M., CEO. Joined Stockmann's 1978, at the present position since 2001.
SHARES: A 105, B 10 107
OPTIONS: 2006A 16 000, 2006B 16 000

Heikki Väänänen
(b. 1958), B.Sc.(Econ.), executive vice president with responsibility for the Department Store Division. Joined Stockmann's 2001, at the present position since 2005.
SHARES: B 4 052
OPTIONS: 2006A 10 000, 2006B 10 000

Pekka Vähähyyppä
(b. 1960), M.Sc.(Econ.), Chief Financial Officer. Joined Stockmann's 2000, at the present position since 2001.
SHARES: B 3 352
OPTIONS: 2006A 8 000, 2006B 8 000

Raija Saari
(b. 1961), M.Sc.(Econ.), managing director, Hobby Hall. At Stockmann's 1995-2001 and since 2004, at the present position since 2004.
SHARES: B 1 337
OPTIONS: 2006A 8 000, 2006B 8 000

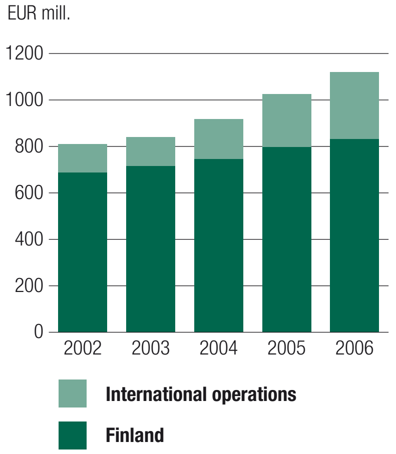
Terhi Okkonen
(b. 1961), eMBA, managing director, Seppälä. Joined Stockmann's 1991, at the present position since 2005.
SHARES: B 111
OPTIONS: 2006A 8 000, 2006B 8 000

Jussi Kuutsa
(b. 1964), M.Sc.(Econ.), development director for the Group's international operations. Joined Stockmann's 1996, at the present position since 2006.
SHARES: B 1 500
OPTIONS: 2006A 8 000, 2006B 8 000

Jukka Naulapää
(b. 1966), LL.M., director, legal affairs. Joined Stockmann's 1998, at the present position since 2006.
SHARES: B 1 174
OPTIONS: 2006A 8 000, 2006B 8 000

Stockmann plc shares and options in the personal ownership of the members of the Board of Directors and Management Committee as well as in the ownership of their related persons reported at December 31, 2006. Updated information on shares and share options in the ownership of the members of the Board of Directors and the Management Committee is available on the company's website www.stockmann.com. Information on Stockmann plc shares and options on pages 45-46, 48-52 and 54 of the Annual Report.

Development of the Department Store Division's sales 2002-2006



Development of the Department Store Division's operating profit 2002-2006

Department Store Division

A year of record profits

Stockmann's Department Store Division operates in Finland, Russia and the Baltic countries. The department stores in Finland are located in the centre of Helsinki, in the Itäkeskus Shopping Centre as well as in Vantaa and Espoo in the metropolitan area, and in Turku, Tampere and Oulu. In Finland the Department Store Division also comprises the Academic Bookstores and the speciality chains Stockmann Beauty and Zara.

Outside Finland, the Department Store Division has four department stores in Moscow, a department store in Tallinn and Riga, two speciality stores in St Petersburg as well as franchising chains in Russia: Bestseller fashion stores and the Nike chain, which began operations in 2007.

The cornerstone of the Department Store Division's strategy is profitable growth, which is achieved by being a pace-setter. The drivers of the stores' success are a broad assortment of international branded products at competitive prices together with good and professional service in a congenial and pleasant environment.

The Department Store Division's sales inclusive of VAT were EUR 1 119.0 million, up 9.3 per cent on the previous year. The division had revenue of EUR 929.3 million and posted record operating profit of EUR 79.5 million. Operating profit improved by 21.7 per cent on the figure a year earlier.

Sales by the department stores, Academic Bookstores and speciality commercial chains in Finland amounted to EUR 832.2 million, an increase of EUR 35.2 million, or 4 per cent. International Operations reported an excellent growth in sales, 26 per cent. The new department stores in Moscow racked up significant sales growth. The department stores in Tallinn and Riga also reported excellent growth. International Operations' share of the division's sales rose to 26 per cent.

Stockmann now has four department stores in Moscow. Shown here is the Mega South department store.

The Department Store Division is seeking growth in Finland, Russia and the Baltic area. In Finland, the department stores have operated efficiently for many years now and rank among Europe's best. In Russia and the Baltic countries, profitability improved significantly in 2006.

The division's primary economic objectives are an improvement in the gross margin level, the efficient employment of capital and rigorous cost management. During the year, the gross margin improved on the previous year and was 41.1 per cent. The return on capital employed was 21.2 per cent (18.8 per cent a year earlier).

Key figures

DEPARTMENT STORE DIVISION, EUR mill.	2006	2005*	change %
Sales	**1 119.0**	1 024.1	9
Proportion of Group Sales, %	**75.7**	69.3	
Operating profit**	**79.5**	65.4	22
Return on capital employed, %**	**21.2**	18.8	
Capital employed	**374.2**	347.4	8
Investments	**115.3**	42.1	
Staff, December 31	**8 792**	8 878	-1
Sales area, square metres	**179 809**	166 708	8

*continuing operations
** including other operating income

Department Store Division

Two new department stores open in Moscow

Stockmann's fourth department store in Moscow opened in the Ikea-built Mega East Shopping Centre in February 2007, where Stockmann also opened a Bestseller store and a Seppälä. Stockmann furthermore has a department store at two Mega shopping centres that were previously built by Ikea in Moscow. They have demonstrated their "pull" as shopping spots that are popular with customers, and it is believed that the third Mega shopping centre in Moscow will likewise be a hit with customers.

In August Stockmann signed a preliminary agreement on opening Moscow's fifth full-scale Stockmann department store in leased premises in the Metropolis Shopping Centre that is to be built in the heart of town, on the north side. The shopping centre that will be built in autumn 2008 and the office complex to be completed there at the same time, are within easy reach of convenient transport connections. The new department store will strengthen Stockmann's position in the central Moscow area.

A shopping centre and department store to be opened in St Petersburg in 2008

Autumn 2008 will see the completion on Nevsky Prospect, one of St Petersburg's most central business locations, of the Nevsky Centre mall, which will have more than 50 000 square metres of retail space. Nevsky Centre, to be realized as Stockmann's own investment, will have a Stockmann department store with about 20 000 square metres of retail space, other retailers, parking space for 550 cars, restaurants, speciality cafes, a fitness centre and gym, a beauty salon and offices. Nevsky Centre has a cost estimate of about EUR 135 million.

St Petersburg is Europe's fourth largest city. The Nevsky Centre complex with its department store will be Stockmann's flagship in Russia.

Stockmann has taken a strategic decision to explore the possibilities of opening department stores not only in Moscow and St Petersburg but also in other Russian cities with a population of over a million. The Group's speciality stores began expanding their operations to these cities in 2006, and in many of them, the shopping centre projects that are in the pipeline and in progress will enable the Group to expand its department store chain. Stockmann will open a department store in a new city when its speciality stores have given the company sufficient indications of the desirability of purchasing power and the market situation and a suitable commercial location is available.

Stockmann and Nike partner up in Russia

Many western companies have shown growing interest in Stockmann's Russian market savvy. Agreement-based cooperation with selected partners in Russia is an element of Stockmann's expansion strategy. As part of the implementation of this strategy, Stockmann and Nike Russia entered into a cooperation agreement in August 2006 on setting up Nike stores in Russia. The first Nike stores will be opened in St Petersburg at the beginning of 2007.

The successful cooperation with Bestseller, a partner for many years now, is continuing. The Jack & Jones, ONLY, Vero Moda, Pieces and Selected brands have firmly established their position among style-conscious Russians. At the end of 2006, Stockmann already had eleven Bestseller stores in Russia. During 2006, seven new Bestseller stores were opened. At present, stores in Russia operate in St Petersburg, Moscow, Nizhny Novgorod, Kazan and Yekaterinburg.

Stockmann's objective is to open more Bestseller and Nike stores in Russia as and when suitable commercial locations are available.

Russia's membership of the World Trade Organization (WTO) will presumably be agreed finally during 2007. Russia's WTO membership bodes well for the Department Store Division. Customs duties will be lowered, and it is believed that most of the customs-related difficulties will be eliminated. These positive changes will open up new opportunities for improving earnings by means of more flexible pricing of products.

Nevsky Centre, a Stockmann development, will be completed in the heart of St Petersburg in 2008. With about 50 000 square metres of retail space, the shopping centre will be the site of a Stockmann department store and numerous other business and commercial premises.

Market share gains in Finland

Apart from the fickle weather, new shopping centres arrested the momentum of the fashion trade in Finland in 2006 for stores that were already operating in the field. At Stockmann's department stores in Finland, fashion sales continued their good trend in spite of a tougher competitive environment, posting growth of 6 per cent. The best growth figures were registered in cosmetics (up 12 per cent), men's clothes (up 6 per cent) and groceries (up 9 per cent). Cosmetics sales were boosted by the two new Stockmann Beauty speciality stores. At present, the chain comprises 14 stores, and new openings are scheduled for 2007.

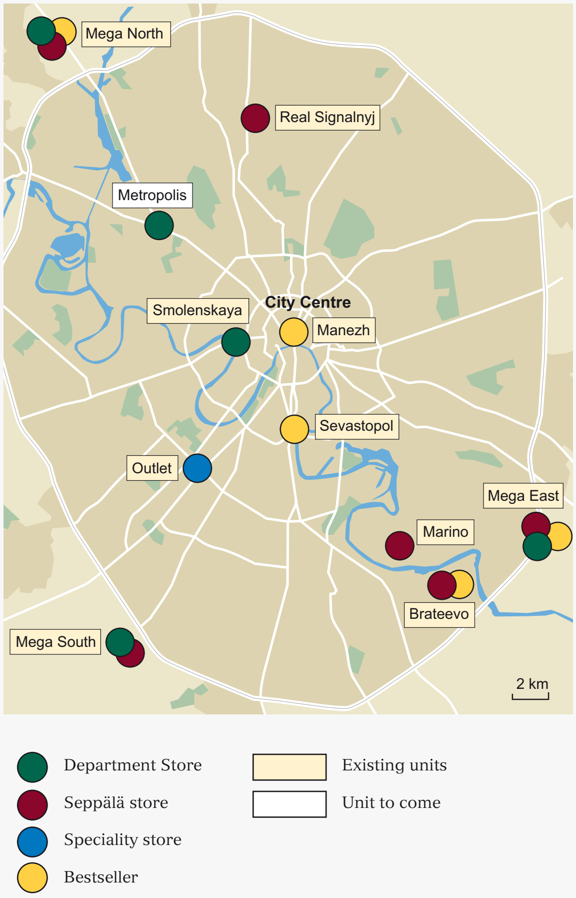
The number of customers remained at the previous year's level at the department stores in Finland in 2006. Furthermore, customers' average purchase and the proportion of purchasing customers as a subgroup of all visitors showed an increase at the department stores in Finland.

Enlargement of the Helsinki department store gets under way

When Finland's newest Stockmann department store had been opened in the Jumbo Shopping Centre in Vantaa in autumn 2005, it was clear that if the company stuck with its current strategy, room could no longer be found in Finland for a new full-scale Stockmann department store. The continuous development of the existing department stores is, however, an important success factor.

A major enlargement and reinvigoration programme was launched in 2006 at the department store in the centre of Helsinki. The All-time Stockmann project will be completed in 2010. This is the Stockmann Group's largest single investment. The project will add 10 000 square metres of new retail space to Stockmann's main department store, whilst providing modern logistics solutions and new social facilities for the staff. For customers, the change will also be reflected in the new 600-vehicle car park and in the Stockmann Delicatessen, which will operate on one

Stockmann units in Moscow



Inside the department store in the centre of Helsinki, the inconveniences caused by the construction works have been closed off by means of carefully designed temporary structures. The steel columns in the interim period support the temporary ceiling gracefully in the Cosmetics Department.

level and be Finland's largest grocery store. The enlargement project will offer more convenient shopping for customers in the department store and boost sales substantially.

In October, the Tapiola department store in Espoo marked 25 years in business. During these years, its retail space has nearly tripled. Tapiola's town centre will grow and develop in coming years. This portends good growth for the Tapiola department store in the future. The Tampere department store will celebrate its 50-year jubilee in April 2007.

Crazy Days for the first time in Moscow

The Crazy Days campaign was run in spring 2006 for the first time in Russia and was a smashing success. High-quality goods were sold in Moscow at incredibly crazy prices in three department stores during four days both in the spring and the autumn. Aggregate Crazy Days sales for the Department Store Division topped EUR 110 million in 2006, up 26 per cent on the previous year.

Stockmann's Crazy Days are Europe's largest and best-known department store campaign. Each year they have reached a new sales record, now for the 21st year in succession.

Stockmann's Loyal Customer programme passes its 20th year

Stockmann pioneered patronage systems in Finland when it started its own Loyal Customer activities in 1986. The close relationship with Loyal Customers that has been cultivated over the years is maintained by offering, each month, interesting and timely benefits both in a Loyal Customer benefit booklet that is mailed to the person's home and on Stockmann's website. For our best Loyal Customers, we have developed the Exclusive customer category, whose emblems are their own platinum-coloured Exclusive card and Exclusive magazine. The best Loyal Customers are also invited each year to the popular themed Loyal Customer evenings, which drew 22 600 customers in Finland in 2006. Loyal Customer evenings were arranged for the first time in Russia too in 2006, and they achieved wide popularity. In the Baltic countries and Russia, a total of more than 10 000 customers turned out for the Loyal Customer evenings.

In Finland, there are by now over 940 000 Loyal Customers and a total of about 530 000 in the Baltic countries and Russia.

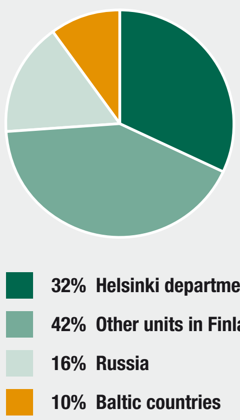
Going for an improved operating profit

In international comparisons, Stockmann's department stores rank high in profitability. The Department Store Division has increased its sales by nearly 40 per cent over the past five years. Concurrently, the gross margin has improved from 39.4 per cent to 41.1 per cent. During the five-year period 2002-2006, a total of EUR 236 million has been invested in building new department stores and developing existing units both in Finland and abroad. Despite the intense pace of investments, the Division´s return on capital employed has remained good, at a level of over 19 per cent.

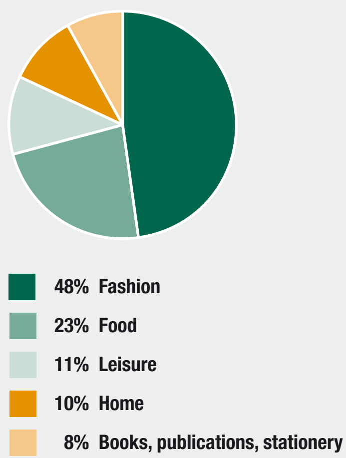
Growth in consumption demand is expected to hold up well in 2007 in the entire area where Stockmann's Department Store Division operates. In Finland, the growth in consumer demand is forecast to be around 3 per cent. In the Baltic countries and Russia, growth is expected to slow down somewhat, but nonetheless its rate will be about double Finland's rate.

In 2007, the Department Store Division's objective is to post an improved operating profit compared with the previous year's figure exclusive of non-recurring items. The operating profit of the department stores opened in 2003-2005 is expected to improve now that start-up costs are behind us. The first-year operating result of the Mega East department store that was opened in Russia in 2007 will be clearly in the red owing to start-up costs. The Nike and Bestseller stores that are to be opened in Russia will contribute to lifting the Department Store Division's sales growth, but they generate negative earnings in their first year of operation.

Distribution of the Department Store Division's sales by unit 2006



Distribution of the Department Store Division's sales by merchandise sector 2006



1 *The visit by Lordi, winner of the 2006 Eurovision Song Contest, was the year's most memorable autograph session.*

2 *Erkki Tuomioja, Finnish Minister for Foreign Affairs, was on hand at the Academic Bookstore's Encounters meeting place to discuss his work Häivähdys punaista (A Tinge of Red), which won the 2006 Tieto-Finlandia non-fiction award.*

3 *The new reloadable gift cards are the size of a credit card. They can be used over and over again.*

4 *Stockmann's Loyal Customer activities marked their 20th year in 2006. The familiar gold or platinum-coloured card is now used by over 1.4 million customers in Finland, Russia and the Baltic countries.*

5 *Tycoon-investor George Soros was one of the best-known visitors at the Academic Bookstore's Encounters meeting place in 2006.*

ACADEMIC BOOKSTORE

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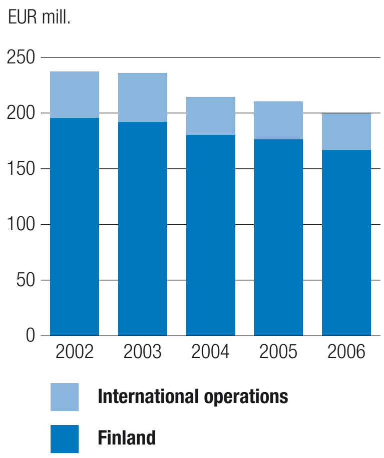
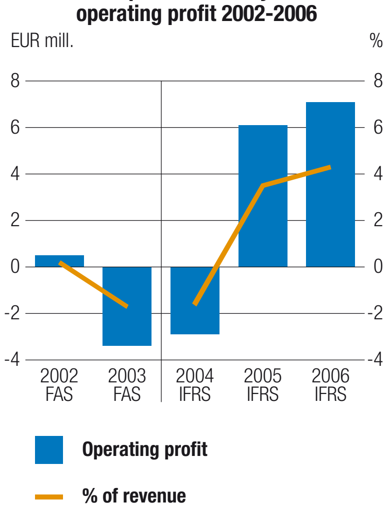
Development of Hobby Hall's sales 2002-2006



Development of Hobby Hall's operating profit 2002-2006



Hobby Hall

Online sales up, profitability up

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

The Hobby Hall Division's sales were EUR 199.8 million, down 5 per cent on the figure a year earlier. Revenue was EUR 165.9 million. Operating profit was EUR 7.1 million, or EUR 1.0 million more and 16 per cent up on the figure a year earlier.

Changes in the catalogue programme, the number of orders dispatched and the assortment affected Hobby Hall's sales trend. Their aim was to improve profitability, and this target has been reached.

A year of development

In 2006, a number of important development actions were carried out at Hobby Hall with the aim of improving profitability and bolstering the company's good financial health in coming years as well.

One of the largest development schemes was the upgrading of the entire Hobby Hall information system. This new system offers many new features that enhance customer service, reduce work, cut costs and add versatility to marketing communications. Introduction of the information system has been rescheduled from 2006 to the first half of 2007.

An online store development project and a drive to cut marketing production costs and speed up data transfer also began in 2006.

The Returns Handling department was reorganized and returns handling functions were made a part of the logistics organization. The aim was to further improve efficiency and bring more flexibility to resource planning.

Hobby Hall's theme for 2006 was Good Service. All departments strove to improve standards of service and increase customer satisfaction by developing their operations.

To promote the well-being of its personnel, Hobby Hall upgraded its statutory occupational health care to include general practitioner coverage from the beginning of 2006. Efforts were focused on increasing staff well-being and team spirit.

In December, Hobby Hall sold off office premises at Hämeentie 157, Helsinki, in line with its strategy of freeing up capital. The capital gain of EUR 0.4 on the sale is included in the operating profit for 2006.

The blue and white post office parcel is a familiar sight in both Finland and the Baltic countries. Hobby Hall is the market leader in distance retailing in Finland, Estonia and Latvia.

Key figures

HOBBY HALL, EUR mill.	2006	2005	change %
Sales	**199.8**	210.5	-5
Proportion of Group Sales, %	**13.5**	14.2	
Operating profit*	**7.1**	6.1	16
Return on capital employed, %*	**7.7**	7.0	
Capital employed	**91.7**	87.7	5
Investments	**3.2**	1.3	
Staff, December 31	**638**	677	-6

* including other operating income

Hobby Hall

Hobby Hall wins several awards

For the third time, Hobby Hall was chosen as Finland's most trustworthy online store in 2006 in the "Most Trustworthy Brand" survey, whose target group was the readership of the Valitut Palat magazine. Results show that those who rely on Hobby Hall especially praise its operational quality and its ability to understand the needs of the consumer.

In June, Hobby Hall won the Direct Marketer of the Year competition organized by the Finnish Direct Marketing Association. Selection criteria included long-term operations, innovative and systematic efforts and a new creative approach to direct marketing.

At the 2006 Contact Centre Conference, the Hobby Hall customer phone service was presented with the "Contact Centre of the Year" award. In an annual survey organized by market research company Taloustutkimus Oy, it obtained the highest points in 2006 for the quality of customer service in different sectors. In all, 77 businesses operating in 11 different sectors were surveyed. Hobby Hall received a special commendation for its customer-focused service, its professionalism and for its ability to resolve problems with a single phone call.

A strong market leader in Finland

Hobby Hall's sales in Finland were EUR 167.2 million, down 5 per cent on the figure a year earlier. Hobby Hall improved its profitability by, for example, abandoning campaign actions that would not have served this purpose. Even so, Hobby Hall retained its position as Finnish market leader in distance retailing.

Online sales in Finland grew by 22 per cent and the number of visitors to Hobby Hall's Finnish-language website by 15 per cent. Online sales accounted for 47 per cent of Hobby Hall's distance retailing in Finland, compared with 36 per cent a year ago. Most online store customers are women, but the proportion of men as new customers is growing.

In Finland, Hobby Hall has two stores whose purpose is to support distance retailing. One is located in the Arabia district of Helsinki and the other in Tammisto, Vantaa.

Latvia online in October

Sales in the Baltic countries amounted to EUR 32.6 million. Sales were down 4 per cent on the previous year.

Online sales growth accelerated further in Estonia and was 43 per cent. The number of visitors to Hobby Hall's Estonian website grew by 61 per cent. Online sales began in Latvia during the last week of October, and there were plenty of customers right from the start.

Marketing communications development continued, and changes were made to the catalogue programme and assortment in the Baltic countries too. Development work is still underway.

There is one store supporting distance retailing in the Baltic countries, located in the Rocca Al Mare district of Tallinn.

Test marketing in Russia

Small-scale test marketing was carried out in the Moscow area in Russia in August and September. The primary objective was to test the functionality of the entire process from receiving the order to final payment by the customer. Test marketing was successful and provided valuable data for starting up distance retailing operations.

Targeting higher earnings

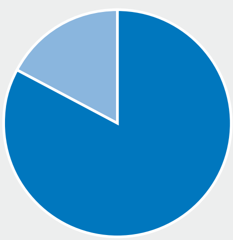
Hobby Hall's objective in 2007 is to further improve its operating profit and the return on capital employed.

Profitable growth will be sought by developing the product range, improving the gross margin, merchandise availability and the turnover rate as well as through measures aiming to enhance customer service, logistics and product return functions. The information system upgrade will begin to increase efficiency from spring 2007.

Further steps are being taken to step up marketing. Loyal Customer marketing and new customer acquisition will continue to receive special attention. The competitiveness of online sales will be further boosted.

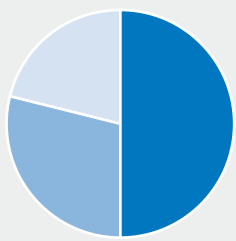
After a short break, Hobby Hall returned to the Lithuanian market in February 2007 and opened there an online store as well. As well as in the present countries of operation, growth will also be sought in Russia, where operations are due to begin in autumn 2007.

Distribution of Hobby Hall's sales by market 2006



83% Finland
17% Baltic countries

Distribution of Hobby Hall's sales by merchandise sector 2006



50% Electronics and household appliances
29% Home and interior
21% Leisure

1 *Home textiles are among Hobby Hall's strongest product areas.*

2 *The fresh new look of Hobby Hall's interior decorator products was shown to the public at the Home Buyers' Expo in Espoo in July-August.*

3 *Hobby Hall publishes 12-17 catalogues a year in each of its market areas.*

4 *The Persona 2006 model competition was run on Hobby Hall's website to scout for new and appealing faces for Hobby Hall's catalogues. The fresh and sympathetic Anne Ylitalo was the winner in the 35+ women's category.*

5 *The musical toaster by Disney was a sales success.*

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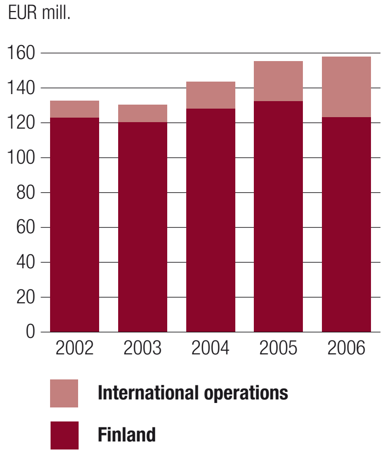
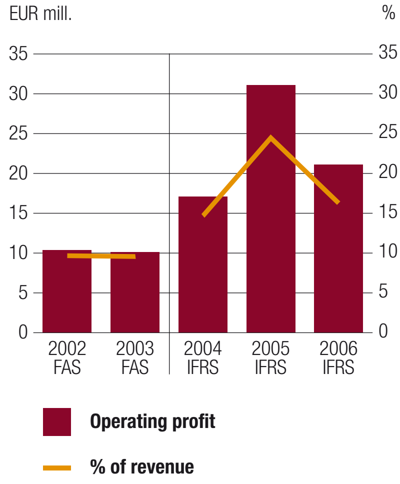
Development of Seppälä's sales 2002-2006



Development of Seppälä's operating profit 2002-2006



Seppälä

Another excellent result

Seppälä is Finland's most extensive chain of fashion stores that also operates in Estonia, Latvia, Lithuania and Russia. Seppälä's 169 stores are sited in prime commercial locations, 126 of them in Finland and 43 abroad. Seppälä offers fashionable clothing and accessories for women, men and children, as well as footwear and cosmetics. Centralized chain-store operations guarantee affordable prices together with reliable quality. Seppälä's collections are based on its own design.

Seppälä reported sales in 2006 of EUR 158.1 million, an increase of 2 per cent on the previous year's figure. Women's accessories accounted for the best growth in sales. For several years in succession, sales growth in women's accessories has continued to surpass overall growth figures by a clear margin.

Total revenue was EUR 130.8 million. The division posted operating profit in 2006 of EUR 21.1 million, or 16.1 per cent of revenue. Operating profit was down EUR 4.4 million on the record operating profit on ordinary operations for 2005 due to expenses incurred by strong expansion and a reduction in sales in Finland.

Seppälä's profitability is on a par with the best international fashion chains, as it has been for the last two years.

Almost threefold increase in number of Russian stores

In 2004, Seppälä began operations in Russia by opening three stores in Moscow. More new stores opened in Moscow in 2005 and operations got under way in St Petersburg. A phase of strong expansion began in 2006, when 10 new stores were opened in Russia. In all, Seppälä had 16 stores in Russia by the end of the year.

An affluent middle-class and new shopping centres have come into being in Russia's million plus cities. In addition to Moscow and St Petersburg, operations got under way in three new cities with million plus populations: Kazan, Nizhny Novgorod and Yekaterinburg.

New stores in the Baltic countries

Seppälä's expansion into the Baltic countries already began in 1996, when the first store in Estonia was opened. Today, Seppälä has 14 stores in Estonia and is the country's largest chain of fashion stores. Instead of expanding the store network, efforts in Estonia are focused on maintaining the stores' modern image. Stores are refurbished when necessary to meet the demands of local competition.

Latvian operations began next in 2003, and Seppälä opened its ninth store in Latvia in summer 2006. Operations got under way in Lithuania in spring 2005, where its fourth store was opened in autumn 2006.

Sales and profitability in the Baltic countries and Russia have met expectations. Operating profit in 2006 was satisfactory in all markets despite considerable start-up expenses. Sales abroad increased by 51 per cent, and their share of Seppälä's sales increased from the previous year's 15 per cent to 22 per cent.

The new marketing communications concept Be Your Own Supermodel that was launched in September was a big hit. One of the supermodels who made it into advertisements was family childminder Mia T., a mother of four.

Key figures

SEPPÄLÄ, EUR mill.	2006	2005	change %
Sales	**158.1**	155.2	2
Proportion of Group Sales, %	**10.7**	10.5	
Operating profit*	**21.1**	31.1	-32
Return on capital employed, %*	**91.6**	156.0	
Capital employed	**23.0**	20.0	15
Investments	**6.1**	3.4	
Staff, December 31	**1 332**	1 156	15

* including other operating income

Seppälä

Strong network in Finland

Seppälä has a strong and extensive network in Finland, where any increase in the number of stores would not generally be viable. In 2006, one store was closed and two new stores opened. There were 126 stores in Finland by the end of 2006. During the year, around a dozen stores either moved to a better commercial location or modernized their appearance.

Strong growth in consumer demand in Finland in 2006 was more evident in other fields than in the retail clothing sector. At the same time, new shopping centres considerably increased the amount of both floor space and selection in clothing stores. Unusual weather conditions also tested the retail clothing sector throughout 2006, as none of the seasons began at the normal time.

At Seppälä, the average number of purchasing customers and the average value of their purchases per visit remained at previous levels, but due to a reduction in the number of visitors, sales in Finland dropped by 7 per cent compared to the previous year.

Rapidly changing collections

Seppälä's collections are created by in-house designers who base them on their expertise in closely following trends and changes in fashion. Knowing the customers, allowing for variations in each market area, managing product categories and fashionable products are Seppälä's keys to success. It must react quickly to meet new expectations and offer the customer something new on each visit. New products and supplementary stock are delivered to Seppälä's stores in Finland and the Baltic countries five days a week. During 2007, logistic solutions that will allow deliveries to stores in Russia several times a week will be reviewed.

New marketing concept

In spring 2006, Seppälä refocused its role as a purveyor of fashionable clothing. Seppälä is accordingly an easily approachable fashion store that makes fashionable dressing attractive and effortless for people who do not passionately follow rapidly changing trends, even though fashion interests them. Seppälä inspires and encourages people to enjoy fashion as part of their everyday lives.

This updated role led to a new customer service training programme, in which all Seppälä sales staff from every market area took part in early autumn 2006.

Marketing publicity was also updated. In September 2006, Seppälä launched a concept entitled "Be Your Own Supermodel" that allows anyone to sign up to become a Seppälä model. Seppälä's Internet pages were also revised so that shared content is translated into local languages in all countries. During the autumn, over 4 000 people sent a photo of themselves to the Seppälä model gallery, and almost 700 000 fashion-conscious people visited Seppälä's website. Some 24 prospective models have already found their way into Seppälä's advertisements.

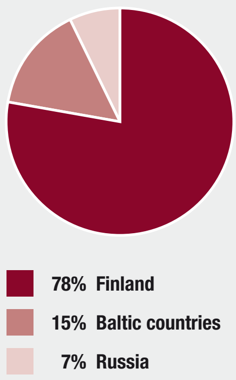
Growth set to continue in 2007

Seppälä continues to have good potential for growth in Finland, the Baltic countries and Russia. Refurbishment of the store network in Finland and Estonia continues, and at the same time, the search is on for new commercial locations in Latvia, Lithuania and Russia. The Russian market continues to offer the greatest growth potential. New stores are being opened in Russia, both in cities with existing stores and in new million plus cities such as Samara, Novosibirsk and Rostov-on-Don. The goal is to open 10-15 new stores in the present operating countries in 2007.

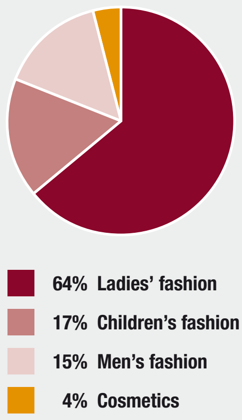
Seppälä also aims to begin operations in a new country, Ukraine, which has a broad population base and several million plus cities. Retail trading structures there are becoming more modern. Seppälä is well placed to become one of Ukraine's first fashion chains in the same way as it started its operations in the Baltic countries and Russia. The first Ukrainian stores are set to open at the end of 2007.

Despite strong expansion, Seppälä's objective is to post a higher operating profit in 2007 than in 2006.

Distribution of Seppälä's sales by market 2006



Distribution of Seppälä's sales by merchandise sector 2006



1 *The S-Style garment design competition that was run for the third time now had its own series of programmes on the SubTV channel. This time the task was to create modifiable party outfits, with the best entries being showcased at the roll-out shindig in August.*

2 *The Seppälä concept works excellently abroad. In Russia, consumers have given Seppälä a warm reception, and in St Petersburg, operations have grown fastest of all.*

3 *Seppälä beefed up its collection design effort by adding a good deal of design resources and setting up brand-dedicated design teams. Teija Laaksamo (left) and Päivi Nykänen form the team in charge of designing the main collection.*

4 *Nearly a third of Seppälä's sales comes from accessories. Above all, women's accessories have achieved great popularity with consumers – in 2006, their sales growth outpaced the market average by a good margin.*

5 *Seppälä's revamped website reached customers quickly thanks to the highly popular Be Your Own Supermodel campaign.*

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Corporate governance

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

Annual General Meeting

The highest decision-making body of Stockmann plc is the general meeting of shareholders. The Annual General Meeting shall be held each year before the end of June. Stockmann has two series of shares, of which each Series A share confers ten votes at a general meeting and each Series B share one vote. No one, however, can cast more than one fifth of the votes represented at the general meeting except in situations in which the Companies Act calls for passing a resolution with a majority of the votes cast. Information on share ownership is given on pages 48-51 of the Annual Report and on the company's website at the address www.stockmann.com.

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

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

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

Board of Directors

The company's Board of Directors shall have a minimum of five and a maximum of nine members. They are elected for one year at a time.

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

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

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

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

The Board of Directors has adopted rules of procedure defining the principles governing the Board's composition and method of election, its tasks, decision-making procedure and meeting practice as well as the principles of the Board's self-assessment. The Board of Directors' rules of procedure are available on the company's website www.stockmann.com.

The Board of Directors met 9 times in 2006. The average attendance was 97 per cent.

The Appointments and Compensation Committee comprises four members of the Board of Directors. Its task is the preparation of appointment and compensation matters concerning the chief executive officer, the executive vice president and the other members of the Management Committee, the preparation of the election of members of the Board of Directors for proposal to the Annual General Meeting as well as the preparation of compensation matters concerning the Board of Directors. The committee meets as necessary at least once a year. In its meeting held on March 21, 2006, the Board of Directors re-elected, for the financial year 2006, Lasse Koivu, managing director, as the committee's chairman; and Erkki Etola, managing director; Eva Liljeblom, professor; and Henry Wiklund, managing director, as the other members of the committee. The chief executive officer has the right to attend meetings of the committee. The committee met once during the financial year 2006.

Chief executive officer

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

The Group's line organization

Apart from the chief executive officer, the Board of Directors appoints the executive vice president and the other members of the Management Committee. Heikki Väänänen, director of the Department Store Division, has also acted as the company's executive vice president and as the CEO's alternate since November 1, 2005.

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

Management Committee

The Group's Management Committee comprises the chief executive officer, the executive vice president and the other directors of the divisions, the chief financial officer, the development director for the Group's international operations and the director of legal affairs, who acts as secretary to the Management Committee.

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

Oversight and risk management

The Board of Directors and operational management are responsible for internal oversight, the objective of which is to ensure the efficiency and performance of operations, the reliability of information as well as the observance of rules and operating principles. On June 16, 2004, the Board confirmed the company's risk management principles, after which they are examined annually. They are reported in detail on page 31 of the Annual Report.

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

The auditors elected by the Annual General Meeting examine the company's accounting records, financial statements and administration. The audit work is carried out during the financial year through audits of the divisions and company administration and by carrying out the official audit of the financial statements at the close of the year. The company has a minimum of one and a maximum of three auditors, who have a minimum of one and a maximum of three deputies. At present the company has two auditors and a deputy auditor which is a firm of independent public accountants authorized by the Central Chamber of Commerce. The Internal Audit coordinates auditing activities between the external and internal audits in order to ensure the comprehensiveness of the auditing work and to avoid overlapping auditing tasks.

The fees paid to the auditors for the 2006 financial period totalled EUR 164 703 for the audit of the parent company and a total of EUR 425 871 for the audit of the Group. In addition, KPMG was paid EUR 80 656 in consultancy fees.

Management's remuneration and other benefits

The Annual General Meeting passes resolutions on the remuneration paid to the members of the Board of Directors. Up till March 31, 2006, the fixed emoluments per year were EUR 60 000 to the chairman of the Board of Directors, EUR 40 000 to the vice chairman and EUR 30 000 to each of the other members of the Board. A meeting fee of EUR 400 per meeting was paid to all the members of the Board. According to the resolution passed by the Annual General Meeting held on March 21, 2006, from April 1, 2006 on, the fixed emoluments per year were EUR 70 000 to the chairman of the Board of Directors, EUR 45 000 to the vice chairman and EUR 35 000 to each of the other members of the Board of Directors, and the meeting fee was EUR 500 per Board meeting to all the members of the Board of Directors. About 50 per cent of the annual emoluments were paid in the form of the company's shares and the remainder in cash. For the 2006 financial year, the members of the Board of Directors were paid cash emoluments totalling EUR 180 959.50 and share emoluments of 4 043 of the company's Series B shares. The value of the emolument paid was a total of EUR 316 400. Emoluments paid to the members of the Board of Directors during the financial year 2006 are presented on the company's website.

The total amount of the salary, emoluments and fringe benefits paid to the chief executive officer in 2006 was EUR 984 112.93, of which fringe benefits accounted for EUR 17 160. In the chief executive officer agreement, the CEO's pension age is set at 60. The pension is determined in accordance with the Employees' Pensions Act and a separate insurance plan which is taken out by the company. The CEO's period of notice is specified bilaterally at 6 months. Should the company terminate the agreement, the CEO has the right to compensation corresponding to 12 months of fixed salary upon expiry of the termination period. In addition, the CEO is entitled to extra compensation corresponding to 12 months of fixed salary one year after expiry of the termination period if the CEO has not retired on an employment, voluntary or health-based pension funded by the company. Should the company terminate the executive post relationship on cancellation grounds due to personal reasons, neither of said classes of compensation shall be paid.

Incentive systems

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

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

On April 24, 2003, the Board of Directors approved for the members of the company's Management Committee, as a supplement to the annual incentive, a long-term share bonus scheme extending, in two-year periods, up to the end of 2006. Carrying out of the share bonus scheme was tied to the realization of the Group's development in accordance with its long-term strategy, and its benchmarks were both consolidated profit before taxes net of other operating income and the Group's trend in the return on capital employed. Attainment of the share bonus targets is assessed in two-year periods. In 2007, a total of 9 769 Stockmann Series B shares and EUR 533 094.33 in cash will be paid to the members of the Management Committee on the basis of the attained aggregate targets in 2005-2006. With the expiry of the share bonus scheme at the end of 2006, it has not been proposed that a new scheme be introduced, but instead, the 2006 share option scheme mentioned below will function as a long-term incentive system.

Achievement of the company's long-term objectives has been supported by a share option scheme for key employees, which was approved through a resolution passed at the Annual General Meeting in 2000. The subscription period for the shares with share options 2000 ends on April 1, 2007. The Annual General Meeting held on March 21, 2006, passed a resolution on a new key employee share option programme which is part of the incentive and commitment-building scheme for management. Information on the 2000 share options and the new option scheme is given on pages 45-46 and 48-49 of the Annual Report.

Insiders

Stockmann complies with the insider guidelines prepared by Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industries, EK. Counted as Stockmann plc's insiders with the duty to declare under the Securities Market Act (297/2005), Chapter 5, Section 3, are the members of the Board of Directors, the chief executive officer, the executive vice president, the auditors and the persons who receive insider information on a regular basis and are entitled to make decisions on the company's future development and organization of its business. In addition to the public insider register on insiders with the duty to declare Stockmann maintains a company-specific insider register on persons working for the company who receive inside information on a regular basis due to their position or tasks. Stockmann's Board of Directors has decided that the restriction on trading in the company's shares by insiders is 14 days before the publication of a quarterly report or the financial statements, whereas Stockmann has found it appropriate not to define a period preceding the publishing date of financial results during which the company does not comment the development of its sales or earnings.

The company's public insider register is available on Stockmann's website www.stockmann.com covering information on the persons in the register as well as up-to-date information on their holdings and the holdings of their related persons.

Recommendation on the Corporate Governance of listed companies

HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers published in December 2003 a new recommendation on the Corporate Governance of listed companies. Helsinki Exchanges adopted it as a minimum set of regulations forming part of the stock exchange's regulatory regime. The recommendation came into force on July 1, 2004. Stockmann complies with the recommendation.

Risk management

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

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

Risk classification

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

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

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

Allocating responsibilities within risk management

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

The Board of Directors sees to the due and comprehensive supervision of accounting and financial management according to the Finnish Companies Act. The Board also confirms the company's long-term strategies and financial goals.

In accordance with the recommendation on the Corporate Governance of listed companies, the Board confirmed the company's risk management principles in June 2004.

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

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

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

Business risks are managed by taking out voluntary insurance policies in accordance with the confirmed principles of providing insurance cover. The Stockmann Group's insurance function is handled centrally by the company's director of legal affairs, who is responsible for seeing to it that the principles of providing insurance cover are observed at all Group units. In addition, the insurance company carries out regular insurance inspections of the insured items and sites in order to ascertain that the company has appropriate insurance cover. Responsibility for statutory personal insurance has been assigned to the Group's personnel administration unit.

Risk management reporting

The divisions report on business risks and their management

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

Personnel

The sale of Zara's Russian operations early in the year and Stockmann Auto in the spring reduced the number of personnel employed by the Stockmann Group. During the year it increased, however, due to the opening of new Bestseller and Seppälä stores. At year's end, the Group had 10 862 employees, of whom 3 477 worked abroad. Of these, 2 133 people worked in Russia, 688 people in Estonia, 620 people in Latvia and 36 people in Lithuania. The total number of employees decreased by 987. In Finland, the number of employees fell by 725 and outside Finland by 262.

Fifty per cent of the employees were full-time, while 50 per cent were part-timers. The proportion of full-time employees in Finland was 40 per cent and part-timers 60 per cent. The proportion of full-time employees abroad was 71 per cent and of part-timers 29 per cent.

Women accounted for 79 per cent of the Group's personnel, and men for 21 per cent. Women accounted for 75 per cent of the senior salaried employees and men for 25 per cent. The number of female executives increased and represented 65 per cent of all executive personnel. Women occupy 60 per cent of executive positions in Finland, and as much as 77 per cent of executive positions abroad.

The average age of the personnel was 34 years. Staff turnover among permanent employees in the Group's units in Finland was on average 15 per cent. Staff turnover abroad has always been much greater, and it has grown considerably in recent years due to labour mobility and the increased number of service-sector jobs available. Turnover in Russia was in average 63 per cent, and in the Baltic countries 48 per cent.

Operational methods unified

In 2006, the Stockmann Group began a critical evaluation of both its personnel management processes and the possibilities for developing and unifying them across different countries. The Stockmann Group operates everywhere as a retail chain, but in very different labour markets. Rapid expansion requires the unification of personnel management strategies, common operational guidelines and shared systems.

In 2006, the Department Store Division draw up a human resources strategy for its operations abroad by evolving operational policies for different regions based on those in use in Finland. The objective set for the whole chain was achieving as result-orientated and efficient operation as possible. Shared systems also support operations and shared personnel management systems are already in partial use. This work will continue in the years to come. Personnel management systems are largely shaped by legislation. Local legislation and linguistic requirements in different countries must be taken into account when developing operations.

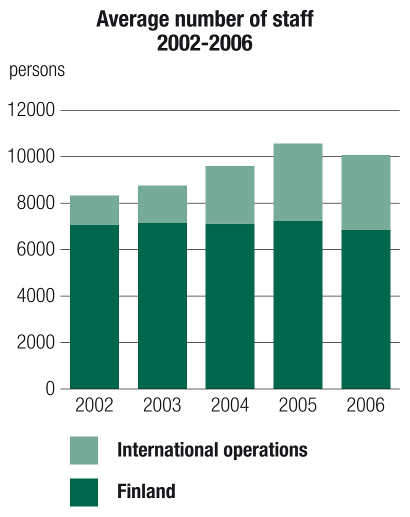
Seppälä and Hobby Hall are also involved in this development work. Their personnel management processes and systems are being unified with those in the Department Store Division.

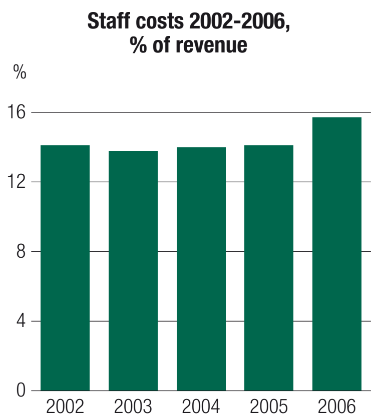
Increasing shortage of skilled staff in Finland

The most critical challenge facing personnel management in the future will be to recruit and retain skilled professional staff. The increasing difficulty in finding skilled full-time staff for specialist sales positions has begun to spread outside the Helsinki metropolitan area. Stockmann's good employer image has helped in recruiting part-time staff. The core of this personnel group are university students, who do excellent work for years to finance their studies but whose ambitions are not usually focused on sales positions. Stockmann aims to base its store personnel structure on career-motivated sales professionals.

Stockmann is a participating partner in a network project started in 2006 by the Training Development Centre for Trade and Commerce. The project's objective is to develop commercial training at the basic and advanced levels, further training, student on-the-job training, competence tests, training for workplace instructors and practical workplace experience for teachers. Another aim is to improve the appeal of the retail sector and its image as an employer.

About 50 employees from the Stockmann Group's Finnish units studied the whole year on courses for specialist qualification for shop supervisors that alternated face-to-face teaching with practical training on the job. Competence tests have shown





that vocational qualification exams are very suitable for further training of adult employees, and are always geared to the development of each student´s work tasks and working environment. In addition, people seeking a career in sales are offered the opportunity for self-advancement and long-term employment in the retail sector. Based on positive results, Stockmann has improved its readiness to carry out competence tests by training more workplace instructors in its department stores in Finland. In order to ensure the recruitment and retention of skilled employees, Stockmann proposed its own retail diploma course in business administration for adult students. This is a three-year sandwich course, and the first group of students graduated in 2006.

Many students did practical training in the department stores as part of their studies. While completing their compulsory training period, they formed an impression of Stockmann as an employer and as a workplace. After graduation, many trainees who have graduated with a basic or polytechnic vocational diploma return to permanent positions at Stockmann. Stockmann has been very successful according to the commercial sector's "Tomorrow's Workplace" surveys.

Demand for personnel abroad continues to grow

Labour mobility has been a growing problem in the Baltic countries since their accession to the EU. The department stores in Tallinn and Riga, and the Hobby Hall and Seppälä stores in the Baltic countries have been able to maintain their high standards of customer service, but are facing more challenges than in previous years. In 2006, Riga had the greatest staff turnover among the Stockmann department stores. Job availability in the Latvian labour market has increased considerably at the same time as internal mobility in the EU continues to increase. There is a shortage of labour for sales and warehouse tasks in the country.

All of Stockmann's department stores abroad have begun to restructure sales organizations to become more customer-focused, so that they may continue to improve their customer service and offer new career opportunities. Job descriptions on different organizational levels were redefined. Throughout, the significance of a customer service approach was stressed from the viewpoint of time management. As well as basic positions, the department stores provide opportunities for promotion to special posts that offer higher wages, more responsibility and the opportunity to influence one's own work. Management of customer service and staff induction were added to the duties of supervisors and emphasized specifically. A new training programme was introduced to boost customer service.

The Group's progress in Russia has been so rapid that key personnel for new department stores can no longer be drawn from the ranks of experienced staff in other department stores. Staff for these new stores are being increasingly recruited directly from the labour market. In accordance with their human resources strategy, the Russian department stores have focused on carrying out induction programmes thoroughly. This will increase job satisfaction and reduce staff turnover. After induction, staff commitment to the company is strengthened by continuously providing opportunities for development, rotation of duties and competitive personnel benefits.

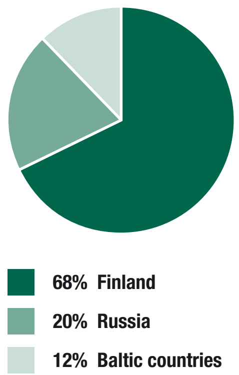
In accordance with its expansion plans, the Group will need many skilled and versatile top and middle-level managers fluent in foreign languages for positions in Finland and abroad.

With an eye on the future need for top and middle-level managers, especially abroad, Stockmann started planning a recruitment and training programme for both Finnish employees suitable for posts abroad and people hired locally. The programme covers all the countries in which the Group operates, and its purpose is long-term development of the readiness of personnel seeking international careers or challenging positions in their home country to accept such responsible positions.

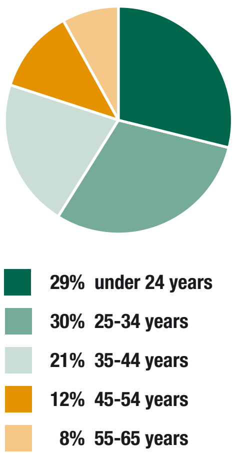
Induction training developments in Finland

Also in Finland, the induction of new personnel was one of the topics highlighted when operational development requirements were identified at the end of 2005, when a workplace atmosphere survey was carried out in the department stores. Improvement of induction work at team level turned out to be of particular

Distribution of staff by market 2006



Age structure of the staff 2006



importance. Delicatessen induction training was revised so that new employees not only learn about Stockmann, but are also taught what makes the Delicatessen successful and how this is done. The aim is to emphasize the role of the staff in achieving this success.

Job descriptions in department store sales were redefined and clarified. The title of team leader was introduced to clarify the role of those responsible for the smooth running of the team’s daily operations and customer service. Communication training was arranged in support of team leaders’ daily supervisory tasks. Here the role of constructive feedback was emphasized. About 180 team leaders took part in this training.

Customer satisfaction surveys were continued at department stores both in Finland and abroad, and the results show that the quality of service has remained at the high level achieved in recent years.

Continual improvement of well-being at Hobby Hall

Hobby Hall’s goal for 2006 was to develop the well-being of its personnel by improving the workplace atmosphere, by developing supervisory skills and communication, as well as a readiness to embrace change. A workplace atmosphere survey conducted in the spring demonstrated that considerable progress had been made in all these respects, and a managerial training course held the previous autumn had had a positive effect.

Hobby Hall emphasized labour protection and occupational safety matters by conducting an occupational safety survey and organizing induction training on occupational safety.

Voluntary training undertaken by staff was supported where possible by, for example, reorganizing shifts and providing opportunities for competence tests. In their free time, Hobby Hall’s staff participated in training programmes leading to vocational diplomas in business administration and data processing, and special qualifications in management and international trade.

Seppälä’s Spirit training programme expanded

Seppälä continued with its Spirit training programme, concentrating on sales personnel at stores particularly in the Baltic countries and Russia. The Spirit training sessions used the same timetables and content as those in Finland, with special emphasis on the professional skills of sales staff. All the chain’s employees attended the sales training sessions, which were held in each country and taught in the local language. Visual merchandising staff from different countries acted as in-house instructors.

Managerial training was another focal point and 13 store managers from Finland completed a store supervision special qualification course. In September, training sessions entitled “Store Manager Days” were held in St Petersburg for store managers from Latvia, Lithuania and Russia. A customer-focused approach, managerial responsibility implicit in staff supervision and operational evaluation and planning were all emphasized at these sessions. Managers from the Baltic countries have also participated in Group managerial training sessions. These include development projects that have contributed to revising the content of store manager training sessions and concepts related to the opening of new stores.

Group-wide development projects

The IT skills of those employed in various positions and divisions in the Group were developed through a computer training scheme, which was arranged by Stockmann’s own instructors.

A trainer course was planned for those also responsible for internal training above and beyond their normal duties. Trainers of induction courses for new staff and people involved in various specialist tasks attended the training sessions.

The Group’s managerial training programme continued with two new groups. A further training module on managerial communication with the theme ”No communication = No management” was arranged for those who had completed the previous training course. During the year, over 80 people took part in these training sessions.

Occupational healthcare

Surveying of the personnel’s health and working capacity was continued team by team at the department stores in Finland. Health check-ups included a working capacity index questionnaire aimed at early identification of possible disability or rehabilitation requirements. Furthermore, a Resources at Work questionnaire was used to survey the atmosphere, well-being and job stamina experienced in the workplace. Sickness absence monitoring surveys and measures were begun more systematically, with emphasis on the so-called early intervention principle.

The same questionnaires are also used in selecting people for various types of rehabilitation such as Aslak, an early warning medical survey; Tyk, job stamina training; Resources at Work, various diagnosis-based rehabilitation programmes, and in monitoring the effects of rehabilitation. The questionnaires are also used as an aid in sorting out problem situations in the workplace.

As one of its occupational healthcare measures, Hobby Hall upgraded statutory occupational healthcare to general practitioner coverage. This produced positive feedback and during the year ground rules were drawn up for unifying operations. Health check-ups were organized for those departments with the largest incidence of sickness absences.

At Seppälä, workplace surveying methods were improved and updated. Everyone over 35 years had a health check-up, which accounts for about half of the personnel.

The largest diagnostic groups responsible for sickness absences among the staff in Finland continued to be respiratory inflammations and musculo-skeletal ailments. The third largest cause of sickness absences were accidents at work or when travelling to and from work, or during free time.

When compared to 2005 levels and the average for the 2000 decade, the number of health-related pensions continued to decline in the Group’s Finnish companies. The average age of people retiring on various pension schemes was 59.9 years, the highest figure for this decade. The equivalent figure for the parent company was 60.4 years. Of full-time retirees, three fifths took an old-age pension.

Incentive systems

Most of the Group's personnel are covered by an incentive system. The incentive systems for managers and experts are based on financial benchmarks and the evaluation of individual job performance. As a rule, group incentive schemes are applied to people in other positions.

In 2006, a total of EUR 6.1 million was booked as various incentive bonuses. In addition, EUR 0.6 million was booked as IFRS 2-compliant expenses for the 2006 share option arrangements for key employees.

Management incentive systems and the share option arrangements for key employees are discussed under the heading "Corporate Governance" on pages 29-30 of this Annual Report. Detailed information on the share option schemes for key employees is presented in the section "Share Capital and Shares" on pages 48-49.

More individualized recreational activities

Over 20 Stockmann recreational clubs were active in 2005. This number dropped by half in 2006 and instead the company allocated more recreational appropriations to fitness vouchers. Long opening hours and shift work in the retail trade have taxed the number of club members. It is harder than before to find both suitable times for club activities and volunteers to coordinate them. The vigorous promotion of fitness vouchers has in turn raised their profile and increased their attraction. Employees want more scope to find their own fitness activities at suitable times and fitness vouchers meet this need. Compared with the previous year, Stockmann increased the number of fitness vouchers that it supports financially.

Recreational activities for the Tallinn department store personnel are supported on the same principles as those in Finland. Plans for recreational activities at other department stores abroad began at the end of the year.

The Intranet – an important tool

In spring 2005, the Stockmann Group launched its new Intranet website. As the range of content has expanded, it has established itself as an essential tool for internal personnel communication. As well as Intranet pages common to the whole Group, each division has its own set of pages. Initially, content was published mainly in Finnish with some material also in Swedish and English. At the end of 2006, separate English-language pages were produced especially for personnel engaged in operations abroad. Like the original Finnish-language pages, they too were modest at first, but will expand in stages. Material in local languages will also be published on the English-language pages.

Printed information has an important role in Stockmann's internal communications, as most employees do not work continuously next to a computer. The Stockmann Group publishes a staff magazine entitled "MeVi" and the "miniMeVi" newsletter. Apart from articles in Finnish and Swedish, material has, from time to time, been published also in English, Russian, Estonian, Latvian and Lithuanian in the "MeVi" magazine. Various divisions and department stores in Finland, Russia and Estonia have their own internal newsletters, many of which appear both in printed and electronic versions. The ability of the Group's staff magazines to serve those engaged in operations abroad in particular will be developed during 2007.

Corporate social responsibility

Corporate social responsibility is part of the Stockmann Group's normal long-term operations. Social responsibility is one of Stockmann's six core values, and it is specifically focused on our own staff, the environment, and promoting responsible importing in international sourcing.

Corporate social responsibility is guided by the Group's core values, the sought-after level of social responsibility confirmed by the Management Committee and operational policies. The Corporate Social Responsibility Steering Group is made up of representatives from all the divisions and operations. The Steering Group is a coordinating body of experts, whose task is to ensure that the divisions achieve the sought-after level of social responsibility confirmed by the Management Committee and act in accordance with the policies it has set.

The development of social responsibility in the Stockmann Group

1991 The Group's first environmental project was launched in the Department Store Division.

1992 Stockmann's Sesto convenience goods chain held a "Green Year".

1994 Stockmann released its first environmental values statement.

1996 Stockmann's Vehicle Division was a pilot site for AKL's (Finland's Central Organization for Motor Trade and Repairs) environmental programme.
The Sesto chain carried out an environmental development project between 1996 and 1999.

2000 Stockmann was one of the founder members of SERTY ry, an association responsible for recycling waste electrical and electronics equipment.

2001 An environmental system covering all department store functions was launched at the Helsinki department store.
Stockmann joined the Network to Advance Social Responsibility in Importing, coordinated by the Central Chamber of Commerce.

2002 A social responsibility project was carried out throughout the Group that brought a significant increase in the company's commitment in the area of social responsibility. Confirmed by the Board of Directors, the Group's new environmental policy was released.
The 2002 Annual Report included a chapter on corporate social responsibility for the first time.

2003 Stockmann's department store chain in Finland was certified according to the ISO 14001 environmental standard. Stockmann joined Transparency Finland.

2004 Social responsibility was included in Stockmann's core values.

2005 Stockmann joined the European BSCI auditing cooperation organization.
The Corporate Social Responsibility Planning Project. The sought-after level of social responsibility was confirmed by the Management Committee.

2006 Stockmann was included in a European sustainable development index.

Events in 2006

Began by the Group in 2005, the Corporate Social Responsibility Planning Project was completed by early 2006. During the project, a sought-after level of social responsibility was drawn up to steer development over the years ahead by providing a set of guidelines and shared goals which each division can apply in working out its own solutions locally and across various functions. The Management Committee confirmed the sought-after level of social responsibility in December 2005.

During 2006, the development of corporate social responsibility proceeded according to plan, in line with the sought-after level of social responsibility. At Group level, emphasis is placed on reporting and promoting responsible importing, and at division level on identifying environmental opportunities in the Baltic countries.

In addition to the Annual Report, Stockmann communicates its corporate social responsibility to stakeholders via the Inter-

ISO 14001
BUREAU VERITAS
Certification

Financial key figures

		2006	2005
Revenue	EUR million	**1 300.7**	1 542.6
Operating profit	EUR million	**129.5**	103.7
Profit before taxes	EUR million	**128.9**	102.8
Dividends*	EUR million	**72.1**	59.5
Direct taxes	EUR million	**24.3**	26.0
Salaries and emoluments	EUR million	**167.9**	178.3
Pension expenses	EUR million	**24.4**	26.6
Staff expenses	EUR million	**12.3**	13.1
Expenditure on staff training (excluding direct salary and wage costs)	EUR million	**1.2**	1.3
Average number of employees		**10 069**	10 558
Average number of part-time employees		**4 729**	4 797
Number of shareholders		**40 198**	42 169

* Board proposal to the AGM

net, Intranet and in the staff magazines. In early 2006, web page content on corporate social responsibility was expanded and its structure was standardized with that in the Annual Report.

In October 2006, Stockmann was included in the Kempen SNS Smaller Europe SRI sustainable development index and its Orange SeNse fund, founded in 2003 by the Dutch investment companies Kempen Capital Management and SNS Asset Management. This is the first sustainable development index for smaller European companies. Companies included in the index are considered to meet high ethical, social and environmental criteria. By February 2007, the index included 139 companies from 15 different countries, including 11 other Finnish companies besides Stockmann. Analysis of the companies is based on material published by the companies and a wide-ranging survey. Public recognition is a motivator towards continual development of sustainable development principles and towards improvement in environmental performance, together with open dialogue with all stakeholders.

Financial responsibility

Financial responsibility means the responsibility for expected returns on shareholder investments, providing permanent employment to personnel, creating new jobs, paying taxes and generating overall economic well-being within society. Competitiveness and sound financial performance enable the company to promote the well-being of its personnel and society at large. Socially responsible action in turn creates a solid foundation for the Group's economic growth.

Environmental responsibility

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

In compiling its financial statements, Stockmann observes the general guidelines issued by the Finnish Accounting Standards Board (KILA) concerning the recording, calculation and presentation of environmental compliance. The uniform presentation of environmental expenditures facilitates comparison and gives a comprehensive picture of how environmental affairs are handled across the Group.

Nationwide recycling of waste electrical and electronic equipment (WEEE) got started in Finland in 2005. Stockmann is one of the founding members of SERTY ry, an association of producers in the electrical and electronics field. SERTY assists its member companies in coordinating the recycling and waste management of electrical and electronic equipment in Finland in accordance with the principles of producer responsibility enunciated by the EU. Recycling based on producer responsibility under the EU WEEE directive has begun well. During the first twelve months from August 2005 to July 2006, a total of 19 855 tons of electrical and electronic waste, equivalent to 3.78 kg of waste per capita, was accumulated at the SERTY take-back points.

Most of the equipment recycled by SERTY consists of TV and monitor CRTs, refrigeration units, washing machines and cookers. As part of the nationwide recycling of electrical and electronic waste, the Stockmann department stores and Hobby Hall in Finland offer their customers the possibility to recycle an old home appliance when a new one is delivered. For a number of years now, prior to the start of nationwide recycling, Stockmann has made it a practice to act as a take-back point for electronic waste.

The Stockmann Group is a member of the Environmental Register of Packaging PYR Ltd, which helps its members and the authorities to abide by the EU packaging directives and relevant Finnish legislation. According to the Waste Act, companies that import packaging materials for the Finnish market are obliged to recycle them. By signing an agreement with PYR, the company transfers the responsibility of the producer for packaging placed on the market to the producer group.

Department Store Division

All Stockmann's department stores in Finland have environmental systems certified according to the ISO 14001 standard. The department store environmental systems were installed and certified in 2002-2003. In May 2006, Department Store Division certification was re-audited. Firm commitment to the environmental system and its implementation by the personnel received special praise. The new certificate is valid until October 2009.

Certification carried out by Bureau Veritas Certification covers the functions of Stockmann's department stores and Academic Bookstores in Finland along with the Department Store Division's joint purchasing and warehousing functions in Helsinki's Pitäjänmäki district. Just over 4 800 people work in jobs falling within the scope of the certified functions.

Six months after its opening, Stockmann's newest Finnish department store at the Jumbo Shopping Centre in Vantaa was certified according to ISO 14001 environmental standard in April 2006. Environmental measures at the Jumbo department store were already taken into consideration during the planning stage and, for example, waste sorting bins have been successfully integrated into the store fixtures. Stockmann was also able to influence waste management procedures at the shopping centre.

Key indicators for environmental impact have been determined as part of the environmental systems. Data measurement is essential to manage development in a goal-oriented manner. The aim of environmental work is to reduce environmental loading by paying attention to waste prevention and recycling, reducing energy consumption and taking environmentally friendly assortment and purchasing decisions.

Hobby Hall

Waste sorting and recycling is also the focus point of Hobby Hall's environmental work. Hobby Hall has managed to reduce the volume of waste that it produces by raising the recycling rate. Using waste compactors more efficiently has further reduced environmental loading. In 2004, emptying the cardboard compactor released 1.5 tons of waste, whereas in 2006 on average 5-6 tons of waste was released when emptying the same compactor. Using the compactors more efficiently produces considerable savings in both waste transportation costs and the environment. The number of sortable waste fractions has increased both at warehouses and in the stores, and especially in the Returns handling department, which produces the greatest diversity of waste fractions. Environmental training has been given to the supervisors, who in turn have trained the rest of the staff. Sorting efficiency is under constant scrutiny, and feedback is given on sorting errors.

The consolidation of Hobby Hall's warehousing functions in 2005 principally within the Viinikkala Logistics Centre considerably reduced the need for warehouse space. Environmental loading has also diminished markedly through rationalization, as energy consumption and internal transportation between warehouses and stores decreased. From 2005 onwards, it has been possible to deliver to the post office packages for the Baltic countries and Finland in the same roller cage, thus improving the Baltic countries' delivery load factor. This has also led to improved truck load factors, as under-loaded roll cages are no longer carried.

As a distance retailing company, Hobby Hall produces and consumes a considerable amount of packaging material each year. From the beginning of 2003, Hobby Hall has succeeded in reducing the amount of packaging material, especially cardboard, used at its warehouse by dispatching a greater amount of products in supplier-used packages and by employing combined packaging in orders for multiple products. One way of achieving greater efficiency in transporting and handling products, also along the transport chain, is to boost the combined packaging rate, which in turn reduces environmental impact. Hobby Hall sent its customers a total of 1.6 million packages in 2006.

All distance retailing catalogues and packaging are made from environmentally friendly materials that are recyclable. Environmental declarations have been obtained from all packaging material suppliers, and are renewed if the supplier is replaced. Recycled raw material is also used in the production of packaging material.

Hobby Hall's online sales have continued to grow for several years and in 2006 already represented 47 per cent of distance retail sales (36 per cent in 2005). This considerable growth is expected to continue. When the share of online sales increases, the environmental loading of distance retailing reduces as the goods are ordered electronically instead of by sending in mail order coupons. And as the share of online sales increases, more and more products are offered through the online store, and it can be assumed that the amount of printed catalogues will decrease step by step.

Electrical and electronic waste recycling in connection with distance retailing was extended in 2005 to include the whole country. Based on good results, this was continued during 2006. The policy, by which customers can return old electrical and electronic waste when buying new products, covers all distance sales in Finland and all Hobby Hall stores, including the store in Tallinn, Estonia. Recycling has begun well and present levels can be further increased.

Seppälä

Environmental work throughout the extensive Seppälä chain is part of everyday operations, in which staff responsibility is emphasized. Seppälä aims to reduce the load it creates by regularly monitoring the possibilities for sorting and recycling in all its Finnish stores, for which operational guidelines have been drawn up. Most of Seppälä's stores are located in shopping centres, where there are well-established procedures for dealing with environmental issues and waste management. Local waste management regulations are complied with in stores outside Finland, and Seppälä will study the possibilities for recycling and sorting in stores abroad during 2007. Seppälä is devoting increased efforts to reduce the load it exerts on the environment by arranging training in sorting procedures at both head office and logistics centres. Recycling and sorting are performed according to plans, with an emphasis on the staff's own responsibility.

For its suppliers, Seppälä has prepared detailed partnership guidelines that deal with packaging, use of chemicals and responsible importing. The aim of the guidelines is to avoid unnecessary product packaging and to influence how suppliers select packaging materials and packaging methods. These measures have also led to an improvement in product processing times and inventory turn rate, and eliminate unnecessary handling stages. Seppälä, with its private-label collections, places great stock in promoting responsible import sourcing and pursuing BSCI (Business Social Compliance Initiative) cooperation.

Stockmann Auto

The Stockmann subsidiary Stockmann Auto Oy Ab and its business operations were transferred to new owners on March 1, 2006. Stockmann Auto had a history of long-term environmental work. The divested units had environmental programmes, quality systems certified according to ISO 9001 standard, and one certified according to ISO 14001 environmental standard as a pilot project.

Waste management and energy

Energy consumption and waste account for the most significant environmental loading within the Stockmann Group. The direct environmental impact caused by Stockmann is minor. Although the Group's operations do not burden the environment to a great extent, continuous development, waste sorting and improvement of energy efficiency all help to improve Stockmann's environmental performance. Ecological requirements are also applied to business partners in environmental systems, for example.

The Stockmann Group's waste management functions have been harmonized and streamlined in recent years. When reducing environmental loading in the business divisions, one of the primary concerns is how to sort waste and how to do this more efficiently. Waste is sorted at source – in the warehouses, department stores and other stores. Annual targets have been set for waste management activities, and the results are monitored regularly.

The different methods used by business sites to manage waste somewhat limit the scope for fully uniform reporting on waste management. Stores in shopping centres are often dependent on the centre's own waste management arrangements, and local municipal regulations differ from each other. In locations abroad, recycling is carried out where possible in compliance with local regulations. In the years to come, harmonizing sorting and waste management procedures in international operations with those of the Group's other divisions will be a challenge.

Stockmann's operations produced a total of 9 876 tons of waste in 2006 (2005: 9 165 tons). Recyclable waste includes energy, biodegradable, mixed and hazardous waste, as well as cardboard, paper, metal and electronic waste. With the aim of increasing the recycling efficiency rate, cellophane and shrink-wrap plastic waste was collected on a trial basis at the department stores in the Jumbo Shopping Centre and in Tapiola during 2006. The recycling efficiency rate for the Group's Finnish operations is high, 97 per cent. The waste efficiency rate for operations abroad is 13 per cent.

The Group's energy consumption is made up of electricity, district heating and water. The recorded consumption stems mainly from the lighting and cooling of store, warehouse and office premises, from the electrical equipment used in these areas and from automation and equipment in buildings. The aim of building management is to provide heating, lighting, space and ventilation conditions that are environmentally cost-effective and suitable for business. When improving working conditions, factors bearing on employee well-being and customer satisfaction are taken into account, such as the quality of the indoor climate.

Overall consumption of electricity in the Group's Finnish locations in 2006 was approximately 65 000 MWh (2005: approximately 67 800 MWh). Most of the water is used in the department store restaurant, kitchen and sanitary facilities. In 2006, total water consumption in the Finnish locations was 122 504 cubic metres (2005: 110 658 cubic metres). Comprehensive data on energy consumption and waste management in operations abroad is not yet available. Transportation and other vehicle fuel consumption is not included in the reporting on energy usage.

More stringent environmental legislation, new recycling standards, and continually rising landfill and energy use charges all pose new challenges for waste management and building maintenance. At the end of 2006, an electricity saving project was launched across the Group. Its aim is to carefully analyse electricity use function by function and reduce consumption during 2007 by focusing on operational practices.

Waste management statistics (tons)

	Department stores, Finland			Department stores, abroad			Hobby Hall			Seppälä*			Total**		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Recyclable waste															
Energy waste	**1 275**	1 070	1 087	**0**	1	1	**55**	71	40	**28**	26	29	**1 358**	1 169	1 156
Cardboard	**1 924**	1 565	1 542	**292**	391	144	**328**	256	318	**319**	283	292	**2 862**	2 495	2 295
Paper	**183**	165	126	**-**	-	-	**31**	47	38	**43**	17	16	**256**	229	180
Plastic film, glass	**473**	5	11	**25**	-	16	**13**	8	4	**-**	-	-	**511**	14	31
Metal	**40**	39	35	**0**	0	-	**10**	10	12	**-**	-	-	**50**	49	47
Bio waste	**1 769**	1 513	1 516	**77**	170	144	**10**	8	6	**14**	4	8	**1 870**	1 695	1 674
Restwaste															
Mixed waste	**332**	324	385	**2 614**	3 109	733	**9**	22	64	**8**	5	6	**2 962**	3 460	1 186
Hazardous waste	**5**	10	15	**-**	38	5	**-**	2	6	**1**	7	6	**6**	56	32
Total	**6 001**	4 691	4 715	**3 009**	3 708	1 041	**455**	425	487	**412**	342	357	**9 876**	9 165	6 600
Waste utilization, %	**94**	93	92	**13**	15	25	**98**	95	86	**98**	97	97	**70**	62	82

Where accurate figures have not been available, the amounts have been estimated.
* Head office and Goods Handling Centre.
** Exclusive of Stockmann Auto.

Waste utilization= recycling of the material and utilization of its energy content.

Energy consumption

	Electricity (MWh)		Heat (MWh)		Water (m3)	
	2006	2005	**2006**	2005	**2006**	2005
Department Store Division, Finland	**58 323**	62 311	**21 304**	33 160	**116 283**	104 554
Department Store Division, abroad	**48 058**	39 638	**4 485**	7 620	**58 867**	61 115
Hobby Hall	**4 179**	4 045	**3 166**	2 190	**3 296**	3 433
Seppälä*	**1 318**	1 234	**799**	574	**2 120**	2 668
Others	**937**	203	**775**	175	**805**	3
Total	**112 815**	107 432	**30 528**	43 719	**181 371**	171 773

* Head office property and Goods Handling Centre.

PYR

Corporate social responsibility

Social responsibility

Personnel

Responsibility for personnel is a key element in Stockmann's corporate social responsibility. Good personnel policy, a rewarding and fair-minded workplace and a motivating atmosphere are examples of responsible practices. The dimensions of Stockmann's social responsibility also include occupational health and safety, employee satisfaction along with mental and physical well-being as well as training and career advancement. The rapid growth of international operations and the resulting pressures for change, as well as ever-increasing competition for staff, all present new challenges. Personnel affairs are discussed more extensively on pages 32-35 of this Annual Report.

Responsible importing

Stockmann's social responsibility also extends beyond the company's own personnel to encompass indirectly the working conditions of employees all along the supply chain. Measures to promote responsible importing practices have been developed purposefully for many years now. Since 2001, Stockmann has been a member of the Network to Advance Social Responsibility in Importing, coordinated by the Central Chamber of Commerce. By the end of last year, the network had 19 members representing retailers, foodstuffs, garment and footwear producers and importers. Stockmann is committed to promoting the application of ethical principles within importing activities as defined by the network. In addition, Stockmann furthermore adheres to the principles of responsible import trade set out by the International Association of Department Stores (IADS). The IADS principles are largely similar to those of the Network to Advance Social Responsibility in Importing mentioned above.

In their operations, the Stockmann divisions abide by the Group's Commitment to Social Responsibility in Importing guidelines, which is based on the declarations and conventions of the UN and ILO, the International Labour Organization. Accordingly, suppliers undertake not to use child labour or forced labour, nor to practice discrimination and to guarantee employees safe working conditions and adequate wages.

BSCI auditing cooperation

Stockmann joined the Business Social Compliance Initiative (BSCI) at the beginning of 2005. BSCI is a cooperation organization that has been developed by European companies, trade unions and other organizations. BSCI is a joint system for auditing suppliers and it is administrated by the Brussels-based Foreign Trade Association (FTA). In February 2007, BSCI had over sixty member companies from nine different countries. In addition to Stockmann, there are four other member companies from Finland.

The purpose of BSCI is to improve the working conditions of the staff of its members' suppliers, at the same time clarifying and harmonizing the means by which suppliers are monitored. Thanks to this cooperation, the number of audited factories will increase manifold, the improvement of working conditions will be speeded up, and all the parties will be spared a great deal of work and costs as overlapping functions are eliminated. The centrepiece of the system is the audit proper, which covers working conditions and terms of employment. This is carried out by an authorized auditor. BSCI audits are carried out by the same organizations as the SA 8000 audits, enabling the company to proceed to SA 8000 certification if it so wishes. An audit conducted by an external professional guarantees the transparency and reliability of the system.

Advancement towards an approved BSCI audit is a long-term process. It begins with a self-assessment by the supplier, which aims to examine any possible faults and correct them before the audit itself takes place. In all, 1 500 BSCI audits have been carried out, of which 700 took place in 2006.

During 2006, BSCI was expanded to cover foodstuff production. The Finnish company Tuko Logistics Oy, from which Stockmann purchases most of its foodstuffs, joined BSCI in the beginning of 2007. BSCI arranges workshops for suppliers, at which they are told about the system and encouraged to join the BSCI auditing process. In 2006, BSCI workshops were arranged in China and Vietnam. Both events included participants from among Stockmann's suppliers. Stockmann also participates in BSCI working group activities.

Stockmann is a founding member of Transparency Finland, an organization that works to combat international bribery. The umbrella organization, Transparency International, operates in 90 countries.

Board report on operations

The Stockmann Group reported its best-ever earnings. Profit before taxes increased by 25 per cent and was EUR 128.9 million (EUR 102.8 million in 2005). The earnings trend abroad was especially positive. Other operating income amounted to EUR 34.4 million. As a consequence of disposals, aggregate sales decreased by 16 per cent to EUR 1 552.7 million (EUR 1 851.3 million in 2005). Sales from continuing operations increased by 6.3 per cent. The Department Store Division posted record earnings, and Hobby Hall's operating profit also improved. Seppälä's operating profit decreased from the peak level reached a year ago. The return on capital employed increased and was 22.9 per cent. Earnings per share increased to EUR 1.93, as against EUR 1.44 a year ago. The Board of Directors will propose the payment of a dividend of EUR 1.30 per share.

Changes in the Group structure

Stockmann sold the entire shares outstanding in its subsidiary Stockmann Auto Oy Ab as from March 1, 2006, for a total debt-free price of EUR 67.9 million. The capital gain on the transactions was a total of EUR 7.4 million. Concurrently, Stockmann and Veho Group Oy Ab launched wide-ranging loyal customer cooperation in the area of vehicle sales and services.

Stockmann sold its subsidiary that carries on the Zara business in Russia to the owner of the Zara trademark, the Inditex Group of Spain, under an agreement signed on January 30, 2006. Pursuant to the agreement that was made, operations in Russia have been carried out for Inditex's account as from January 1, 2006. The State Antimonopoly Committee of the Russian Federation approved the sale of shares in June, and the deal closed at the end of June. The purchase price was EUR 41.5 million and the capital gain on the sale of shares was EUR 21.9 million. Stockmann continues the Zara business in Finland.

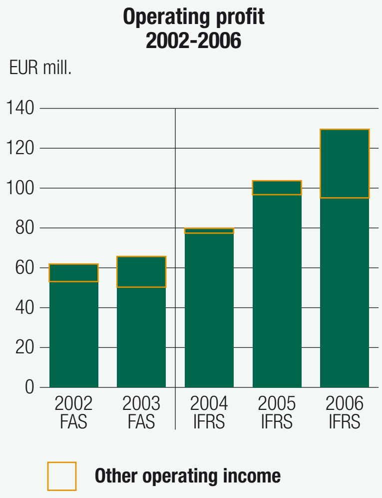
Sales and result

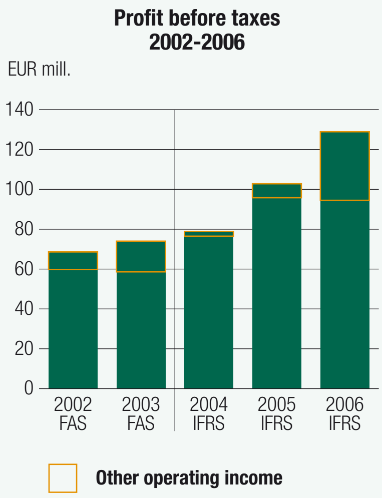
The Stockmann Group's sales from continuing operations grew by 6 per cent to EUR 1 477.8 million. Sales from continuing operations grew by 2 per cent in Finland and 25 per cent abroad. Sales generated by international operations grew, accounting for 24 per cent of sales from continuing operations (20 per cent). As a consequence of disposals, the Group's aggregate sales decreased by 16 per cent to EUR 1 552.7 million (EUR 1 851.3 million). Similarly, consolidated revenue diminished by 16 per cent to EUR 1 300.7 million (EUR 1 542.6 million).

The gross margin on continuing operations improved by EUR 37.2 million to EUR 518.5 million. However, because the divested businesses were no longer included in the gross margin, the Group's aggregate gross margin decreased by EUR 20.1 million and was EUR 527.0 million. The relative gross margin was 40.5 per cent (35.5 per cent). The relative gross margin increased at Hobby Hall and the Department Store Division, but was down

Revenue

	2006 EUR mill.	2005 EUR mill.	change EUR mill.	change %
Department Store Division, Finland	**696.3**	666.7	29.6	4.4
Department Store Division, international operations	**245.0**	193.3	51.6	26.7
Department Store Division, total	**941.3**	860.0	81.2	9.4
Hobby Hall, Finland	**138.1**	145.8	-7.7	-5.3
Hobby Hall, international operations	**27.8**	28.9	-1.1	-3.9
Hobby Hall, total	**165.9**	174.7	-8.8	-5.0
Seppälä, Finland	**101.4**	108.7	-7.2	-6.7
Seppälä, international operations	**29.4**	19.4	10.0	51.5
Seppälä, total	**130.8**	128.1	2.8	2.2
Unallocated	**1.7**	2.1	-0.4	
Operations in Finland, total	**937.5**	923.2	14.3	1.5
International operations, total	**302.2**	241.6	60.5	25.0
Continuing operations, total	**1 238.0**	**1 164.9**	**74.8**	**6.4**
Operations in Finland	**61.1**	338.3	-277.3	-82.0
International operations		39.4	-39.4	-100.0
Discontinued operations	**61.1**	377.7	-316.7	-83.8
Operations in Finland, total	**998.5**	1 261.5	-263.0	-20.8
International operations, total	**302.2**	281.0	21.1	7.5
Total	**1 300.7**	1 542.6	-241.9	-15.7





slightly at the Seppälä units. The change in the sales mix contributed to improving the Group's relative gross margin because low-margin vehicle sales were discontinued from the beginning of March. Operating costs were down EUR 14.9 million and depreciation decreased by EUR 3.7 million. Operating profit was up EUR 25.8 million to EUR 129.5 million (EUR 103.7 million). Operating profit was 10.0 per cent of revenue (6.7 per cent). Operating profit generated by continuing operations improved by EUR 4.3 million to EUR 99.9 million.

Other operating income, EUR 34.4 million, came from the capital gains on the disposals of Stockmann Auto and the Zara business in Russia, from the capital gain on the unbuilt part of a plot of land in Tallinn as well as from a capital gain on the sale of Hobby Hall's office premises. The capital gain on the portion of the plot in Tallinn, EUR 4.7 million, and the capital gain on the office premises, EUR 0.4 million, are included in continuing operations. Other operating income in 2005 amounted to EUR 7.0 million.

Net financial income and expenses increased by EUR 0.3 million and were EUR 0.6 million negative (EUR 0.9 million negative). Capital gains of EUR 0.8 million on sales of shares were included in net financial income and expenses, as against EUR 0.9 million a year earlier.

Profit before taxes was EUR 129.0 million, up EUR 26.1 million on the figure a year earlier. Profit from continuing operations before taxes increased by EUR 5.5 million to EUR 99.4 million.

Direct taxes were EUR 24.3 million, decreasing by EUR 1.7 million on the figure a year earlier. The capital gains on the sale of the shares in Stockmann Auto Oy Ab and in the company carrying on the Zara business in Russia, EUR 29.3 million, are tax-free income.

Net profit for the financial year was EUR 104.7 million, compared with EUR 76.9 million a year earlier. Net profit for the financial year from continuing operations increased by EUR 5.3 million to EUR 75.2 million.

Earnings per share were EUR 1.93 (EUR 1.44) and diluted for options they were EUR 1.90 (EUR 1.42). Earnings per share from continuing operations were EUR 1.39 (EUR 1.31) and diluted for options they were EUR 1.37 (EUR 1.29). Equity per share was EUR 10.34 (EUR 9.34).

New long-term financial targets

Reflecting the change in Stockmann's Group structure, the Board of Directors confirmed in June the Group's new financial targets up to 2011. The objective is for the Group's return on capital employed to reach 22 per cent in 2011, with an operating profit margin of 10 per cent. The other financial targets – an equity ratio of at least 50 per cent and sales growth that outpaces the market average – are unchanged. The dividend policy likewise will remain unchanged: the objective is to pay dividends amounting to more than 50 per cent of the profit on ordinary operations, nevertheless taking into account the financing required to grow the business. The Board of Directors estimates that in 2011, international operations will account for about half of the Group's sales and earnings.

Sales and earnings trend by operating unit

The Department Store Division's sales grew by 9 per cent to EUR 1 119.0 million (EUR 1 024.1 million). Sales in Finland were up 4 per cent. Sales were spurred by the new department store that was opened in the Jumbo Shopping Centre in Vantaa in October

Operating profit and return on capital employed

	2006 EUR mill.	2005 EUR mill.	change EUR mill.	2006 ROCE %	2005 ROCE %
Department Store Division	**79.5**	65.4	14.1	**21.2**	18.8
Hobby Hall	**7.1**	6.1	1.0	**7.7**	7.0
Seppälä	**21.1**	31.1	-10.0	**91.6**	156.0
Eliminations	**0.2**	0.3	-0.1		
Unallocated	**-8.0**	-7.3	-0.7		
Continuing operations, total	**99.9**	**95.6**	**4.3**		
Discontinued operations	**29.6**	8.1	21.4		
Total	**129.5**	103.7	25.8	**22.9**	19.6

2005. The extensive enlargement and renovation work in the Helsinki department store, causing about 2 000-3 000 square metres of retail space to be continuously out of use, has not had a greater-than-anticipated impact on the main department store's sales, though many new shopping centres have been opened in the Helsinki metropolitan area over the same period. Sales growth was weakened by the exceptional weather conditions all year long. International Operations' sales were lifted by the good like-for-like retail performance by the department stores in Russia and the Baltic countries as well as by the new Bestseller stores that were opened in Russia. Sales by International Operations grew by 26 per cent and their share of the division's sales rose to 26 per cent (22 per cent). The Department Store Division's operating profit increased by EUR 14.1 million to EUR 79.5 million (EUR 65.4 million), which is the best-ever result. In Finland, earnings were down slightly, primarily as a consequence of the costs and operating inconveniences caused by the expansion and refurbishment works at the Helsinki department store. Earnings from International Operations showed a very positive trend. In Riga and Moscow in particular, the results of the department stores that were opened in 2003 and 2004 improved markedly. The Department Store Division's result was also buoyed by the EUR 4.7 million capital gain on the sale of the unbuilt portion of the department store plot that was sold in Tallinn. The return on capital employed was 21.2 per cent (18.8 per cent).

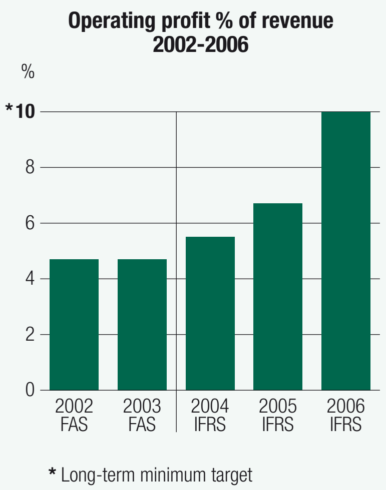
Because of a development programme aiming at improving profitability, Hobby Hall's sales were down 5 per cent to EUR 199.8 million (EUR 210.5 million). Sales abroad were 16 per cent of aggregate sales (16 per cent). Online sales continued their robust growth, making up 47 per cent of Hobby Hall's distance sales in Finland (36 per cent) and 33 per cent of Hobby Hall's distance sales in Estonia (21 per cent). An online store was opened in Latvia in the autumn, and it got off to a promising start. Thanks to effective cost management and the increase in the relative gross margin that was achieved through a revamped product assortment, Hobby Hall's operating profit improved by EUR 1.0 million to EUR 7.1 million (EUR 6.1 million). The operating profit figure includes the EUR 0.4 million capital gain on the disposal of Hobby Hall's office premises. In autumn 2006, Hobby Hall conducted test marketing for mail order sales in the Moscow area, during which it tested factors such as how distance retailing logistics work in Russia. On the basis of test marketing, it was decided to launch mail order sales in Russia in autumn 2007. The return on capital employed was 7.7 per cent (7.0 per cent).

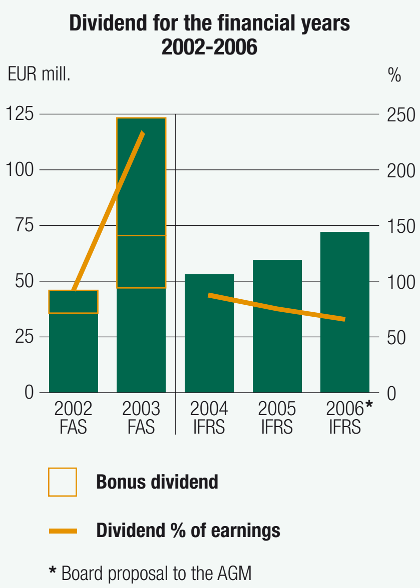
Seppälä's sales rose by 2 per cent and were EUR 158.1 million (EUR 155.2 million). Sales grew strongly in the Baltic countries and Russia, where they were boosted by the new stores that were opened towards the end of 2005 and in 2006 as well as by the good like-for-like sales trend. Seppälä's sales abroad grew by 51 per cent and its share of the division's aggregate sales rose to 22 per cent (15 per cent). Sales in Finland fell by 7 per cent. Seppälä's number of stores in Finland was unchanged over nearly the whole year, and competition hotted up, with new shopping centres and stores opening both in the Helsinki metropolitan area and in the smaller regional centres. Furthermore, the exceptional weather conditions throughout the year hampered sales, particularly in Finland. Seppälä's relative gross margin decreased slightly on the comparison period but was at a high level on an international yardstick. Due to the energetic establishment of new stores in Russia and the Baltic countries, fixed costs rose more swiftly than sales. Seppälä's operating profit was EUR 21.1 million (EUR 31.1 million). Operating profit in the comparison period includes EUR 5.6 million of capital gains on the sale of shares. The return on capital employed was 92 per cent, against 156 per cent a year earlier.

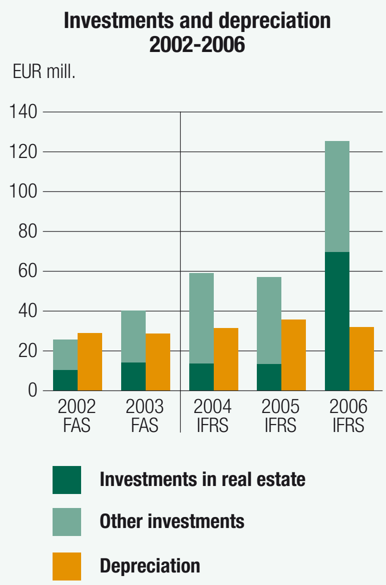
Stockmann Auto's sales in January-February were EUR 74.8 million and it reported operating profit of EUR 7.7 million. The operating profit figure includes the EUR 7.4 million capital gain on the disposal of the Stockmann Auto businesses. Stockmann Auto was transferred to the new owners on March 1, 2006.

Financing and capital employed

Stockmann's financial position remained strong. Interest-bearing liabilities at the end of the year were EUR 23.4 million (EUR 47.2 million), and they were entirely comprised of long-term borrowings (EUR 13.7 million). During the year, EUR 10.0 million of new long-term borrowings was drawn down. Liquid assets totalled EUR 59.2 million at the end of the year, compared with EUR 18.4 million a year earlier. Gross capital expenditures amounted to EUR 125.5 million. The proceeds from disposals of businesses







and properties generated a total of EUR 114.7 million in cash. Net working capital at the end of the year was EUR 194.5 million, compared with EUR 237.9 million a year earlier. Dividend payouts totalled EUR 59.5 million. Share subscriptions made by exercising the 2000 share options added EUR 19.5 million to shareholders' equity. The equity ratio increased on the comparison period and was 74.5 per cent (66.4 per cent).

ROCE improved in line with higher earnings and was 22.9 per cent (19.6 per cent). The Group's capital employed increased by EUR 42.4 million and was EUR 595.0 million (EUR 552.5 million) at the end of the year.

Dividends

For the financial year 2005, in accordance with the resolution of the Annual General Meeting, a dividend of EUR 1.10 per share was paid, or a total of EUR 59.5 million. The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 1.30 per share be paid for the 2006 financial year. The proposed dividend is 67.4 per cent of earnings per share.

Capital expenditures and current projects

Capital expenditures in 2006 totalled EUR 125.5 million (EUR 57.0 million). Investments in operations abroad came to EUR 61.5 million, or 49 per cent of total investments.

The construction works for the major enlargement and transformation project for the department store in the centre of Helsinki got under way in the early part of the year. The project involves expanding the department store's commercial premises by about 10 000 square metres by converting existing premises to commercial use and by building new retail space. In addition, completely new goods handling, servicing and customer parking areas will be built. After the enlargement the Helsinki department store will have a total of about 50 000 square metres of retail space. The project has a cost estimate of about EUR 145 million. The works will be carried out stage by stage and are estimated to reach completion in 2010. During 2006, the project required an investment of EUR 46.7 million.

In 2006, two Stockmann Beauty stores were opened, bringing their total number to 13 at the end of the year. During 2006, seven Bestseller stores were opened in Russia: three in St Petersburg and one each in Moscow, Kazan, Yekaterinburg and Nizhny Novgorod. So far, a total of 11 Bestseller stores have been opened in Russia. The objective is to further expand the chain of Bestseller stores during 2007.

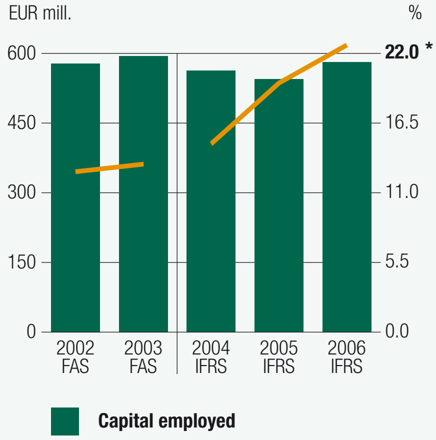
In February 2007, the Department Store Division will open a fourth department store in Moscow in the Mega Shopping Centre that is to be built on the southeast side. The cost estimate for the department store – to be built in leased premises – is about EUR 16 million for Stockmann's part of the investment.

Under an agreement signed in 2005, Stockmann purchased a 10 000-odd square metre commercial plot on Nevsky Prospect, St Petersburg's high street. The plot is located next to the Vosstaniya Square underground station, in the immediate vicinity of Moscow Station. On this plot, Stockmann will erect the Nevsky Centre shopping centre that will have about 100 000 square metres of gross floor space, of which about 50 000 square metres will be store and office space. A full-scale Stockmann department store with about 20 000 square metres of retail space has been planned for the shopping centre, along with other retail stores, office premises and an underground car park. The department store and shopping centre investment will have a price tag of about EUR 135 million. On the plot for the Nevsky Centre development, the old buildings have been torn down, and the actual construction works have got under way. An agreement on the general contract was signed at the beginning of October. Stockmann's objective is to open the department store and commercial centre in autumn 2008. The purchase and development of the property called for an outlay of EUR 32.8 million during the financial year.

At the beginning of August, Stockmann signed a preliminary agreement on opening Moscow's fifth Stockmann department store in leased premises in the Metropolis Shopping Centre that is to be built right near the city's centre. The department store will have a total of more than 8 000 square metres of retail space, and Stockmann's investment in the project will be about EUR 12 million. The objective is to open the department store in 2008.

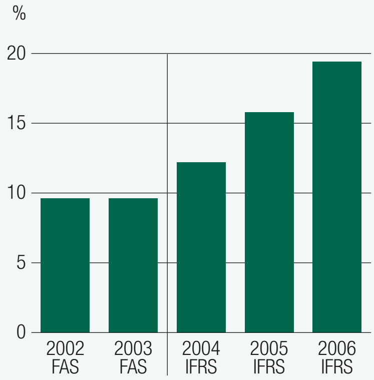
In August, Stockmann and Nike concluded a franchising agreement on establishing Stockmann-operated Nike stores in Russia. The objective is to achieve a substantial increase in sales of Nike sports products in the area of the Russian Federation.

Capital employed and ROCE % 2002-2006



* Long-term minimum target

Return on equity 2002-2006



Stockmann is planning to open a number of new Nike stores in Russia every year. The first two Nike stores operated by Stockmann will be opened in February 2007 in St Petersburg.

The Department Store Division's capital expenditures came to EUR 115.3 million.

Hobby Hall's capital expenditures amounted to EUR 3.2 million. Investments went mainly for information systems. Hobby Hall launched distance retailing in Lithuania in February 2007 and will launch distance retailing in Russia during autumn 2007.

Seppälä's capital expenditures came to EUR 6.1 million. In Russia, during 2006 Seppälä opened four stores in St Petersburg, two in Kazan, two in Yekaterinburg, one in Moscow and one in Nizhny Novgorod. In addition, one store was opened in Riga, Latvia, and one in Vilnius, Lithuania. In 2006, the number of stores in Finland grew by one. Seppälä is planning to expand its operations to Ukraine, a new market area, in 2007. Seppälä's objective is to open a total of 10-15 stores in Russia and the Baltic countries during 2007 and to start operations in Ukraine.

Other capital expenditures during the financial year came to EUR 0.9 million.

Capital expenditures in 2007 are estimated to amount to about EUR 150 million. The biggest investment items are the enlargement and transformation project for the department store in the centre of Helsinki and the construction works of the department store and shopping centre in St Petersburg.

Shares and shareholders

The company's market capitalization increased by EUR 267.3 million during the year and stood at EUR 2 028.6 million at the end of the year (EUR 1 761.3 million).

Stockmann's share prices underperformed both the OMX Helsinki index and the OMX Helsinki Cap index during the financial year. At the end of the year the stock exchange price of the Series A share was EUR 36.40, compared with EUR 32.11 at the end of 2005, and the Series B share was selling at EUR 36.48, as against EUR 32.53 at the end of 2005.

During 2006 the share capital was increased by a total of EUR 2.7 million, corresponding to the subscriptions for 1 371 861 Series B shares made with the 2000 share options. The share capital increases were entered in the Trade Register to the amount of EUR 168 100 on May 17, 2006, EUR 402 200 on June 29, 2006, EUR 72 300 on August 25, 2006, EUR 166 400 on October 10, 2006, EUR 312 484 on November 10, 2006, and EUR 1 236 508 on December 18, 2006. In respect of the 192 865 Series B shares subscribed for at the end of 2006, the Board of Directors approved the subscription at its meeting held on February 8, 2007. The share capital increase is EUR 385 730. In addition, in respect of the 23 350 Series B shares subscribed for with 2000 share options in December 2005, the share capital increase was entered in the Trade Register on February 28, 2006.

By exercising the A, B and C share options for 2000, which are quoted on the Helsinki Stock Exchange, further subscriptions can be made for a total of 238 909 new Series B shares with a par value of 2 euros. The subscription price for shares to be subscribed for by exercising the A options, after the dividend to be paid out in 2006, is EUR 11.55; the price through exercise of the B options is EUR 12.55, and the price through exercise of the C options is EUR 13.55 per share. The subscription period for shares to be subscribed for by exercising the share options for 2000 ends on April 1, 2007.

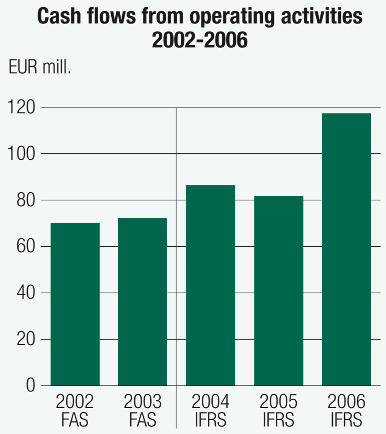
After the above-mentioned increases, the share capital stands at EUR 111 709 806. The total number of Series A shares is 24 564 243 and the total number of Series B shares is 31 290 660.

Stockmann held 382 903 of its own Series B shares (treasury shares) at the end of 2006, and they represented 0.7 per cent of all the shares outstanding and 0.1 per cent of all the votes. The shares were bought back at a total price of EUR 5.8 million.

The Annual General Meeting in 2006 granted to the Board of Directors one-year authorizations to decide on the transfer of the company's treasury shares. The Board of Directors will again request the Annual General Meeting for authorizations for five years for the purpose of transferring treasury shares. The company's Board of Directors does not have valid authorizations to increase the share capital, to float issues of convertible bonds or bonds with warrants, or to buy back own shares.

Loyal Customer and key employee share option scheme

The 2006 Annual General Meeting approved the Board of Directors' proposal on the granting of share options to Stockmann's



Loyal Customers. A total maximum of 2 500 000 share options will be granted without consideration to Stockmann's Loyal Customers in disapplication of shareholders' pre-emptive subscription rights. The subscription rights are to be disapplied because by granting the share options, Stockmann will offer Loyal Customers a benefit that rewards them for their continued patronage and at the same time improves Stockmann's competitive position. The share options will be granted to Loyal Customers whose purchases during January 1, 2006 – December 31, 2007, together with purchases made on parallel cards for the same account, are at least EUR 6 000 in total amount. For purchases of at least EUR 6 000, a Loyal Customer will receive 20 share options without consideration. In addition, for each full 500 euros by which the purchases exceed EUR 6 000, the Loyal Customer will receive an additional two share options. Each share option will entitle its holder to subscribe for one Stockmann plc Series B share. The subscription price is the volume-weighted average price of the Series B share on the Helsinki Stock Exchange during the period February 1 – February 28, 2006, which is EUR 33.35. The subscription price of a share to be subscribed for with the share options will be lowered by the amount of Stockmann plc dividends paid after the end of the determination period for the share price, counting from the record date up to the date of the share subscription. The subscription price of shares to be subscribed for by exercising the share options, after the dividend declared by the Board of Directors for the 2006 financial year, will be EUR 30.95. The subscription periods for the shares are May 2, 2008–May 31, 2008, May 4, 2009–May 31, 2009 and May 2, 2010–May 31, 2010. As a consequence of the subscriptions, the company's share capital can be increased by a maximum of EUR 5 000 000.

The Annual General Meeting also passed the Board of Directors' proposal on the granting of share options to key employees of the Stockmann Group. A total of 1 500 000 share options will be granted to key employees belonging to the senior and middle management of Stockmann and its subsidiaries and its wholly-owned subsidiary in disapplication of shareholders' pre-emptive subscription rights. The disapplication of the subscription right is made because the share options are part of the Group's incentive and commitment-building scheme for key employees. Of the share options, 375 000 will bear the marking 2006A, 375 000 the marking 2006B, 375 000 the marking 2006C, and 375 000 the marking 2006D. The subscription period for shares with share option 2006A is March 1, 2008 – March 31, 2010; with share option 2006B, March 1, 2009 – March 31, 2011; with share option 2006C, March 1, 2010 – March 31, 2012; and with share option 2006D, March 1, 2011 – March 31, 2013. The subscription period for shares will not, however, commence with the 2006B and 2006D share options unless the Group's financial targets criteria as determined separately by the Board of Directors have been met. Those share options 2006B and 2006D in respect of which the criteria determined separately by the Board of Directors have not been met shall lapse in the manner decided by the Board of Directors. Each share option will entitle its holder to subscribe for one Stockmann plc Series B share, whereby a total maximum of 1 500 000 shares can be subscribed for with the share options. The subscription price for each share through the exercise of the 2006A and 2006B share options is the volume-weighted average price of the company's Series B share on the Helsinki Stock Exchange during the period February 1 – February 28, 2006, plus 10 per cent, or EUR 36.69. The subscription price with the 2006C and 2006D share options is the volume-weighted average price of the company's Series B share on the Helsinki Stock Exchange during the period February 1 – February 29, 2008, plus 10 per cent. On the record date for each dividend payout, the subscription price of the shares to be subscribed for with share options will be lowered by the amount of dividends declared after the commencement of the period for determining the subscription price and prior to the share subscription. The subscription prices, after the dividend payout proposed by the Board of Directors for the 2006 financial year, is EUR 34.29 with option A and EUR 34.29 with option B. The determination period for the subscription price of share options C and D has not yet started. As a consequence of the subscriptions, the company's share capital can be increased by a maximum of EUR 3 000 000.

In accordance with the share option programme for key employees that was passed as a resolution of the Annual General Meeting, Stockmann's Board of Directors granted 2006A and 2006B share options to key employees and to Stockmann's wholly-owned subsidiary. Under the terms and conditions of the share options, Stockmann's Board of Directors will decide on the distribution of the C and D share options at a later date.

Proposal for amending the Articles of Association

According to the new Companies Act, a shareholder whose shares have not been transferred to the book-entry system does not have the right to participate in the Annual General Meeting. Accordingly, the Board of Directors proposes that Article 12 of the Articles of Association be amended to comply with the new Companies Act.

Personnel strength

The Stockmann Group had an average payroll of 10 069 employees in 2006, or 489 less than in the comparison period (10 558 in 2005 and 9 589 in 2004). The department store in the Jumbo Shopping Centre and the new Bestseller and Seppälä stores brought an increase in the number of employees, but the personnel strength was reduced by the disposals of the Zara business in Russia at the beginning of 2006 and Stockmann Auto

Average number of employees converted to full-time staff

	2002	2003	2004	2005	2006
Department Store Division	4 459	4 691	5 400	6 057	6 418
Hobby Hall	755	704	608	537	515
Seppälä	705	709	759	809	890
Management and administration	92	97	104	100	100
Continuing operations, total	**6 011**	**6 201**	**6 871**	**7 503**	**7 923**
Discontinued operations	741	867	941	1 034	114
Total	6 752	7 068	7 812	8 537	8 037

at the beginning of March. The personnel of Zara in Russia and Stockmann Auto transferred to the new owners' employ under the terms of their current employment contracts. Stockmann's average number of employees, converted to full-time staff, decreased by 500 and was 8 037 (8 537 in 2005 and 7 812 in 2004). The Group's total wages and salaries decreased by EUR 10.4 million from the comparison period and was EUR 167.9 million (EUR 178.3 million in 2005 and EUR 166.6 million in 2004).

At the end of December 2006, Stockmann had 3 477 employees working abroad. At the end of December of last year Stockmann had 3 737 people working abroad. The proportion of people working abroad was 32 per cent (32 per cent) of the total personnel.

More information on Stockmann's personnel is given on pages 32-35 of the Annual Report.

Corporate social responsibility

Corporate social responsibility is part of the company's normal long-term operations. The focuses of Stockmann's corporate social responsibility are our own staff, the environment and far-reaching integrity in overseas sourcing. Stockmann's corporate social responsibility is discussed on pages 36-40 of the Annual Report.

Risk factors

The risk level of the business environment in the Stockmann Group's areas of operations varies. The level of business risk in the Baltic countries has diminished significantly after these countries became members of the European Union, nor do the risks differ in any material respect from business risks in Finland.

Business risks in Russia are higher than in Finland and the Baltic countries, and the operating environment is less stable owing to factors such as the business culture and the undeveloped state of the country's infrastructure. The pervasiveness of the grey economy, particularly in the importation of consumer goods, is still large and plays a part in distorting properly functioning competition. Over the past years, the operating environment and legislation pertaining to business activities have nevertheless evolved favourably. The country's economic growth has been robust thanks to the strong impetus from export revenues in the energy sector. Stockmann has over 17 years of experience of operating in Russia's continually changing operating environment. Accordingly, even large changes in the operating environment in Russia are not estimated to result in a material increase in the Group's business risk.

The Group's operations are based on flexibly run logistics and efficient goods flows. Delays and disturbances in flows of goods and information can have a temporarily adverse effect on operations. The aim is to manage operational risks connected with these factors by developing appropriate standby systems and alternative ways of working as well as by enhancing an undisturbed operation of information systems. Operational risks are also covered by taking out insurance policies. Operational risks are not estimated to have a material impact on Stockmann's business activities.

The Group's revenue and earnings are affected by changes in foreign exchange rates between the Group's reporting currency, the euro, and the Russian rouble, the United States dollar as well as certain other currencies. Financial risks are managed in accordance with the risk policy confirmed by the Board of Directors, and they are not estimated to have a material effect on the Group's business operations.

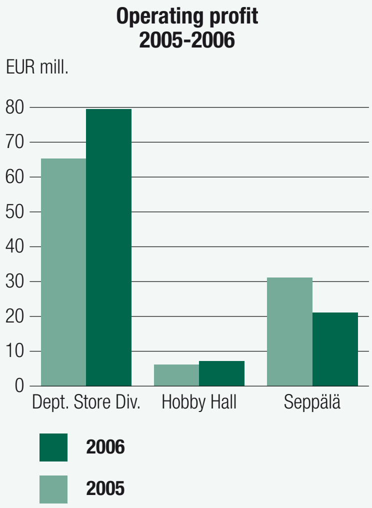
A description of Stockmann's risk management is given on page 31 of the Annual Report, and additional information on the management of financial risks is given on page 64.

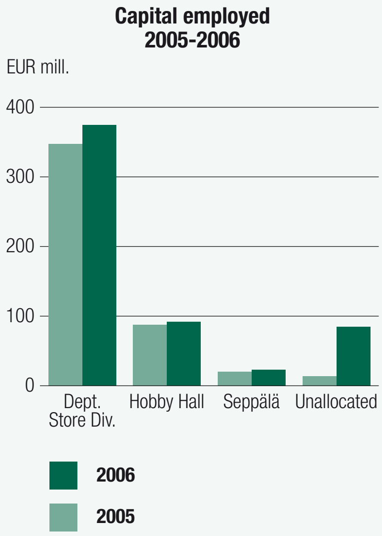
The Stockmann Group is not involved in major pending litigation.

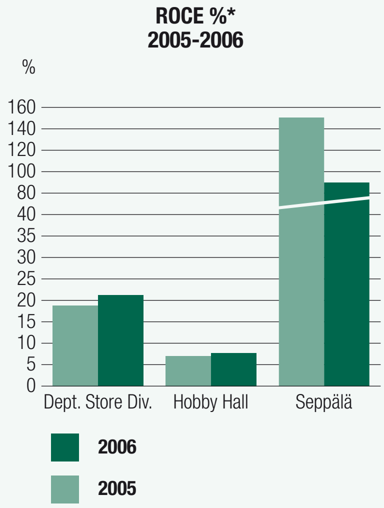
Outlook for 2007

Retail sales excluding the motor trade are estimated to increase by about 3 per cent in Finland in 2007. The markets in Russia and the Baltic countries are set to continue growing faster than the Finnish market. Stockmann's sales are estimated to come in at about EUR 1.6 billion. Sales from continuing operations are estimated to grow.

Earnings in 2006 included substantial non-recurring items as a consequence of the disposal of businesses. In 2007, these will be markedly smaller than in the previous year. The Group has a number of major investments in progress. The start-up costs of the investments that will become operational during the year will be a factor burdening the result for 2007. Because of a decrease in non-recurring items, the Group's profit before taxes will be lower than in 2006. The Group's objective is, however, to post improved operating profit from continuing operations compared with 2006.







* Operating profit as a ratio of capital employed

Shares and share capital

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 trading code for the Series A share is STCAS and for the Series B share STCBV.

The company's shares are in the book-entry system and they are listed on Helsinki Exchanges. The number of registered shareholders at December 31, 2006, was 40 198 (42 169 shareholders at December 31, 2005) representing 99.9 per cent of the company's shares outstanding.

Shares

General price trend

Share prices rose on Helsinki Exchanges during the financial year by 17.9 per cent as measured by the OMX Helsinki Index and by 25.2 per cent as measured by the OMX Helsinki Cap Index.

Price trend of Stockmann's shares and share options

	Closing prices Dec. 31, 2006 EUR	Closing prices Dec. 31, 2005 EUR	Change %
Series A	36.40	32.11	13.4
Series B	36.48	32.53	12.1
2000 options A	23.85	17.50	36.3
2000 options B	22.00	16.71	31.7
2000 options C	21.85	16.25	34.5

Turnover of Stockmann's shares and share options

	Number of shares and options	% of total shares outstanding	Average price EUR	EUR
Series A	818 880	3.3	27 802 888	33.85
Series B	19 439 930	62.5	643 048 348	33.15
Total	20 258 810		670 851 236	
2000 options A	306 762		6 289 377	20.53
2000 options B	400 909		7 748 432	19.34
2000 options C	1 016 592		18 414 777	18.17

The Stockmann shares and share options that were traded accounted for 0.11 per cent of the share turnover on Helsinki Exchanges. The company's market capitalization at December 31, 2006 was EUR 2 028.6 million. The market capitalization at December 31, 2005 was EUR 1 761.3 million.

Share capital

Share capital of Stockmann plc, December 31, 2006

Registered		
Series A	24 564 243 shares at EUR 2 each	49 128 486 EUR
Series B	31 097 795 shares at EUR 2 each	62 195 590 EUR
Total	55 662 038 shares at EUR 2 each	111 324 076 EUR
Unregistered		
Series B	192 865 shares at EUR 2 each	385 730 EUR
Total	55 854 903 shares at EUR 2 each	111 709 806 EUR

Key employee share options 2000

In 2000, a total of 2 500 000 share options were granted to key employees belonging to the senior and middle management of Stockmann or its subsidiaries. Share option A can be exercised to subscribe for 625 000 Stockmann Series B shares at a price of EUR 20 per share, share option B to subscribe for 625 000 Series B shares at a price of EUR 21 per share and share option C to subscribe for 1 250 000 Series B shares at a price of EUR 22 per share. On the record date for each dividend payout, the subscription price of the share will be lowered by the amount of the cash dividend payout per share after April 11, 2000, and before the share subscription. The subscription periods for the shares are as follows: A, April 1, 2003 – April 1, 2007; B, April 1, 2004 - April 1, 2007, and C, April 1, 2005 - April 1, 2007. The subscription prices after the dividend payout proposed by the Board of Directors for the 2006 financial year are on the basis of option A EUR 11.55 per share, on the basis of share option B EUR 12.55 per share and on the basis of share option C EUR 13.55 per share. The share options have been issued in the book-entry system, and they are listed on Helsinki Exchanges. A total of 2 500 000 new Series B shares can be subscribed for on the basis of A, B and C share options, and by December 31, 2006, a total of 2 261 091 Series B shares were subscribed for.

Loyal Customer share options 2006

The Annual General Meeting held on March 21, 2006, approved the Board of Directors' proposal on granting share options to Stockmann's Loyal Customers. A total maximum of 2 500 000 share options will be granted to Stockmann's Loyal Customers without consideration. The share options will be granted to Loyal Customers whose purchases during January 1, 2006 – December 31, 2007, together with purchases made on parallel cards for the same account are at least EUR 6 000 in total amount. For purchases of at least EUR 6 000, a Loyal Customer will receive 20 share options without consideration. In addition, for each full 500 euros by which the purchases exceed EUR 6 000, the Loyal Customer will receive an additional two share options. Each share option entitles its holder to subscribe for one of the company's Series B shares. The subscription price is the volume-weighted average price of the Series B share on Helsinki Exchanges during the period February 1 – February 28, 2006, or EUR 33.35. The subscription price of a share to be subscribed for with the share options will be lowered by the amount of Stockmann plc dividends paid after the end of the determination period for the share price, counting from the record date up to the date of the share subscription. The subscription periods for the shares are May 2, 2008 – May 31, 2008, May 4, 2009 – May 31, 2009 and May 2, 2010 – May 31, 2010. The subscription price after the dividend payout proposed by the Board of Directors for the 2006 financial year is EUR 30.95.

Key employee share options 2006

The Annual General Meeting held on March 21, 2006, approved the Board of Directors' proposal on granting share options to key employees of the Stockmann Group. A total of 1 500 000 share options will be granted to key employees belonging to the senior and middle management of the Stockmann Group and to Stockmann´s wholly-owned subsidiary. Of the share options, 375 000 will bear the marking 2006A, 375 000 the marking 2006B, 375 000 the marking 2006C, and 375 000 the marking 2006D. The subscription period for shares with share option 2006A is March 1, 2008 – March 31, 2010; with share option 2006B, March 1, 2009 – March 31, 2011; with share option 2006C, March 1, 2010 – March 31, 2012; and with share option 2006D, March 1, 2011 – March 31, 2013. The subscription period for shares will not, however, commence with the 2006B and 2006D share options unless the criteria linked to the Group's financial targets as determined by the Board of Directors prior to the distribution of these share options have been met. Those share options 2006B and 2006D in respect of which the criteria determined by the

Board of Directors have not been met shall lapse in the manner decided by the Board of Directors. One share option will entitle its holder to subscribe for one Stockmann plc Series B share. The subscription price of the share with share options 2006A and 2006B will be the volume-weighted average price of the company's Series B share on Helsinki Exchanges during February 1 – February 28, 2006, plus 10 per cent or EUR 36.69, and with share option 2006C and 2006D, the volume-weighted average price of the company's Series B share on Helsinki Exchanges during February 1 – February 29, 2008, plus 10 per cent. On the record date for each dividend payout, the subscription price of the shares to be subscribed for with share options will be lowered by the amount of dividends declared after the commencement of the period for determining the subscription price and prior to the share subscription. The subscription price after the dividend payout proposed by the Board of Directors for the 2006 financial year on the basis of option A and option B is EUR 34.29 per share. The determination period for the subscription price on the basis of option C and option B has not yet commenced.

In accordance with the share option programme for key employees that was passed as a resolution of the Annual General Meeting, Stockmann's Board of Directors granted 2006A and 2006B share options to key employees and to Stockmann's wholly-owned subsidiary. Under the terms and conditions of the share options, Stockmann's Board of Directors will decide on the distribution of the C and D share options at a later date.

Own shares

At December 31, 2006, the company held 382 903 of its own Series B shares. The Series B shares owned by the company represent 0.7 per cent of all the shares outstanding and 0.1 per cent of all the voting rights. The shares in the company's possession do not confer voting rights at the general meetings of shareholders.

Dividend policy

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

Changes in the share capital as from January 1, 2003

Subscribed	Entered in the Trade Register	Subscription price EUR	Number of new shares	Additional share capital EUR million	New total share capital EUR million
2003 With the Loyal Customer options	2003	12.16	5 580 B	0.0	102.8
2003 With share options	2003	13.21	1 239 700 B	2.5	105.3
2004 With share options	2004	13.21	20 300 B	0.0	105.3
2004 With the Loyal Customer options	2004	10.81	600 269 B	1.2	106.5
2004 With the 2000 key employee options A	2004	14.95	91 950 B	0.2	106.7
2004 With the 2000 key employee options B	2004	15.95	78 200 B	0.2	106.8
2004 With the 2000 key employee options A	2005	14.95	4 900 B	0.0	106.8
2005 With the Loyal Customer options	2005	8.81	343 902 B	0.7	107.5
2005 With the 2000 key employee options A	2005	13.95	199 300 B	0.4	107.9
2005 With the 2000 key employee options B	2005	14.95	145 880 B	0.3	108.2
2005 With the 2000 key employee options C	2005	15.95	345 650 B	0.7	108.9
2005 With the 2000 key employee options A	2006	13.95	5 200 B	0.0	108.9
2005 With the 2000 key employee options B	2006	14.95	10 050 B	0.0	108.9
2005 With the 2000 key employee options C	2006	15.95	8 100 B	0.0	109.0
2006 With the 2000 key employee options A	2006	12.85	216 593 B	0.4	109.4
2006 With the 2000 key employee options B	2006	13.85	265 688 B	0.5	109.9
2006 With the 2000 key employee options C	2006	14.85	696 715 B	1.4	111.3
2006 With the 2000 key employee options A*		12.85	63 385 B	0.1	111.5
2006 With the 2000 key employee options B*		13.85	62 645 B	0.1	111.6
2006 With the 2000 key employee options C*		14.85	66 835 B	0.1	111.7

*According to the terms of subcribtion entitled to dividend for the 2006 financial year

Coming subscriptions with share options*	Subscription period	Subscription price EUR	Number of new shares thousands	Additional share capital EUR million	New total share capital EUR million	Holding %	Proportion of votes %
2007 With the 2000 key employee options A	Apr. 1, 03-Apr.1, 07	20.00 A/1	44 B				
2007 With the 2000 key employee options B	Apr. 1, 04-Apr.1, 07	21.00 B/2	63 B				
2007 With the 2000 key employee options C	Apr. 1, 05-Apr.1, 07	22.00 C/3	133 B	0.5	112.2	0.4	0.1
		less dividends after April 11, 2000					
2008- With the 2006 Loyal Customer options	May 2, 08-May 31,08	33,35 /4					
2010	May 4, 09-May 31,09	33,35 /4					
	May 2, 10-May 31,10	33,35 /4		5.0	117.2	4.5	0.9
		less dividends after March 21, 2006					
2008- With the 2006A key employee options	March 1, 08-March 31,10	36,69 A/5					
2011 With the 2006B key employee options	March 1, 09-March 31,11	36,69 B/6		1.5	118.7	1.3	0.3
		less dividends after March 21, 2006					

*If all options are exercised

1 Subscription price after 2006 dividend payout proposed by the Board of Directors: EUR 11.55

2 Subscription price after 2006 dividend payout proposed by the Board of Directors: EUR 12.55

3 Subscription price after 2006 dividend payout proposed by the Board of Directors: EUR 13.55

4 Subscription price after 2006 dividend payout proposed by the Board of Directors: EUR 30.95

5 Subscription price after 2006 dividend payout proposed by the Board of Directors: EUR 34.29

6 Subscription price after 2006 dividend payout proposed by the Board of Directors: EUR 34.29

Shares and share capital

Ownership structure

	Shareholders no.	Shareholders %	Percentage of shares %	Percentage of votes %
Households	38 974	97.0	20.7	18.9
Private and public corporations	553	1.4	13.8	16.8
Banks and insurance companies	46	0.1	3.2	0.9
Foundations and others	476	1.2	49.1	60.2
Foreign shareholders (incl. nominee registrations)	148	0.4	12.4	3.1
Unregistered shares			0.1	0.0
Shares owned by the company	1	0.0	0.7	0.1
Total	40 198	100.0	100.0	100.0

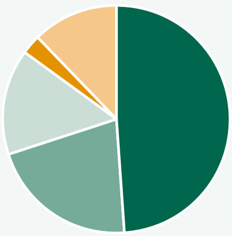
Number of shares

	Shareholders no.	Shareholders %	Percentage of shares %
1-100	27 690	68.9	1.5
101-1000	10 008	24.9	6.7
1001-10000	2 274	5.7	10.4
10001-100000	184	0.5	9.1
100001-1000000	31	0.1	22.5
1000001-	11	0.0	49.7
Total	40 198	100.0	100.0

Major shareholders at December 31, 2006

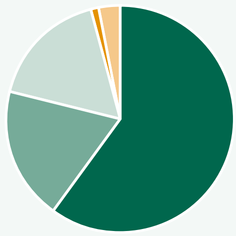
	Percentage of shares %	Percentage of votes %
1 Föreningen Konstsamfundet grouping	11.0	15.6
2 Svenska litteratursällskapet i Finland	8.9	17.0
3 Niemistö grouping	6.8	10.5
4 Etola Group	5.1	7.0
5 Stiftelsen för Åbo Akademi	4.6	6.7
6 Samfundet Folkhälsan i svenska Finland	2.7	3.2
7 Jenny ja Antti Wihurin rahasto	2.3	2.4
8 Ilmarinen Mutual Pension Insurance Company	2.1	0.4
9 Tapiola Group	2.0	0.4
10 Inez och Julius Polins fond	1.9	0.9
11 Wilhelm och Else Stockmanns Stiftelse	1.5	2.6
12 Varma Mutual Pension Insurance Company	1.3	1.5
13 Sigrid Jusélius Stiftelse	1.3	2.3
14 Helene och Walter Grönqvists Stiftelse	1.1	1.7
15 Stiftelsen Bensows Barnhem Granhyddan	1.0	1.2
16 The State Pension Fund	0.9	0.2
17 Stiftelsen Brita Maria Renlunds minne	0.8	1.0
18 Stockmann plc	0.7	0.1
19 Etera Mutual Pension Insurance Company	0.7	0.1
20 William Thurings stiftelse	0.6	0.9
Total	56.9	75.7

Distribution of shares



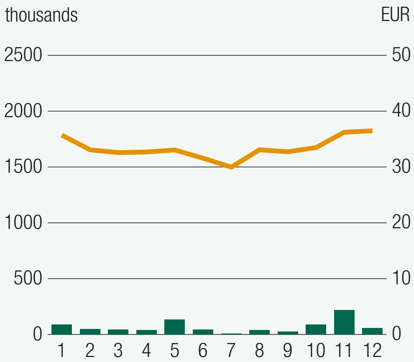
- 49% Foundations and others
- 21% Households
- 15% Private and public corporations
- 3% Banks and insurance companies
- 12% Foreign shareholders (incl. nominee registrations)

Distribution of votes



- 60% Foundations and others
- 19% Households
- 17% Private and public corporations
- 1% Banks and insurance companies
- 3% Foreign shareholders (incl. nominee registrations)

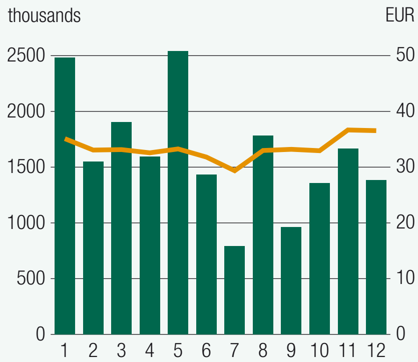
Turnover and price trend of Series A shares 2006



Number of shares traded

Monthly closing price

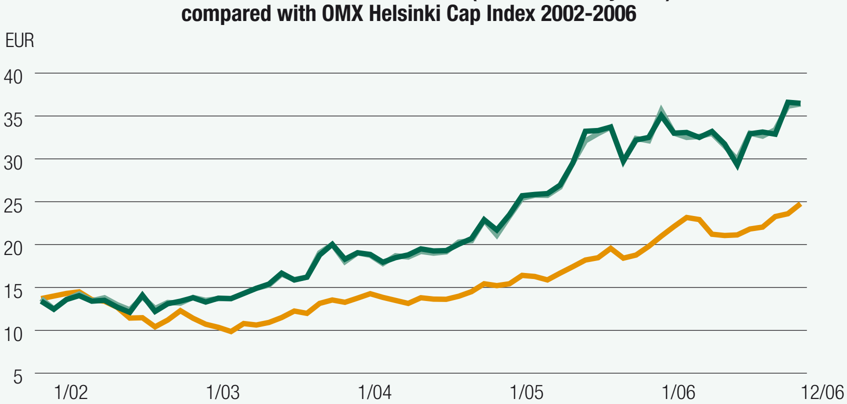
Turnover and price trend of Series B shares 2006



Number of shares traded

Monthly closing price

Price trend of Series A and Series B (share-issue adjusted) compared with OMX Helsinki Cap Index 2002-2006



OMX Helsinki Cap *

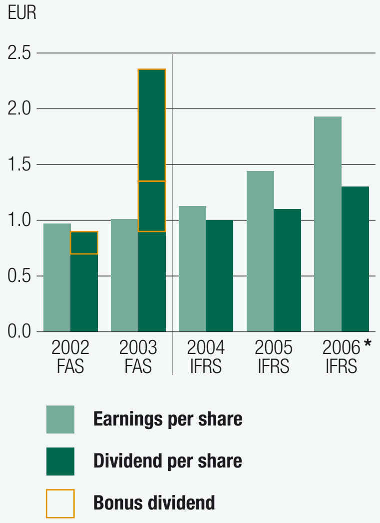
Series A

Series B

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

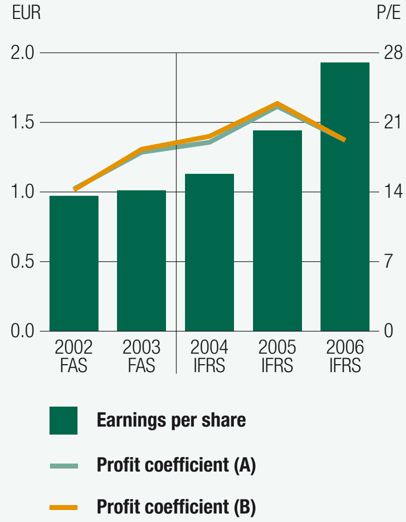
Shares and share capital

Earnings per share and dividend per share 2002-2006



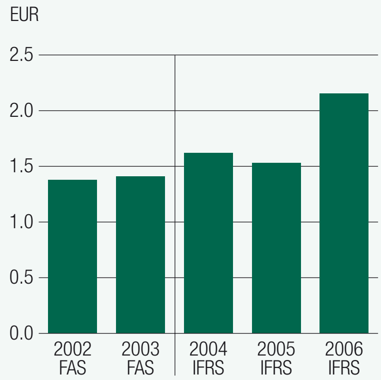
* Dividend according to the Board proposal

Earnings per share and P/E ratio 2002-2006 (share-issue adjusted)

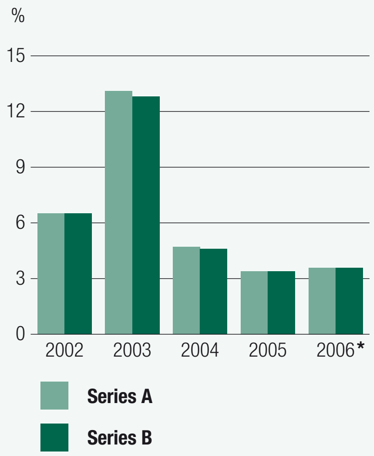


Equity per share 2002-2006

Cash flows/share 2002-2006

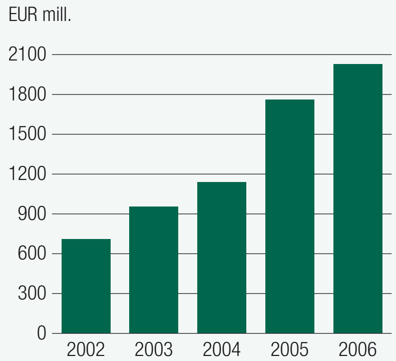


Effective yield of shares 2002-2006



* Dividend according to the Board proposal

Market capitalization 2002-2006



Key figures

Key figures		FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	IFRS **2006**	
Sales	EUR mill.	1 582.3	1 698.6	1 735.0	1 851.3	**1 552.6**	
Change on the previous year	%	2.9	7.4	2.1	6.7	**-16.1**	
Revenue	EUR mill.	1 315.3	1 412.7	1 445.0	1 542.6	**1 300.7**	
Change on the previous year	%	2.6	7.4	2.3	6.7	**-15.7**	
Operating profit	EUR mill.	61.9	65.7	79.8	103.7	**129.5**	
Change on the previous year	%	33.6	6.2	21.4	29.9	**24.9**	
Share of revenue	%	4.7	4.7	5.5	6.7	**10.0**	
Profit before taxes	EUR mill.	68.6	74.0	78.9	102.8	**128.9**	
Change on the previous year	%	34.0	7.9	6.7	30.2	**25.4**	
Share of revenue	%	5.2	5.2	5.5	6.7	**9.9**	
Share capital	EUR mill.	102.8	105.3	106.8	109.0	**111.7**	
Series A	EUR mill.	49.7	49.5	49.1	49.1	**49.1**	
Series B	EUR mill.	53.0	55.8	57.7	59.8	**62.6**	
Dividends	EUR mill.	45.9	123.3	53.0	59.5	**72.1**	*
Return on equity	%	9.6	9.6	12.2	15.8	**19.4**	
Return on capital employed	%	12.6	13.2	14.8	19.6	**22.9**	
Capital employed	EUR mill.	578.4	594.6	562.5	544.2	**573.8**	
Capital turnover rate		2.3	2.4	2.6	2.8	**2.3**	
Inventories rate		4.6	5.0	4.9	4.7	**5.0**	
Equity ratio	%	69.7	68.3	62.5	66.4	**74.5**	
Gearing	%	-3.4	-10.4	5.7	5.7	**-6.3**	
Investment in fixed assets	EUR mill.	25.8	40.9	59.0	57.0	**125.5**	
Share of revenue	%	2.0	2.9	4.1	3.7	**9.6**	
Interest-bearing debtors	EUR mill.	110.3	111.4	116.6	111.8	**98.9**	
Interest-bearing liabilities	EUR mill.	52.6	64.7	68.0	47.2	**23.4**	
Interest-bearing net debt	EUR mill.	-128.1	-168.0	-89.9	-83.3	**-134.7**	
Total assets	EUR mill.	752.7	800.8	749.0	761.5	**767.6**	
Staff expenses	EUR mill.	184.9	194.9	202.2	218.0	**204.7**	
Share of revenue	%	14.1	13.8	14.0	14.1	**15.7**	
Personnel, average	persons	8 313	8 745	9 589	10 558	**10 069**	
Revenue per person	EUR thousands	158.2	161.5	150.7	146.1	**129.2**	
Operating profit per person	EUR thousands	7.4	7.5	8.3	9.8	**12.9**	
Staff expenses per person	EUR thousands	22.2	22.3	21.1	20.6	**20.3**	

*) Board proposal to the AGM. According to the proposal, a dividend of EUR 1.30 per share will be paid.

Definition of key indicators

Profit before taxes = Operating profit + financial income - financial expenses

Return on equity, % = 100 x $\dfrac{\text{Profit for the period}}{\text{Equity + minority interest (average over the year)}}$

Return on capital employed, % = 100 x $\dfrac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed}}$

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

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

Inventories rate $\dfrac{365}{\text{Inventories turnover time}}$

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

Gearing, % = 100 x $\dfrac{\text{Interest-bearing liabilities less cash and cash equivalents}}{\text{Equity total}}$

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

Per-share data

Per-share data1)		FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	**IFRS 2006**	
Earnings per share	EUR	0.97	1.01	1.13	1.44	**1.93**	
Earnings per share, diluted	EUR	0.97	1.00	1.11	1.42	**1.90**	
Equity per share	EUR	10.17	10.36	8.83	9.34	**10.34**	
Dividend per share	EUR	0.90	2.35	1.00	1.10	**1.30**	*
Dividend per earnings	%	92.8	232.7	88.5	76.4	**67.4**	*
Cash flow per share	EUR	1.38	1.41	1.62	1.53	**2.16**	
Effective dividend yield	%						
Series A		6.5	13.1	4.7	3.4	**3.6**	
Series B		6.5	12.8	4.6	3.4	**3.6**	
P/E ratio of shares							
Series A		14.3	17.8	18.7	22.3	**19.2**	**
Series B		14.2	18.1	19.2	22.6	**19.2**	**
Share quotation at December 31	EUR						
Series A		13.84	18.00	21.10	32.11	**36.40**	
Series B		13.80	18.30	21.70	32.53	**36.48**	
Highest price during the period	EUR						
Series A		14.85	20.50	23.74	37.00	**38.10**	
Series B		15.00	20.50	23.82	35.82	**38.44**	
Lowest price during the period	EUR						
Series A		11.62	12.80	17.56	20.65	**28.70**	
Series B		11.80	12.92	17.02	21.51	**28.11**	
Average price during the period	EUR						
Series A		13.44	15.89	19.23	29.13	**33.85**	
Series B		13.45	15.91	20.82	28.67	**33.15**	
Share turnover	thousands						
Series A		379	1 781	1 054	825	**819**	
Series B		6 146	8 895	10 979	14 665	**19 440**	
Share turnover	%						
Series A		1.5	7.2	4.3	3.4	**3.3**	
Series B		23.2	31.9	38.0	49.0	**62.5**	
Market capitalization at December 31	EUR mill.	710.1	955.6	1 140.8	1 761.3	**2 028.6**	
Number of shares at December 31	thousands	51 384	52 629	53 420	54 460	**55 662**	
Series A		24 869	24 739	24 564	24 564	**24 564**	
Series B		26 515	27 890	28 856	29 895	**31 098**	
Weighted average number of shares	thousands	50 971	51 111	52 544	53 350	**54 310**	
Series A		24 706	24 654	24 598	24 564	**24 564**	
Series B		26 265	26 458	27 946	28 786	**29 746**	
Weighted average number of shares, diluted	thousands	50 971	52 216	53 509	54 129	**55 178**	
The own shares owned by the company	thousands	413	413	407	397	**383**	
Series A		163	163				
Series B		250	250	407	397	**383**	
Total number of shareholders at December 31		13 999	15 591	33 026	42 169	**40 198**	

1) Adjusted for share issues.

*) Board proposal to the AGM. According to the proposal, a dividend of EUR 1.30 per share will be paid.

**) The dilution effect of options has been taken into account in the 2006 figures.

Definition of key indicators

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

2) Without the own shares owned by the company

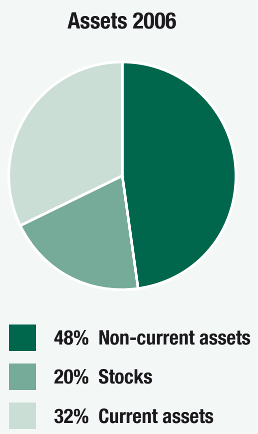
Consolidated income statement

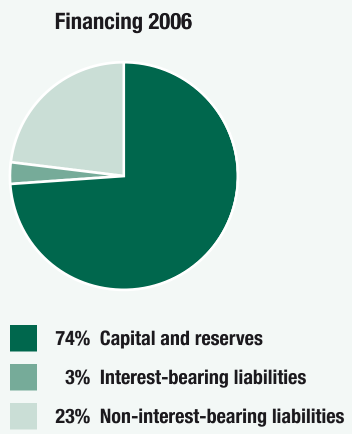
CONSOLIDATED INCOME STATEMENT EUR mill.	Ref.	Jan.1- Dec. 31, 2006 Continuing operations	Dis-continued operations	Total	% of Rev.	Jan.1- Dec. 31, 2005 Continuing operations	Dis-continued operations	Total	% of Rev.
REVENUE	3	1 239.6	61.1	1 300.7	100.0	1 164.9	377.7	1 542.6	100.0
Other operating income	5	5.1	29.3	34.4	2.6	7.0	0.0	7.0	0.5
Raw material and consumables used		710.6	5.9	716.5		699.7	312.8	1 012.5	
Change in inventories, increase (-), decrease (+)		10.6	46.6	57.1		-16.2	-0.9	-17.1	
Raw material and consumables used, total	6	721.1	52.5	773.6	59.5	683.6	311.9	995.5	64.5
Wages, salaries and employee benefits expenses	7	199.3	5.4	204.7	15.7	187.6	30.4	218.0	14.1
Depreciation and impairment losses	8	31.8	0.3	32.1	2.5	29.9	5.8	35.8	2.3
Other operating expenses	9	192.6	2.6	195.1	15.0	175.2	21.5	196.7	12.8
		1 144.8	60.8	1 205.6	92.7	1 076.3	369.6	1 445.9	93.7
OPERATING PROFIT		99.9	29.6	129.5	10.0	95.6	8.1	103.7	6.7
Financial income	10	1.8		1.8	0.1	2.2	0.8	3.0	0.2
Financial expenses	10	-2.3	0.0	-2.3	-0.2	-3.9		-3.9	-0.3
PROFIT BEFORE TAXES		99.4	29.6	128.9	9.9	93.9	8.9	102.8	6.7
Income taxes	11	24.2	0.1	24.3	1.9	24.0	2.0	26.0	1.7
PROFIT FOR THE PERIOD		75.2	29.5	104.7	8.0	69.9	6.9	76.9	5.0
ATTRIBUTABLE TO:									
Equity holders of the parent company		75.2	29.5	104.7		69.9	6.9	76.9	
Minority interest		0.0		0.0		0.0		0.0	
		75.2	29.5	104.7		69.9	6.9	76.9	
Earnings per share		2006	2006	2006		2005	2005	2005	
Basic		1.39	0.54	1.93		1.31	0.13	1.44	
Diluted		1.37	0.53	1.90		1.29	0.13	1.42	
Average number of shares, thousands				2006				2005	
Basic				54 310				53 350	
Diluted				55 178				54 129	

Consolidated balance sheet

CONSOLIDATED BALANCE SHEET	Ref.	Dec. 31, 2006 EUR mill.	Dec. 31, 2005 EUR mill.
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	13		
Intangible rights		6.3	7.1
Goodwill			0.5
Intangible assets, total		6.3	7.6
Property, plant and equipment	14		
Land and water		39.9	21.8
Buildings and constructions		132.1	145.6
Machinery and equipment		51.8	63.0
Modification and renovation expenses for leased premises		49.3	57.6
Advance payments and construction in progress		79.1	15.0
Property, plant and equipment, total		352.2	303.1
Available-for-sale investments	16	6.5	6.0
Non-current receivables, interest-bearing	17		4.3
Deferred tax assets	24	2.5	3.5
NON-CURRENT ASSETS, TOTAL		367.5	324.5
CURRENT ASSETS			
Inventories	18	155.0	212.0
Current receivables	19		
Receivables, interest-bearing		98.9	107.5
Receivables, non-interest-bearing		86.5	99.2
Income tax receivable		0.5	
Current receivables, total		185.9	206.6
Cash and cash equivalents	20	59.2	18.4
CURRENT ASSETS, TOTAL		400.1	437.0
ASSETS, TOTAL		767.6	761.5

CONSOLIDATED BALANCE SHEET	Ref.	Dec. 31, 2006 EUR mill.	Dec. 31, 2005 EUR mill.
EQUITY AND LIABILITIES			
EQUITY	21		
Share capital		**111.3**	108.9
Share issue		**0.4**	0.0
Share premium fund		**183.4**	166.5
Other funds		**44.1**	44.1
Translation difference		**0.0**	0.0
Retained earnings		**232.3**	185.7
Equity attributable to equity holders of the parent		**571.6**	505.3
Minority interest		**0.0**	0.0
EQUITY, TOTAL		**571.6**	505.3
NON-CURRENT LIABILITIES	22		
Deferred taxes liabilities	24	**26.2**	28.2
Non-current liabilities, interest-bearing		**23.4**	13.7
NON-CURRENT LIABILITIES, TOTAL		**49.6**	41.9
CURRENT LIABILITIES	23		
Current liabilities, interest-bearing			
Current liabilities			33.6
Current liabilities, interest-bearing, total			33.6
Current liabilities, non-interest-bearing			
Trade payables and other current liabilities		**145.9**	175.5
Income tax liability		**0.5**	5.2
Current liabilities, non-interest-bearing, total		**146.4**	180.7
CURRENT LIABILITIES, TOTAL		**146.4**	214.3
LIABILITIES, TOTAL		**196.0**	256.2
EQUITY AND LIABILITIES, TOTAL		**767.6**	761.5





Statement of change in equity

STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the parent								
EUR mill.	**Share capital***	**Share premium fund**	**Legal reserve**	**Other funds****	**Translation difference**	**Retained earnings**	**Total**	**Minority interest**	**Equity total**
Equity December 31, 2004	**106.8**	**154.8**	**0.2**	**44.4**	**-0.1**	**161.9**	**467.9**	**0.0**	**467.9**
Options exercised	2.1	11.7					13.9		13.9
Share bonus		0.1					0.1		0.1
Transfer to other funds				0.1		0.2	0.3		0.3
Costs of share issue		-0.1					-0.1		-0.1
Cash flow hedges				-0.6			-0.6		-0.6
Dividends						-53.0	-53.0		-53.0
Translation differences					0.2	-0.2	0.0		0.0
Profit for the period						76.9	76.9	0.0	76.9
Equity December 31, 2005	**109.0**	**166.5**	**0.2**	**43.9**	**0.0**	**185.7**	**505.3**	**0.0**	**505.3**
Options exercised	2.7	16.7					19.5		19.5
Share bonus		0.2				0.2	0.4		0.4
Transfer to other funds				0.0			0.0		0.0
The adjustment corresponding the expenses of share options						1.3	1.3		1.3
Dividends						-59.5	-59.5		-59.5
Translation differences					0.0	0.0	0.0		0.0
Profit for the period						104.7	104.7	0.0	104.7
Equity December 31, 2006	**111.7**	**183.4**	**0.2**	**43.9**	**0.0**	**232.3**	**571.6**	**0.0**	**571.6**

*including share issue

**excluding deferred tax liability

Consolidated cash flow statement

CONSOLIDATED CASH FLOW STATEMENT

	Ref.	**2006 EUR millions**	2005 EUR millions
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		**104.7**	76.9
Adjustments:			
Deprecation		**32.1**	35.8
Other operating income		**-34.4**	-7.0
Financial expenses		**2.3**	3.7
Financial income		**-1.8**	-2.8
Income taxes		**24.3**	28.2
Other adjustments	**21.30**	**1.7**	
Changes in working capital:			
Change in trade and other receivables		**1.7**	-2.6
Change in inventories		**5.2**	-17.1
Change in trade payables and other liabilities		**11.2**	0.9
Interest paid		**-2.5**	-3.9
Interest received		**1.1**	1.2
Income taxes paid		**-28.2**	-31.3
NET CASH FROM OPERATING ACTIVITIES		**117.4**	81.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in tangible and intangible assets		**-112.2**	-58.1
Acquisition of subsidiary net cash acquired	**4**	**-12.7**	
Disposal of subsidiaries less cash at date of disposal	**4**	**105.0**	11.7
Capital expenditures on other investments		**-0.5**	0.0
Cash from tangible assets		**8.4**	
Cash from other investments		**0.9**	1.5
Dividends received		**0.1**	0.2
NET CASH USED IN INVESTING ACTIVITIES		**-11.0**	-44.7
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in loans granted, increase (-), decrease (+)		**0.3**	
Proceeds from issue of share capital		**17.2**	13.9
Loans drawn down		**10.0**	15.8
Repayments of loans		**-33.6**	-36.6
Dividends paid		**-59.5**	-53.3
NET CASH USED IN FINANCING ACTIVITIES		**-65.6**	-60.2
Change in cash and cash equivalents		**40.8**	-23.0
Cash and cash equivalents at start of the financial year		**18.4**	41.4
Cash and cash equivalents at end of the financial year		**59.2**	18.4

Notes to the consolidated financial statements

1. CONSOLIDATED FINACIAL STATEMENTS ACCOUNTING POLICIES

Basic information on the company

The Group's parent company is the Finnish public listed company Stockmann plc, which is domiciled in Helsinki. The parent company's shares are listed on the Helsinki Stock Exchange.

General

Stockmann's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in reliance on the IAS and IFRS standards as well as the IFRIC and SIC interpretations in force at December 31, 2006. In Finnish accounting legislation and the regulations issued on the basis of it, International Financial Reporting Standards (IFRS) refer to the standards and interpretations regarding them, which have been approved in the Regulation of the European Parliament and of the Council on the application of international accounting standards. The notes to the consolidated financial statements are also in accordance with Finnish accounting and company legislation. Stockmann adopted International Financial Reporting Standards (IFRS) as from January 1, 2005, applying IFRS 1: First-time Adoption of International Financial Reporting Standards.

The financial statement information is presented in millions of euros and is based on historical costs unless indicated otherwise in the accounting policies set out here.

Use of estimates

In preparing the consolidated financial statements in accordance with IFRS, certain estimates and assumptions concerning the future need to be made. These influence the amounts of assets and liabilities in the balance sheet, the contingent items presented as well as revenue and expenses for the financial period. In addition, judgment has to be used in applying accounting policies to, for example, depreciation periods, impairment testing, deferred tax assets and provisions. The actual amounts can differ from the underlying estimates and assumptions.

Principles of consolidation

The consolidated financial statements include the parent company, Stockmann plc, as well as all the subsidiaries in which the parent company holds, either directly or indirectly, over 50 per cent of the number of votes conferred by the shares or in which the parent company otherwise has a controlling interest.

Acquired subsidiaries are included in the financial statements using the purchase method, according to which all the identifiable assets and liabilities and contingent liabilities of the acquired company are measured at fair values at the date of acquisition. The remaining unallocated portion of the difference between the acquisition cost of shares in a subsidiary and the fair value of the acquired assets, liabilities and contingent liabilities is goodwill.

In accordance with the exemption permitted under IFRS 1, acquisitions prior to the date of transition to IFRS have not been adjusted according to the principles set out in IFRS 3 but have been left in accordance with Finnish Accounting Standards (FAS). Subsidiaries acquired during the financial year are included in the consolidated financial statements from the date of acquisition, and divested subsidiaries up to the time of sale.

Intra-Group transactions, receivables, liabilities, unrealized margins and internal distribution of profits are eliminated in the consolidated financial statements. The profit for the financial year is distributed to the parent company's shareholders and to minority interests. Minority interest is presented as an individual item in the Group's equity.

Joint ventures over which Stockmann has joint control on the basis of an agreement or Articles of Association with another party are accounted for using the proportionate consolidation method. Participations in mutual property management companies owned by Group companies have been treated as jointly controlled assets. The consolidated financial statements include Stockmann's proportionate share of the joint venture's assets, liabilities, income and expenses from the date when joint control has been obtained up to the date it ends. Companies acquired during the year have been consolidated as from the date of acquisition. The Stockmann Group does not have associates.

Segment reporting

The operations of Stockmann plc and its subsidiaries are divided into three business segments: the Department Store Division, which carries on department store and speciality trade; Hobby Hall, a distance retailer; and Seppälä, a fashion retailer. Stockmann divested the Stockmann Auto segment in 2006. The segment Others includes functions serving the entire Group. The Group's secondary, geographical segments are Finland, the Baltic countries and Russia. Discontinued operations include the Stockmann Auto segment and the Zara-Russia businesses.

Items denominated in foreign currency

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

Transactions in foreign currency are recorded in the amounts of each company's functional currency, applying the exchange rate on the date of the transaction. Receivables and liabilities at the date of closing the accounts are translated at the exchange rate at the balance sheet date. Exchange differences arising on translation are entered in the income statement.

The income statements of foreign subsidiaries are translated to euros at the average rate during the financial period and the balance sheets at the rate at the balance sheet date. The exchange rate difference arising from the translation of income statement items at the average rate and balance sheet items at the balance sheet date is recorded as a separate item in equity. The financial statements of Russian subsidiaries have been translated to euros under IAS 21. The euro has been considered the functional currency of Russian subsidiaries because purchases of goods are made primarily by the parent company outside Russia and a margin target defined in euros is observed in setting selling prices. Furthermore, a large part of the expenses of Russian subsidiaries is tied to the euro or the US dollar. In accordance with IAS 21, monetary items, i.e. those in cash, of Russian subsidiaries are translated to euros in the consolidated financial statements using the exchange rate at the balance sheet date, and non-monetary items, such as non-current assets, inventories and equity, using the rate on the date of the transaction.

Cumulative translation differences that have accrued prior to the date of transition to IFRS are recorded in retained earnings in accordance with the exemption permitted under IFRS 1. In preparing the consolidated financial statements, the translation differences arising from exchange rate changes in the equity of subsidiaries and associates have been recorded, as from the transition date, as a separate item in translation differences under the Group's equity. When a foreign subsidiary or joint venture is divested, the cumulated translation difference is entered in the income statement as part of the capital gain or loss.

Recognition of income

Revenue from the sale of goods is recognized when the significant risks and benefits of ownership have been transferred to the buyer.

For mail order sales, provision is made for future returns by creating, at the end of each month a periodization entry for returns, which is based on experience and serves to adjust the sales figures. Revenue from services is recorded when the service has been rendered. The hire purchase charge connected with Hobby Hall's one-time consumer credits is included in the selling price and recorded in revenue.
In calculating revenue, items such as indirect taxes and discounts granted have been deducted from sales.

Other operating income
Among items included in other operating income are gains on 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 losses on the sale of assets as well as expenses other than those related to the actual sale of goods and services. Interest income received on interest-bearing trade receivables is entered as a reduction in other operating expenses.

Employee benefits
The disability component of the Finnish TEL employment pension plan is treated as a defined-contribution plan. In the other countries where the Stockmann Group operates, the statutory pension systems are likewise defined-contribution plans. Payments for contribution-based pension plans are made to a pension insurance company. Payments made for contribution-based plans are recorded in the income statement in the financial period which the debit concerns. The Group does not have defined-benefit pension plans or other post-employment benefits.

Equity compensation benefits and share-based payments
Share options, which are granted for key employees and Loyal Customers, are measured at fair value at the time they are granted and entered as an expense in the income statement in even instalments during the vesting period. The expense corresponding to the fair value of share options granted will be recorded in Staff costs in respect of key employee options and in Other operating expenses in respect of Loyal Customer options, and an adjustment item of the corresponding amount will be re-entered in equity. The fair value of options granted is determined using the Black-Scholes model, which takes into account the market conditions affecting the share options at the grant date. In addition, the number of share options to be exercised and the probable vesting period are estimated finally at the grant date. The amount to be recorded as expense is adjusted subsequently in line with the number of share options finally granted. In accordance with the rules for the entry into force of IFRS 2, options granted prior to November 7, 2002, and handed over to the option holders prior to January 1, 2005, have not been treated by recording them through profit and loss.

When share options are exercised, the cash payments received for share subscriptions are recorded in equity and the share premium fund.

Group management has a share bonus system, the expenses of which are entered in the income statement as staff expenses for the financial period in which the share bonus has vested on the basis of the profit earned.

Income taxes
Tax expense in the income statement comprises the current tax and deferred taxes. Current tax is calculated on taxable income using the tax rate that is in force in each country. Taxes are adjusted for any taxes for previous periods. Income taxes are presented in the income statement unless the transaction relating to the taxes is presented directly in equity, in which case the tax effect is stated in equity.

Deferred taxes are calculated on the temporary differences between the accounting value and the tax base. The largest temporary differences arise from difference between the accounting and taxation values of property, plant and equipment, unused tax losses, measurements at fair value and other periodization differences. Deferred taxes are not recorded for tax purposes on non-deductible impairment losses on goodwill. Similarly, deferred taxes are not booked on the undistributed earnings of subsidiaries before a dividend payout resolution has been passed by the shareholders.

Deferred taxes have been calculated by applying the tax rates in force by the balance sheet date.

Deferred tax liabilities are recorded in full. Tax assets are recognized to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized.

Provisions
A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, it is probable that a payment obligation will be realized and the amount of the obligation can be estimated reliably.

Goodwill and other intangible assets
The goodwill arising from the acquisition of a company constitutes of the difference between the acquisition cost and the identifiable net assets acquired, which are measured at fair value. Goodwill is allocated to cash-generating units and it is tested annually to determine any impairment. Goodwill is not amortized.

Other intangible assets comprise copyrights and software licences. They are measured at acquisition cost and amortized over their estimated economic lives.

The amortization periods of intangible assets are (years):
- intangible rights 5
- software 5

Subsequent expenses related to intangible assets are capitalized if and only if the economic benefit of the asset increases as a result of said expenditure. Otherwise, the costs are expensed when they are incurred.

Property, plant and equipment
Land areas, buildings, other non-current expenditure as well as machinery and equipment comprise the bulk of property, plant and equipment. Revaluations included in land areas and buildings have been a part of the carrying value according to the previous accounting policies and have been deemed to constitute a part of the acquisition cost under IFRS. Property, plant and equipment also includes alteration and basic improvement expenditure that is due, notably, to the finishing works on the interiors of commercial premises located in leased buildings.

Property, plant and equipment is measured in the balance sheet at acquisition cost less accumulated depreciation and any impairment losses. The cost of self-constructed assets includes materials and direct labour. If the item of property, plant and equipment is comprised of several components having economic lives of differing length, the components are treated as separate items of property, plant and equipment. Subsequent expenditure is recognized when it increases the future economic life of the asset. Other costs, such as normal maintenance and repair measures, are entered in the income statement as expenses when they are incurred.

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

The depreciation times for property, plant and equipment are (years):
- buildings and structures 20-50
- modification and renovation of leased premises 5-20
- machinery and equipment 4-10
- ADP equipment and lightweight store fixtures and equipment 3-5

Gains and losses arising on the sale or transfer of items of property, plant and equipment are recorded in the income statement.

Impairment of assets

The carrying values of asset items are assessed regularly to determine whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is determined. An impairment loss is recorded when the balance sheet value of the asset item or cash-generating unit is greater than its recoverable amount. Impairment losses are recorded 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 applied to reduce the unit's other asset items on an equal percentage.

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 the discount rates reflecting the average capital costs before taxes of said cash-generating unit.

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 to an extent greater than what the carrying amount of the asset, less depreciation or amortization, would have been if an impairment loss had been recorded in previous years.

Lease agreements

Lease agreements in accordance with IAS 17 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 recorded in property, plant and equipment, and the obligations under the agreement are recorded 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 recorded in the balance sheet and they are measured at an amount equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Depreciation according to plan is booked on assets obtained on a finance lease, and any impairment losses are recorded. Items of property, plant and equipment are depreciated according to the Group's depreciation periods, or, if shorter, the lease term.

The Stockmann Group is not a lessor in lease agreements that should be interpreted as finance lease agreements.

Lease agreements in which the risks and benefits incident to ownership remain with the lessor are treated as other lease agreement (operating leases). Lease payments received and paid on the basis of other lease agreements are recognized as income or expense in the income statement.

Inventories

Inventories are measured at the lowest of acquisition cost or net realizable value. In ordinary operations the net realizable value is the estimated selling price which is obtainable less the estimated costs incurred in bringing the product to its present condition and the necessary selling expenses.

The value of inventories is determined using the FIFO method, the retail method permitted under IAS 2 or the weighted average cost method and it includes all the direct costs of the purchase. The retail method according to IAS 2 is used for the measurement of inventories at the Department Store Division in Finland, whereas the weighted average cost method is used at other units.

Receivables

The recoverable amount is calculated on trade receivables by multiplying age-ranked groups of receivables by the recovery percentages determined through experience. Doubtful accounts are recorded in the income statement as expenses by entering the difference between the original value of each group of receivables and the recoverable amount. Confirmed credit losses are entered as expenses in the income statement.

In customer financing of vehicle sales, hire purchase agreements that have been transferred to finance companies and for which all the risks, rewards and control have not been passed to the transferee are stated in the comparison period as receivables in the balance sheet.

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 or fair value less estimated selling costs. When an asset item is classified within non-current assets held for sale or a disposal group, it is not depreciated. A non-current asset held for sale or asset items included in discontinued operations are presented in the balance sheet separately from other asset items. Likewise, liabilities connected with a disposal group of are presented as an item of their own in the balance sheet.

Assets classified within discontinued operations in 2006 were the Stockmann Auto segment in its entirety and the Zara business in Russia, which previously belonged to the Department Store Division segment.

These businesses were sold during 2006. At the balance sheet date, the Group does not have operations that are to be discontinued or non-current assets held for sale in the meaning of IFRS 5.

Financial instruments

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

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 balance sheet date, present value methods for cash flows or other appropriate valuation models. Investments for which the fair value cannot be determined reliably are stated at cost or a lower amount if an impairment loss has been determined for them. Changes in fair value are recorded 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 balance sheet 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 on the balance sheet date. Changes in fair value are recorded in the fair value reserve under equity. 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 recorded on the investment. Unlisted shares are stated at their initial cost or, if they are under a permanent impairment, at this lower value, unless their fair values cannot be determined reliably.

Purchases and sales of financial assets are recognized on the trade date, which is the day when the company has made a commitment to purchase or sell the asset item. An item belonging to financial assets is derecognized in the balance sheet when the company relinquishes the item's contractual rights, the rights expire or the company loses control over the item.

Interest-bearing liabilities are classified as other liabilities and they are recorded originally in the accounts at fair value based on the consideration received. Transaction costs are included in the original carrying value of interest-bearing liabilities. Subsequently, interest-bearing liabilities are measured at amortized 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 contracts are classified as financial assets or liabilities that are to be recorded at fair value through profit or loss, and changes in their fair value are recognized 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 balance sheet date. Changes in the fair value of interest rate swaps are recognized in financial income and expenses through profit or loss. The fair value of currency forwards is calculated by measuring the forward contracts at the forward rates at the balance sheet date. The results of the measurement of currency forwards are recorded in financial income and expenses through profit or loss, except for currency forwards to which hedge accounting for cash flow hedges as defined in IAS 39 is applied.

Hedge accounting is applied to hedging instruments that meet the requirements of IAS 39, which are duly documented and effective in hedging forecast foreign currency-denominated sales and purchases. The hedged cash flow must be highly probable and ultimately affect profit or loss. The hedge effectiveness is monitored as set out in IAS 39. A hedging relationship is considered to be effective when the change in the fair value of the hedging instrument offsets 80-125 per cent of the changes in the fair value of the hedged cash flow. The hedging relationship must be effective, and the effectiveness is reviewed both at the inception of the hedge and subsequently. Effectiveness testing is done at each balance sheet date.

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

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.

At the balance sheet date, the Group did not have any outstanding derivative contracts.

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 value of cash and cash equivalents are assumed to approximate their carrying values because of their short maturities.

Treasury shares

When 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 the tax asset. If the acquired shares are sold or transferred as consideration, the consideration received less the tax liability is recorded in equity.

Dividends payable

The dividend payout proposed by the Board of Directors has not been entered in the financial statements. Dividends are recorded on the basis of a resolution passed by a general meeting of the shareholders.

Application of revised or amended IFRS standards

In 2007 the Group will adopt the standard IFRS 7 Financial Instruments: Disclosures that was published in 2005. In the Groups estimation, the new standard will have impact mainly on the Notes to the consolidated financial statements.

In 2007 the Group will adopt the amendment to standard IAS 1 Presentation of Financial Statements: Capital Disclosures that was published in 2005. In the Groups estimation, the amendment to standard IAS 1 will have impact mainly on the Notes to the consolidated financial statements.

In 2007 the Group will adopt the IFRIC interpretations IFRIC 8 Scope of IFRS 2, IFRIC 9 Reassessment of Embedded Derivates and IFRIC 10 Interim Financial Reporting and Impairment. In the Groups estimation the adoption of IFRIC 8, IFRIC 9 and IFRIC 10 will not have material effect on the Group's financial statements in coming years.

Exchange rates

		Closing rates		Average yearly rate	
Country	Currency	Dec.31, 2006	Dec.31, 2005	2006	2005
Russia	RUB	34.6800	33.9200	34.1109	35.1860
Estonia	EEK	15.6466	15.6466	15.6466	15.6466
Latvia	LVL	0.6972	0.6962	0.6962	0.6962
Sweden	SEK	9.0404	9.3885	9.2544	9.2822
Lithuania	LTL	3.4528	3.4528	3.4528	3.4528

2. MANAGING FINANCIAL RISKS

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

The Group's main financial risks are currency risk, interest rate risk, liquidity risk and counterparty risk. The divisions hedge their currency risk against Group Treasury, which makes the Group's internal financial agreements with banks and other financial institutions. Group Treasury is responsible for managing risks at the Group level, such as interest rate risk and liquidity risk. Group Treasury also functions as an internal bank and serves the divisions in their daily financing activities, foreign exchange dealing and cash management.

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 investments in units abroad.

The most important sales currencies are the Russian rouble, the Estonian kroon and the Latvian lat, and the primary purchasing currencies are the United States dollar, the British pound, the Hong Kong dollar and the Swedish krona. In 2006, foreign currency-denominated sales accounted for 23 per cent of the Group's entire sales, and purchases made in foreign currency made up 6 per cent of the Group's purchases. The fast turnover rate typical of the retail trade reduces the currency risk deriving from purchases.

The management of currency risk related to operational cash flows is based on the forecast 12-month cash flows currency by currency. The hedging period is generally a maximum of 12 months and the degree of hedging for individual currencies can vary in the range of 0–100%. Balance sheet items and foreign currency-denominated investments made in units abroad are monitored and hedged separately. The degree of hedging can vary from 0 to 100%.

The instruments used in hedging currency risk are currency derivatives and borrowing in foreign currency. At the balance sheet date, December 31, 2006, the Group did not have any outstanding currency derivatives.

Interest rate risk

Fluctuations in the level of interest rates affect Group's interest rate expenses and interest rate income. 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 average interest rate maturity of the loan and investment portfolio is a maximum of five years.

The management of interest rate risk also involves the use of forward rate agreements and futures, interest rate options and interest rate swaps. At the balance sheet date, December 31, 2006, the Group did not have any outstanding interest rate derivatives.

Liquidity risk

The aim of managing liquidity risk is to ensure that the Group is able to meet its financial obligations at any time. The trend in liquidity is monitored by means of cash flow forecasts. Liquidity risk is controlled by means of effective cash management, ensuring sources of financing at a reasonable price and keeping a sufficient portion of investments in a diversified range of liquid financial instruments. The Group has a total of EUR 100 million of committed, long-term credit facilities, which were unused in their entirety at December 31, 2006. In addition, as an uncommitted financing reserve, the Group has an EUR 362.5 million domestic commercial paper programme that was not in use at December 31, 2006.

Counterparty risk

Financial instruments involve the risk that the counterparty to an agreement does not fulfil its obligations. Counterparty risk is managed by means of counterparty limits. Investments in financial instruments are made only with counterparties that are judged to be highly creditworthy and solid financially. Cash assets are invested in financial instruments that are judged to be liquid and to have a low risk. Counterparty limits are revised and approved regularty.

Credit risk

The Group has no remarkable credit risk. Receivables consist of a big amount of small receivables and the customers are mainly private persons whose creditworthiness has been checked.

3. SEGMENT INFORMATION

The Stockmann Group's primary business segments are the Department Store, Hobby Hall and Seppälä.

Department Store Division

The Department Store Division is engaged in the department store trade in Finland, Russia, Estonia and Latvia. In Finland and Russia it also has speciality stores, part of which operate on a franchise basis. The division's operations are concentrated in the major cities of each country where it operates. At 31 December 2006, the Department Store Division comprised seven department stores, four Zara stores and 13 Stockmann Beauty stores in Finland, three department stores, 12 Bestseller stores and two other speciality stores in Russia as well as a department store in Estonia and in Latvia.

Hobby Hall

Hobby Hall carries on distance retailing in consumer goods in Finland, Estonia and Latvia. It has in Finland two stores and in Estonia one store that support its distance retailing operations.

Seppälä

Seppälä is a chain of fashion stores in Finland, Russia, Estonia, Latvia and Lithuania, and its operations are based on its own design. At 31 December 2006, it had 126 stores in Finland, 14 in Estonia, nine in Latvia, 16 in Russia and four in Lithuania.

3. SEGMENT INFORMATION, JANUARY 1 - DECEMBER 31, 2006

BUSINESS SEGMENTS **EUR millions**	**Department Store Division**	**Hobby Hall**	**Seppälä**	**Un-allocated 1)**	**Elimi-nations**	**Continuing operations**	**Dis-continued operations**	**Group**
Income statement information, Jan. 1 - Dec. 31								
Sales	1 119.0	199.8	158.1	0.9		1 477.8	74.8	1 552.6
Revenue	941.3	165.9	130.8	1.7		1 239.6	61.1	1 300.7
Operating profit	79.5	7.1	21.1	-8.0	0.2	99.9	29.6	129.5
Depreciation	25.9	2.7	2.0	1.2		31.8	0.3	32.1
Balance sheet data, Dec. 31								
Capital expenditures	115.3	3.2	6.1	0.9		125.5		125.5
Assets 2)	557.9	104.0	38.0	67.7		767.6	0.0	767.6
Non-interest-bearing liabilities 3)	122.0	13.9	10.9	25.8		172.6		172.6
Interest-bearing liabilities				23.4		23.4		23.4
Number of employees, average	8 014	644	1 194	101		9 953	116	10 069

1. Includes corporate administration expenses that are not allocatable to the business segments
2. Segment assets include goodwill, intangible rights, property, plant and equipment, inventories, trade receivables, other receivables as well as cash and cash equivalents
3. Segment liabilities include trade payables and other non-interest-bearing liabilities

SEGMENT INFORMATION, JANUARY 1 - DECEMBER 31, 2005

BUSINESS SEGMENTS **EUR millions**	**Department Store Division**	**Hobby Hall**	**Seppälä**	**Un-allocated 1)**	**Elimi-nations**	**Continuing operations**	**Dis-continued operations**	**Group**
Income statement information, Jan. 1 - Dec. 31								
Sales	1 024.1	210.5	155.2	0.9		1 390.7	460.6	1 851.3
Revenue	860.0	174.7	128.1	2.1		1 164.9	377.7	1 542.6
Operating profit	65.4	6.1	31.1	-7.3	0.3	95.6	8.1	103.7
Depreciation	23.3	2.9	2.2	1.6		29.9	5.8	35.8
Balance sheet data, Dec. 31								
Capital expenditures	42.1	1.3	3.4	2.3		49.1	7.9	57.0
Assets 2)	463.7	106.3	31.2	39.3		640.5	121.1	761.5
Non-interest-bearing liabilities 3)	113.0	15.3	10.9	32.9		172.0	36.9	209.0
Interest-bearing liabilities				47.2		47.2		47.2
Number of employees, average	7 554	672	1 053	106		9 385	1 173	10 558

1. Includes corporate administration expenses that are not allocatable to the business segments
2. Segment assets include goodwill, intangible rights, property, plant and equipment, inventories, trade receivables, other receivables as well as cash and cash equivalents
3. Segment liabilities include trade payables and other non-interest-bearing liabilities

GEOGRAPHICAL SEGMENTS, 2006 **EUR millions**	**Finland 1)**	**Baltic Rim 1)**	**Russia 2)**	**Continuing operations**	**Finland**	**Russia**	**Dis-continued operations**	**Group**
Sales	1 123.7	165.3	188.8	1 477.8	74.8		74.8	1 552.6
Revenue	937.5	140.6	161.6	1 239.6	61.1		61.1	1 300.7
Operating profit	75.2	21.0	3.8	99.9	7.7	21.9	29.6	129.5
Capital expenditures	64.0	1.8	59.7	125.5				125.5
Assets	594.8	69.7	103.1	767.6				767.6
Number of employees, average	6 732	1 277	1 944	9 953	116		116	10 069

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

GEOGRAPHICAL SEGMENTS, 2005 **EUR millions**	**Finland 1)**	**Baltic Rim 1)**	**Russia 2)**	**Continuing operations**	**Finland**	**Russia**	**Dis-continued operations**	**Group**
Sales	1 106.8	140.8	143.1	1 390.7	414.1	46.5	460.6	1 851.3
Revenue	923.2	119.7	122.0	1 164.9	338.3	39.4	377.7	1 542.6
Operating profit	92.2	7.3	-4.0	95.6	3.1	5.0	8.1	103.7
Capital expenditures	31.8	1.7	15.6	49.1	2.7	5.1	7.9	57.0
Assets	489.3	72.2	79.0	640.5	98.2	22.9	121.1	761.5
Number of employees, average	6 539	1 144	1 702	9 385	696	477	1 173	10 558

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

4. OPERATIONS DIVESTED AND ACQUIRED

Stockmann sold the entire shares outstanding in its subsidiary Stockmann Auto Oy Ab to Veho Group Oy Ab, the Ford businesses in Turku and Espoo to SOK and Stockmann Auto's VW-Audi business to Helsingin VV-Auto Oy, a Kesko Group company.
The vehicle business was transferred to new owners as from March 1, 2006. In addition, in April 2006, Stockmann sold the shares in the property management company Kiinteistö Oy Luistelijanvuori to Veho Group Oy Ab.

Stockmann sold its subsidiary that carries on the Zara business in Russia to the owner of the Zara trademark, the Inditex Group of Spain, under an agreement signed on January 30, 2006. Pursuant to the agreement that was made, operations have been carried out for Inditex's account as from January 1, 2006.

Discontinued operations

Cash flow statement

EUR mill.	2006
Cash flows from operating activities	1.9
Cash flows from financing activities	-1.7
Cash flow, total	0.2

Discontinued operations

EUR mill.	2006
Intangible assets	0.9
Property, plant and equipment	31.6
Trade receivables	65.2
Change in inventories	29.3
Deferred taxes	-1.3
Interest-bearing liabilities	-0.3
Other liabilities	-48.4
Total	77.0
Capital gains	29.3
Consideration, total	106.3
Received in cash	106.3
Cash assets of divested subsidiary	-1.3
Cash flow from divestments	105.0

Businesses acquired

Stockmann purchased the property management company Stockmann Stp Centre Ltd in St Petersburg in 2006. The company owns a property on Nevsky Prospect where a department store to be opened in December 2008 and the Nevsky Centre mall will be built.

EUR mill.	2006 Fair values recorded on consolidation	Carrying values before consolidation
Property, plant and equipment	28.3	15.2
Trade receivables	1.4	1.4
Cash and cash equivalents	0.4	0.4
Assets, total	30.1	17.0
Interest-bearing liabilities	1.6	1.6
Other liabilities	15.4	15.4
Liabilities, total	17.0	17.0
Net assets	13.1	0.0
Acquisition cost	13.1	
Purchase price paid in cash	13.1	
Cash assets of subsidiary acquired	-0.4	
Cash flow effect	12.7	

5. OTHER OPERATING INCOME

EUR mill.	2006	2005
Capital gains on non-current assets	4.8	
Capital gains on the sale of shares, tax-free	29.3	
Capital gains on the sale of shares, taxable	0.4	7.0
Total	34.4	7.0

6. GROSS MARGIN

EUR mill.	2006	2005
Revenue	1 300.7	1 542.6
Raw material and consumables used	716.5	1 012.5
Change in inventories	57.1	-17.1
Gross margin	527.1	547.1
Gross margin, % of revenue	40.5	35.5

7. EXPENSES OF WAGES, SALARIES AND EMPLOYEE BENEFITS

EUR mill.	2006	2005
Wages and salaries	167.9	178.3
Pension expenses	24.4	26.6
Other staff costs	11.8	13.1
Expenses for share option benefits	0.6	
Total	204.7	218.0

Information on management's employee benefits is given in note 30. Related party transactions.

8. DEPRECIATION AND IMPAIRMENT LOSSES

EUR mill.	2006	2005
Intangible rights	2.6	3.3
Buildings and constructions	5.5	6.2
Machinery and equipment	15.9	18.2
Modification and renovation expenses for leased premises	8.1	8.1
Total	32.1	35.8

9. OTHER OPERATING EXPENSES

EUR mill.	2006	2005
Site expenses	98.4	97.1
Marketing expenses	40.4	41.2
Goods handling expenses	13.8	14.6
Credit losses	0.5	-0.5
Voluntary indirect employee costs	4.4	4.9
Interest income from trade receivables	-8.6	-9.9
Other costs	46.1	49.2
Total	195.1	196.7

10. FINANCIAL INCOME AND EXPENSES

EUR mill.	2006	2005
Financial income		
Dividend income	0.1	0.2
Interest income	0.9	1.2
Gains on available-for-sale financial assets	0.8	0.9
Gains on financial assets at fair value through profit or loss		0.0
Fair value changes in financial assets at fair value through profit or loss	0.0	0.5
Foreign exchange differences		0.2
Total	1.8	3.0
Financial expenses		
Interest expenses	-1.9	-3.9
Foreign exchange differences	-0.4	
Total	-2.3	-3.9
Financial income and expenses, total	-0.6	-0.9

11. INCOME TAXES

EUR mill.	2006	2005
Income taxes for the financial year, continuing operations	**24.0**	26.3
Income taxes for the financial year, discontinued operations	**0.1**	2.0
Income taxes from previous financial years	**0.0**	-0.1
Change in deferred tax liability / asset	**0.2**	-2.2
Total	**24.3**	26.0

Reconciliation between taxes calculated according to income statement and the Group's tax expense at the Finnish tax rate of 26% (26% in 2005).

Profit before taxes	**128.9**	102.8
Income taxes at current tax rate	**33.5**	26.7
Income taxes on ordinary operations from previous financial years	**0.0**	-0.1
Returns exempt from tax	**-7.6**	
Differing tax rates of foreign subsidiaries	**-2.7**	-1.5
Non-deductible expenses	**1.1**	0.8
Taxes in income statement	**24.3**	26.0

Tax rates of Group companies by operating country		
Finland	**26**	26
Russia	**24**	24
Estonia	**23/0**	26/0
Latvia	**15**	15
Lithuania	**15**	15

12. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit attributable to the parent company's shareholders 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.

Continuing operations	**Jan. 1 - Dec. 31, 2006**	Jan. 1 - Dec. 31, 2005
Net profit, EUR millions	**75.2**	69.9
Share issue-adjusted number of outstanding shares, weighted average, thousands	**54 310**	53 350
Earnings per share, EUR	**1.39**	1.31
Net profit, EUR millions	**75.2**	69.9
Share issue-adjusted number of outstanding shares, weighted average, thousands	**54 310**	53 350
Effect of share options	**868**	779
Share issue-adjusted number of shares, diluted weighted average, thousands	**55 178**	54 129
Earnings per share adjusted for effect of dilution	**1.37**	1.29

Discontinued operations	**Jan. 1 - Dec. 31, 2006**	Jan. 1 - Dec. 31, 2005
Net profit, EUR millions	**29.5**	6.9
Share issue-adjusted number of outstanding shares, weighted average, thousands	**54 310**	53 350
Earnings per share, EUR	**0.54**	0.13
Net profit, EUR millions	**29.5**	6.9
Share issue-adjusted number of outstanding shares, weighted average, thousands	**54 310**	53 350
Effect of share options	**868**	779
Share issue-adjusted number of shares, diluted weighted average, thousands	**55 178**	54 129
Earnings per share adjusted for effect of dilution	**0.53**	0.13

13. INTANGIBLE ASSETS

Intangible rights

EUR mill.	2006	2005
Acquisition cost Jan. 1	**22.0**	22.4
Increases Jan. 1-Dec. 31	**2.4**	1.4
Decreases Jan. 1-Dec. 31	**-4.2**	-1.8
Acquisition cost Dec. 31	**20.2**	22.0
Accumulated depreciation Jan. 1	**14.9**	13.3
Depreciation on reductions	**-3.6**	-1.7
Depreciation for the financial year	**2.6**	3.3
Accumulated depreciation Dec. 31	**13.9**	14.9
Book value Dec. 31	**6.3**	7.1

Goodwill

EUR mill.	2006	2005
Acquisition cost Jan. 1	**0.5**	0.5
Decreases Jan. 1-Dec. 31	**-0.5**	
Acquisition cost Dec. 31	**0.0**	0.5
Book value Dec. 31	**0.0**	0.5
Intangible assets, total	**6.3**	7.6

Impairment testing of goodwill

Goodwill is allocated to the Stockmann Auto segment, which comprised a separate cash-generating unit.

EUR mill.	2006	2005
Stockmann Auto		0.5

In impairment testing of the goodwill of the Stockmann Auto segment in 2005, the segment's recoverable amount was determined based on its value in use. Cash flow estimates were based on management-approved projections over a period of five years. The discount rate used was 8.0%
Cash flows after the projection period approved by management were extrapolated by using a steady 2 per cent growth rate for future years.

14. PROPERTY, PLANT AND EQUIPMENT

Land and water

EUR mill.	2006	2005
Acquisition cost Jan. 1	**21.8**	22.5
Increases Jan. 1-Dec. 31	**24.6**	
Decreases Jan. 1-Dec. 31	**-6.5**	-0.7
Acquisition cost Dec. 31	**39.9**	21.8
Book value Dec. 31	**39.9**	21.8

Buildings and constructions

EUR mill.	2006	2005
Acquisition cost Jan. 1	**205.9**	200.6
Increases Jan. 1-Dec. 31	**8.4**	11.2
Decreases Jan. 1-Dec. 31	**-23.2**	-6.0
Acquisition cost Dec. 31	**191.1**	205.9
Accumulated depreciation Jan. 1	**60.3**	57.4
Depreciation on reductions	**-6.9**	-3.2
Depreciation for the financial year	**5.5**	6.2
Accumulated depreciation Dec. 31	**59.0**	60.3
Book value Dec. 31	**132.1**	145.6

Machinery and equipment

EUR mill.	2006	2005
Acquisition cost Jan. 1	**143.9**	136.5
Increases Jan. 1-Dec. 31	**14.9**	22.0
Decreases Jan. 1-Dec. 31	**-19.6**	-14.6
Acquisition cost Dec. 31	**139.1**	143.9
Accumulated depreciation Jan. 1	**81.1**	78.6
Depreciation on reductions	**-9.7**	-14.0
Depreciation for the financial year	**15.9**	16.6
Accumulated depreciation Dec. 31	**87.3**	81.1
Book value Dec. 31	**51.8**	62.7

Machinery and equipment, finance lease

EUR mill.	2006	2005
Acquisition cost Jan. 1	**2.7**	2.7
Decreases Jan. 1-Dec. 31	**-2.7**	
Acquisition cost Dec. 31	**0.0**	2.7
Accumulated depreciation Jan. 1	**2.4**	0.8
Depreciation on reductions	**-2.4**	
Depreciation for the financial year		1.6
Accumulated depreciation Dec. 31		2.4
Book value Dec. 31	**0.0**	0.3

Machinery and equipment, total	**51.8**	63.0

Modification and renovation expenses for leased premises

EUR mill.	2006	2005
Acquisition cost Jan. 1	**89.0**	74.5
Increases Jan. 1-Dec. 31	**9.8**	15.7
Decreases Jan. 1-Dec. 31	**-16.6**	-1.2
Acquisition cost Dec. 31	**82.3**	89.0
Accumulated depreciation Jan. 1	**31.4**	24.5
Depreciation on reductions	**-6.5**	-1.2
Depreciation for the financial year	**8.1**	8.1
Accumulated depreciation Dec. 31	**33.0**	31.4
Book value Dec. 31	**49.3**	57.6

Advance payments and construction in progress

EUR mill.	2006	2005
Acquisition cost Jan. 1	**15.0**	8.2
Increases Jan. 1-Dec. 31	**80.5**	14.9
Transfers between items	**-16.4**	-8.0
Acquisition cost Dec. 31	**79.1**	15.0
Book value Dec. 31	**79.1**	15.0

Property, plant and equipment, total	**352.2**	303.1

15. JOINT VENTURES

	Shareholding %	Shareholding %
SIA Stockmann Centrs, Riga (real-estate company)	**63.0**	63.0
Arabian Kiinteistö Oy, Helsinki		51.3
Arabian Liiketalo Oy, Helsinki	**12.0**	12.0
Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab, Espoo	**37.8**	37.8
Kiinteistö Oy Raitinkartano, Espoo	**15.6**	15.6

The consolidated financial statements include joint venture's assets and liabilities, income and expenses corresponding to the Group's shareholding

Assets and liabilities of joint ventures

EUR mill.	2006	2005
Non-current assets	**24.3**	30.3
Current assets	**0.9**	0.9
Non-current liabilities	**13.8**	13.4
Current liabilities	**2.1**	2.5

Income and expenses of joint ventures

EUR mill.	2006	2005
Income	**2.6**	2.1
Expenses	**2.4**	2.3

16. AVAILABLE-FOR-SALE INVESTMENTS

EUR mill.	2006	2005
Carrying value Jan. 1	**6.0**	6.6
Increases Jan. 1-Dec. 31	**0.5**	0.0
Decreases Jan. 1-Dec. 31	**0.0**	-0.6
Carrying value Dec. 31	**6.5**	6.0

Available-for-sale investments consist of unlisted shares. Unlisted shares are stated at cost because their fair values cannot be determined reliably.

17. NON-CURRENT RECEIVABLES, INTEREST-BEARING

EUR mill.	2006	2005
Hire-purchase receivables		3.3
Interest-bearing trade receivables		0.1
Interest-bearing loan receivables		0.1
Other receivables		0.8
Non-current receivables, total		4.3

Maturities of hire-purchase receivables

EUR mill.	2006	2005
Within 1-5 years		3.3
Total		3.3

18. INVENTORIES

EUR mill.	2006	2005
Raw material and consumables	**154.9**	211.6
Advance payments for inventories	**0.2**	0.4
Total	**155.0**	212.0

The value of inventories has been lowered by EUR 0.8 million for unsaleable assets (2005: EUR 2.2 million).

19. CURRENT RECEIVABLES

EUR mill.	2006	2005
Interest-bearing trade receivables	**98.9**	104.4
Hire-purchase receivables		3.1
Non-interest-bearing trade receivables	**61.1**	67.0
Receivables based on derivative contracts		0.1
Other receivables	**19.4**	21.4
Prepayments and accrued income	**5.9**	10.7
Tax assets	**0.5**	
Current receivables, total	**185.9**	206.6

Interest-bearing trade receivables include one-time credits on mail order sales of EUR 57.5 million in 2006 and EUR 59.4 million in 2005. Because interest income on these receivables is included in the selling price, it is recorded in revenue instead of in interest income. Other interest-bearing trade receivables are the Stockmann loyal customer account, hire purchase and leasing receivables, for which interest income is recorded as a reduction in other expenses.

ESSENTIAL ITEMS IN PREPAYMENTS AND ACCRUED INCOME

EUR mill.	2006	2005
Deferred annual discounts	**0.6**	3.4
Periodized financial income and expenses	**0.0**	0.1
Deferred indirect employee costs	**0.9**	1.5
Other receivables	**4.4**	5.6
Total	**5.9**	10.7

20. CASH AND CASH EQUIVALENTS

EUR mill.	2006	2005
Cash on hand and at banks	**19.3**	18.1
Marketable securities	**39.9**	0.2
Total	**59.2**	18.4

21. EQUITY

Share capital and share premium fund **EUR mill.**	**Entered in trade register**	**Number of shares**	**Share capital**	**Share issue**	**Share premium fund**	**Total**
Jan. 1, 2005		53 420 060	106.8	0.0	154.8	261.6
Subscriptions with key employee share options 2000	16.3.	4 900	0.0	0.0		0.0
Subscriptions with key employee share options 2000	20.5.	48 000	0.1		0.6	0.7
Subscriptions with Loyal Customer options	29.6.	343 902	0.7		2.3	3.0
Subscriptions with key employee share options 2000	29.6.	30 850	0.1		0.4	0.5
Subscriptions with key employee share options 2000	26.8.	148 780	0.3		2.0	2.3
Subscriptions with key employee share options 2000	6.10.	183 300	0.4		2.4	2.7
Subscriptions with key employee share options 2000	18.11.	90 450	0.2		1.2	1.4
Subscriptions with key employee share options 2000	29.12.	189 450	0.4		2.5	2.9
Subscriptions with key employee share options 2000 **	28.2.2006	23 350		0.0	0.3	0.4
Capital gain of treasury shares transferred deducted with tax liability					0.1	0.1
Share issue expenses					-0.1	-0.1
Dec. 31, 2005		54 483 042	108.9	0.0	166.5	275.5
Subscriptions with key employee share options 2000	28.2.		0.0	0.0		0.0
Subscriptions with key employee share options 2000	17.5.	84 050	0.2		1.0	1.2
Subscriptions with key employee share options 2000	29.6.	201 100	0.4		2.5	2.9
Subscriptions with key employee share options 2000	25.8.	36 150	0.1		0.4	0.5
Subscriptions with key employee share options 2000	10.10.	83 200	0.2		1.0	1.2
Subscriptions with key employee share options 2000	10.11.	156 242	0.3		1.9	2.2
Subscriptions with key employee share options 2000	28.12.	618 254	1.2		7.6	8.8
Subscriptions with key employee share options 2000*		192 865		0.4	2.3	2.7
Capital gain of treasury shares transferred deducted with tax liability					0.2	0.2
Dec. 31, 2006		55 854 903	111.3	0.4	183.4	295.1

*According to the terms of subscription entitled to dividend for the 2006 financial year
**According to the terms of subscription entitled to dividend for the 2005 financial year

Treasury shares, Series B, in the company's possession	382 903
Acquisition cost, EUR million	5.8

In 2000, the company bought back 413 000 of its own shares (treasury shares) on the basis of an authorization granted by the Annual General Meeting on 11 April 2000. By December 31, 2006, a total of 30,097 shares had been used for remuneration paid to the Board of Directors and management. At December 31, 2006, the Board of Directors did not have a valid authorization to buy back treasury shares. On March 21, 2006, the Annual General Meeting authorized the Board of Directors to decide on the transfer of treasury shares within one year's time. This authorization was not exercised during 2006 except for share-based payments.

Total number of shares at Dec. 31, 2006, registered	55 662 038
The shares are divided into:	
Series A shares	24 564 243
Series B shares	31 097 795

Maximum- and minimum share capital
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.

Voting rights 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.

Pre-emptive purchase 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 of 50 per cent is liable, at the demand of the other shareholders, to purchase their shares in the manner specified in the Articles of Association.

Other funds

EUR mill.	2006	2005
Reserve fund	**0.2**	0.2
Other funds	**43.9**	43.9
Total	**44.1**	44.1

The reserve fund contains a transferred proportion of non-restricted shareholders' equity in compliance with local regulations.
The other funds comprise non-restricted shareholders' equity, which is distributable equity, in accordance with a resolution of the Annual General Meeting.

Translation differences
The translation differences fund comprises the translation differences on equity that have arisen in consolidating the financial statements of foreign subsidiaries.

Dividends
After the balance sheet date, the Board of Directors proposed on February 8, 2007 to pay out a dividend of EUR 1.30 per share.

Key employee share options 2000

In 2000, a total of 2 500 000 share options were granted to key employees belonging to the senior and middle management of Stockmann or its subsidiaries. Option A can be exercised to subscribe for 625 000 Stockmann Series B shares at a price of EUR 20 per share, option B to subscribe for 625 000 Series B shares at a price of EUR 21 per share and option C to subscribe for 1 250 000 Series B shares at a price of EUR 22 per share.
The subscription prices with the option warrants were based on the weighted average price of the shares on the Helsinki Stock Exchange during the period specified in the option programme.
The subscription price of the share will be reduced by the amount of the dividends paid out after April 11, 2000, and before the share subscription as determined on the record date for each dividend payout.
The subscription periods for the shares are as follows:
A, April 1, 2003 - April 1, 2007; B, April 1, 2004 - April 1, 2007, and C, April 1, 2005 - April 1, 2007.
The subscription prices, after the dividend payout proposed by the Board of Directors for 2006, will be EUR 11.55 per share with option warrant A, EUR 12.55 with option warrant B and EUR 13.55 per share with option warrant C.
The option warrants are traded on the Helsinki Stock Exchange.

Loyal Customer share options 2000

In spring 2000, a total of 1,382,524 Stockmann plc Loyal Customer share options were subscribed for.
The subscription prices with the option warrants were based on the weighted average price of the shares on the Helsinki Stock Exchange during the period specified in the option programme.
The share subscription price was reduced by the amount of the dividend payout after April 1, 1999, and before the share subscription.
The subscription period for Loyal Customer share options ended on May 31, 2005, and a total 950,835 series B shares were subscribed with them.

Key employee share options 2006

The 2006 Annual General Meeting approved the Board of Directors' proposal on the granting of share options to key employees of the Stockmann Group.
A total of 1 500 000 share options will be granted to key employees belonging to the senior and middle management of the Stockmann Group and to Stockmann's wholly-owned subsidiary.
Of the share options, 375 000 will bear the marking 2006A, 375 000 the marking 2006B, 375 000 the marking 2006C, and 375 000 the marking 2006D.
The subscription period for shares will not, however, commence with the 2006B and 2006D share options unless the Group's financial targets criteria as determined separately by the Board of Directors are met.
The subscription prices with the option warrants are based on the weighted average price of the shares on the Helsinki Stock Exchange during the period specified in the option programme.
The subscription price will be decreased by any dividends declared after the commencement of the determination period for the subscription price and before the share subscription at each record date for the dividend payout.
The subscription periods for the shares are as follows:
A, March 1, 2008–March 31, 2010; B, March 1, 2009–March 31, 2011; C, March 1, 2010–March 31, 2012 and D, March 1, 2011–March 31, 2013.
The subscription prices, after the dividend payout proposed by the Board of Directors for the 2006 financial year, is EUR 34.29 with option A and option B.
The period for determining the subscription price with share options C and D has not yet started and the options have not been granted yet.

Loyal Customer share options 2006

The 2006 Annual General Meeting approved the Board of Directors' proposal on the granting of share options to Stockmann's Loyal Customers.
A total maximum of 2 500 000 share options will be granted without consideration to Stockmann's Loyal Customers.
The share options will be granted to Loyal Customers whose purchases during January 1, 2006 – December 31, 2007, together with purchases made on parallel cards for the same account, are at least EUR 6 000 in total amount.
For purchases of at least EUR 6 000, a Loyal Customer will receive 20 share options without consideration.
In addition, for each full 500 euros by which the purchases exceed EUR 6000, the Loyal Customer will receive an additional two share options.
Each share option entitles its holder to subscribe for one of the company's Series B shares.
The subscription prices with the option warrants are based on the weighted average price of the shares on the Helsinki Stock Exchange during the period specified in the option programme that is February 1 - February 28, 2006.
The subscription price for the shares shall from the record date of dividend payment until the subscription of shares be decreased with the amount of dividends in Stockmann plc determined after the determination period for the subscription price.
The subscription periods for the shares are May 2, 2008–May 31, 2008, May 4, 2009–May 31, 2009 and May 2, 2010–May 31, 2010.
The subscription price after the 2006 dividend payout proposed by the Board of Directors is EUR 30.95.

Changes in share options

	2006 Number of Options	Subscription price as weighted average EUR/share	Turnover-weighted share price during subscription period EUR/share	2005 Number of Options	Subscription price as weighted average EUR/share	Turnover-weighted share price during subscription period EUR/share
Key employee share options 2000						
Options unexercised at beginning of financial year				775 067		
Shares subscribed for with options during financial year				343 902	8.81	29.44
Options lapsed during financial year				431 165		
Options unexercised at end of financial year				0		
Key employee share options 2000 Series A						
Options unexercised at beginning of financial year	**323 650**			528 150		
Shares subscribed for with options during financial year*	**279 978**	**12.85**	**33.67**	204 500	13.95	31.58
Options unexercised at end of financial year	**43 672**			323 650		
Key employee share options 2000 Series B						
Options unexercised at beginning of financial year	**390 870**			546 800		
Shares subscribed for with options during financial year*	**328 333**	**13.85**	**33.96**	155 930	14.95	31.90
Options unexercised at end of financial year	**62 537**			390 870		
Key employee share options 2000 Series C						
Options unexercised at beginning of financial year	**896 250**			1 250 000		
Shares subscribed for with options during financial year*	**763 550**	**14.85**	**34.41**	353 750	15.95	31.93
Options unexercised at end of financial year	**132 700**			896 250		
Key employee share options 2006 Series A						
Options unexercised at beginning of financial year	**0**					
Options granted during financial year	**347 000**					
Options unexercised at end of financial year	**347 000**					
Key employee share options 2006 Series B						
Options unexercised at beginning of financial year	**0**					
Options granted during financial year	**347 000**					
Options unexercised at end of financial year	**347 000**					
*including unregistered shares at the end of financial year						
Serie 2000 A	**63 385**			5 200		
Serie 2000 B	**62 645**			10 050		
Serie 2000 C	**66 835**			8 100		
Subscription price Series 2000 A 31.12.2006		**12.85**			13.95	
Subscription price Series 2000 B 31.12.2006		**13.85**			14.95	
Subscription price Series 2000 C 31.12.2006		**14.85**			15.95	
Subscription price Series 2006 A 31.12.2006		**35.59**				
Subscription price Series 2006 B 31.12.2006		**35.59**				

Share-based payment

IFRS 2 Share based payment has been applied to the key employee share option scheme for 2006 and to the Loyal Customer share option scheme for 2006.
Furthermore, the Group has a share option scheme, key employee share options 2000, for which the options were granted prior to November 7, 2002, and which vested prior to January 1, 2005.
Accordingly, IFRS 2 has not been applied to the key employee programme for 2000.

The main terms and conditions of the 2006 share option scheme for key employees and the 2006 Loyal Customers option scheme are presented in the table below.

	2006A	2006B	2006C	2006D	Loyal Customer share options 2006
Period for subscription	1.3.2008-31.3.2010	1.3.2009-31.3.2011	1.3.2010-31.3.2012	1.3.2011-31.3.2013	2.5.2008-31.5.2008 4.5.2009-31.5.2009 2.5.2010-31.5.2010
Grant date	13.6.2006	13.6.2006	2)	2)	3)
Maximum number of share options	375 000	375 000	375 000	375 000	2 500 000
Number of options granted at December 31, 2006	347 000	347 000	2)	2)	3)
Subscription price, EUR 1)	35.59	35.59	2)	2)	32.25
Vesting period	13.6.2006-28.2.2008	13.6.2006-28.2.2009	2)	2)	1.1.2006-31.12.2007
Contract vesting conditions	ROCE- and EBIT-targets for the years 2006-2008		-	2)	-

1) Reduced by dividends paid
2) The subscription price of options 2006C and 2006D will be determined later on, and they have not yet been granted; the target criteria for the share options for 2006D have not yet been defined.
3) Loyal Customer share options 2006 have not been granted yet

The subscription price through the exercise of the 2006A and 2006B share options is the volume-weighted average price of Stockmann plc's Series B share on the Helsinki Stock Exchange during the period February 1 – February 28, 2006, plus 10 per cent.
The subscription price through the exercise of the 2006C and 2006D share options is the volume-weighted average price of Stockmann plc's Series B share on the Helsinki Stock Exchange during the period February 1 – February 29, 2008, plus 10 per cent.
The subscription price will be decreased by any dividends declared after the commencement of the determination period for the subscription price and before the share subscription at each record date for the dividend payout.

The subscription price with the 2006 Loyal Customer option warrants is the volume-weighted average price of Stockmann plc's Series B share on the Helsinki Stock Exchange during the period February 1 – February 28, 2006.
The subscription price for the shares shall from the record date of dividend payment until the subscription of shares be decreased with the amount of dividends in Stockmann plc determined after the determination period for the subscription price.

The fair value at the grant date of share options granted has been defined using the Black Scholes option pricing model.
The main conditions of the share option programme have been taken into account in the valuation. The fair value is recorded as cost for the vesting period of the option.
During the financial year January 1 - December 31, 2006, share options had an impact on the Group's earnings of EUR 1.3 million.

The central assumptions used in the Black Scholes valuation model are presented in the table below:

	2006A	2006B	Loyal Customer share options 2006
Risk-free interest rate, %	3.3 %	3.4 %	3.1 %
Volatility, %	23.4 %	22.7 %	23.0 %
Expected average probable life of the share options (in years)	2.2	3.2	1.8
Share price at grant date, EUR	29.39	29.39	32.75
Fair value of the option determined at the grant date, EUR	2.74	3.79	4.54

Volatility has been estimated from the historical volatility of the share for a period corresponding to the probable life of the share option.

22. NON-CURRENT LIABILITIES

Non-current liabilities, interest-bearing

EUR mill.	2006	2005
Loans from financial institutions	**23.4**	13.4
Finance lease liabilities		0.3
Total	**23.4**	13.7

Non-current liabilities fall due as follows

EUR mill.	2007	2008	2009-2010	2011	2012+
Loans from financial institutions	**0.0**	**13.1**	**0.0**	**10.0**	**0.2**

All interest-bearing non-current liabilities are in euros.
The average maturity of non-current liabilities was 2.7 years and the average interest rate was 3.9 %.
The fair value of non-current interest-bearing liabilities corresponds to the carrying amount, because the liabilities are for the most part at a floating rate.

23. CURRENT LIABILITIES

Current liabilities, interest-bearing

EUR mill.	2006	2005
Commercial paper loans		33.5
Other interest-bearing liabilities		0.1
Total		33.6

All interest-bearing current liabilities are in euros.
The fair value of current interest-bearing liabilities corresponds to the carrying amount, because the liabilities are for the most part at a floating rate.

In 2005 the Group has committed credit facilities to a total of EUR 100 million, falling due in 2010. These credit facilities were totally unused at December 31, 2006.

In 2006, the Group made an agreement on an EUR 50 million loan that will fall due in 2011. Of this loan, EUR 40 million was undrawn at December 31, 2006.

Finance lease liabilities
Minimum lease payments

EUR mill.	2006	2005
Within one year		0.3
Within 1-5 years		
Minimum lease payments, total		0.3

Present value of minimum lease payments

EUR mill.	2006	2005
Within one year		0.3
Within 1-5 years		
Present value of minimum lease payments, total		0.3
Financing expenses accruing in future		0.0

24. Deferred tax assets and deferred tax liabilities

Changes in deferred taxes during 2006:

EUR mill.	Jan. 1, 2006	Recorded in income statement	Changes in Group structure	Dec. 31, 2006
Deferred tax asset				
Confirmed losses	3.2	-0.8		2.4
Other periodization differences	0.3	-0.2		0.0
Total	3.5	-1.0		2.5
Deferred tax liabilities				
Cumulative depreciation differences	17.4	-0.7	-1.2	15.5
Replacement provision	5.2	0.0		5.2
Due to difference between carrying value and taxation values of prop., plant and equip.	5.6	-0.1		5.5
Measurement of derivatives at fair value	0.0	0.0		0.0
Total	28.2	-0.8	-1.2	26.2

Deferred tax receivables have not been recorded on losses amounting to EUR 1.5 million.
In accordance with IAS 12 Standard point 52 A deferred tax liabilities have not been recorded on the profits, 19.8 EUR million, of the Estonian subsidiary.

Changes in deferred taxes during 2005:

EUR mill.	Jan. 1, 2005	Recorded in income statement	Recorded in equity	Dec. 31, 2005
Deferred tax asset				
Confirmed losses	1.6	1.6		3.2
Measurement of derivatives at fair value	0.1	-0.1		0.0
Measurement of other financial instruments at fair value	0.1	-0.1		0.0
Other periodization differences	0.3	0.0		0.3
Total	2.1	1.4		3.5
Deferred tax liabilities				
Cumulative depreciation differences	17.2	0.2		17.4
Replacement provision	5.2			5.2
Due to difference between carrying value and taxation values of prop., plant and equip.	6.6	-1.0		5.6
Measurement of derivatives at fair value	0.2	0.0	-0.2	0.0
Measurement of other financial instruments at fair value	0.0		0.0	0.0
Total	29.2	-0.8	-0.2	28.2

Current liabilities, non-interest-bearing

EUR mill.	2006	2005
Trade payables	**76.0**	90.1
Other current liabilities	**31.6**	40.4
Accruals and prepaid income	**38.3**	45.0
Income tax liability	**0.5**	5.2
Total	**146.4**	180.7

Material items in accruals and prepaid income

EUR mill.	2006	2005
Periodized staff costs	**29.7**	36.8
Periodized interest expenses	**0.1**	0.1
Periodization of mail-order returns	**0.6**	0.7
Other accruals and prepaid income	**8.0**	7.4
Total	**38.3**	45.0

25. OTHER LEASE AGREEMENTS

The Group as lessee

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

EUR mill.	2006	2005
Within one year	**69.6**	66.0
Within 1-5 years	**211.1**	205.0
In five years or more	**140.4**	178.5
Total	**421.1**	449.5

Lease payments		
Within one year	**1.1**	1.7
Within 1-5 years	**0.9**	0.6
Total	**2.0**	2.3

26. CONTINGENT LIABILITIES

EUR mill.	2006	2005
Security pledged on behalf of the company		
Mortgages given	**1.7**	1.7
Securities pledged	**0.1**	0.1
Total	**1.7**	1.7
Security pledged on behalf of other parties		
Guarantees	**1.5**	
Total	**1.5**	
Other liabilities of the company		
Repurchased liabilities for transferred lease and hire-purchase agreements		13.3
Total		13.3
Liabilities, total		
Mortgages	**1.7**	1.7
Guarantees	**1.5**	
Pledges	**0.1**	0.1
Other liabilities		13.3
Total	**3.3**	15.0

27. PENSION LIABILITIES

The pension liabilities of Group companies are insured with external pension insurance companies.
Foreign subsidiaries have arranged the pension plans for their personnel in accordance with local legislation. The pension liabilities are covered in full.

28. NOMINAL VALUES OF DERIVATIVE CONTRACTS

EUR mill.	2006	2005
Nominal values		
Currency forwards	**-**	10.4

29. FAIR VALUES OF DERIVATIVE CONTRACTS

EUR mill.	**2006** Positive fair values	**2006** Negative fair values	**2006** Net fair values
Currency forwards	**-**	**-**	**-**

EUR mill.	2005 Positive fair values	2005 Negative fair values	2005 Net fair values
Currency forwards	0.0	-0.2	-0.2

The fair values of currency forwards are based on forward prices at the balance sheet date.

30. RELATED PARTY TRANSACTIONS

The relationships between the company's parent company and subsidiaries are shown on Page 83.

The following transactions were carried out with related parties:

Management's employee benefits

EUR mill.	2006	2005
Salaries and short-term employee benefits		
Chief executive officer	**1.0**	0.6
Executive vice president	**0.6**	0.5
Other members of the Management Committee	**1.5**	1.1
Emoluments to the members of the Board	**0.3**	0.3
Total	**3.3**	2.5

Emoluments

EUR thousands	2006	2005
To members and deputy members of the Board of Directors		
Etola Erkki	**45.0**	43.5
Koivu Lasse	**70.0**	63.5
Liljeblom Eva	**35.0**	33.1
Niemistö Kari	**35.0**	33.5
Taxell Christoffer	**35.0**	33.3
Teir-Lehtinen Carola	**35.0**	33.0
Wiklund Henry	**35.0**	33.5
Total	**290.0**	273.4

Key employee share options 2000

At December 31, 2006, Group management held 0 (At Dec.31, 2005, 393 350) granted share options of which 0 were exercisable (at the end of 2005: 393 350 share options were exercisable).

Key employee share options 2006

At December 31, 2006, Group management held 132 000 share options that have been granted but are not yet exercisable.

Management's share-based bonus scheme
On April 24, 2003, the Board of Directors approved a long-term share-based bonus scheme as a supplement to the annual incentives for the members of the Group's Management Committee. The scheme is divided into two-year periods and extends to the end of 2006. The payment of equity bonuses under the scheme is tied to the achievement of the profitability trends set out in the Group's long-term strategy, the benchmarks of which are both the Group's profit before taxes, excluding other operating income, and the trend in the Group's return on capital employed. Achievement of the share bonus targets is estimated for each two-year period. In 2005, on the basis of meeting the aggregate targets for 2003-2004, all the members of the Management Committee were granted a total of 5 767 Stockmann Series B shares as well as a cash payment of EUR 208 823.07. In 2006, on the basis of meeting the aggregate targets for 2004-2005, all the members of the Management Committee were granted a total of 9 930 Stockmann Series B shares as well as a cash payment of EUR 488 407.05. In 2007, on the basis of meeting the aggregate targets for 2005-2006, all the members of the Management Committee are granted a total of 9 769 Stockmann Series B shares as well as 1.5 times the value of the shares in cash.

Management's pension commitments
The contractually agreed pensionable age of the managing directors of Group companies who are members of senior management is 60-63 years. Members of the Group Management Committee are entitled to retire at the age of 60-63 years. The company has prepared to meet these commitments by making annual payments.

Other related-party transactions

EUR mill.	**2006**	2005
Leases paid to companies controlled by members of the Board of Directors	0.8	0.8

The leases paid are market rental rates and the lease agreements do not contain other exceptional terms and conditions.

31. EVENTS AFTER THE CLOSING DATE

The company's management is not aware of materially important events after the balance sheet date, which might have affected the preparation of the financial statements.

Parent company income statements

PARENT COMPANY INCOME STATEMENT, FAS

	Ref.	**Jan.1- Dec. 31, 2006 EUR mill.**	% of Rev.	Jan.1- Dec. 31, 2005 EUR mill.	% of Rev.
REVENUE		**681.4**	100.0	647.3	100.0
Other operating income	1	**26.6**	3.9	17.1	2.6
Raw materials and services					
Raw materials and consumables:					
Purchases during the financial year		**394.9**		388.0	
Variation in stocks, increase (-), decrease (+)		**6.8**		-2.9	
Raw materials and services, total		**401.7**	59.0	385.1	59.5
Staff expenses	2	**134.2**	19.7	128.0	19.8
Depreciation and reduction in value	3	**12.2**	1.8	12.4	1.9
Other operating expenses	4	**94.6**	13.9	87.1	13.5
		642.7	94.3	612.7	94.6
OPERATING PROFIT		**65.3**	9.6	51.7	8.0
Financial income and expenses	5	**37.8**	5.5	14.1	2.2
PROFIT BEFORE EXTRAORDINARY ITEMS		**103.0**	15.1	65.8	10.2
Extraordinary items	6				
Extraordinary income		**22.0**		27.7	
Extraordinary expenses		**-1.2**		-4.1	
Extraordinary items, total		**20.8**	3.1	23.6	3.6
PROFIT BEFORE APPROPRIATIONS AND TAXES		**123.8**	18.2	89.4	13.8
Appropriations	7	**1.2**	0.2	1.4	0.2
Income taxes					
For the financial year		**22.4**		23.5	
For previous financial years		**0.0**		0.1	
Income taxes, total		**22.4**	3.3	23.6	3.6
PROFIT FOR THE FINANCIAL YEAR		**102.7**	15.1	67.2	10.4

Parent company balance sheet, FAS

ASSETS	Ref.	Dec. 31, 2006 EUR mill.	Dec. 31, 2005 EUR mill.
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		**3.5**	3.3
Advance payments and projects in progress		**1.1**	1.1
Intangible assets, total		**4.6**	4.4
Tangible assets	10		
Land and water		**13.4**	11.5
Buildings and constructions		**119.3**	114.6
Machinery and equipment		**10.1**	14.6
Modification and renovation expenses for leased premises		**11.0**	10.8
Other tangible assets		**0.1**	0.1
Advance payments and construction in progress		**52.9**	9.1
Tangible assets, total		**206.8**	160.7
Investments	11		
Holdings in Group undertakings		**38.7**	77.9
Other shares and participations		**17.5**	17.3
Investments, total		**56.3**	95.2
NON-CURRENT ASSETS, TOTAL		**267.7**	260.2
CURRENT ASSETS			
Stocks			
Raw materials and consumables		**72.9**	79.6
Stocks, total		**72.9**	79.6
Non-current debtors	12		
Amounts owed by Group undertakings		**77.6**	39.7
Loan receivables			0.0
Non-current debtors, total		**77.6**	39.7
Deferred tax asset			
Current debtors	13		
Trade debtors		**90.7**	91.4
Amounts owed by Group undertakings		**166.6**	186.2
Other debtors		**5.5**	1.4
Prepayments and accrued income		**1.8**	4.7
Current debtors, total		**264.6**	283.7
Debtors, total		**342.2**	323.3
Cash and cash equivalents	14	**46.2**	5.9
CURRENT ASSETS, TOTAL		**461.3**	408.9
ASSETS TOTAL		**729.0**	669.1
LIABILITIES			
EQUITY	15-16		
Share capital		**111.3**	108.9
Share issue		**0.4**	0.0
Premium fund		**183.7**	166.8
Other funds		**43.7**	43.7
Retained earnings		**63.5**	55.6
Net profit for the financial year		**102.7**	67.2
EQUITY, TOTAL		**505.4**	442.3
ACCUMULATED APPROPRIATIONS	17	**68.4**	69.6
CREDITORS	18-19		
Non-current creditors			
Loans from credit institutions		**10.0**	
Non-current creditors, total		**10.0**	
Current creditors			
Trade creditors		**51.1**	44.5
Amounts owed to Group undertakings		**46.9**	27.1
Other creditors		**24.2**	57.9
Accruals and prepaid income		**23.0**	27.9
Current creditors, total		**145.2**	157.3
CREDITORS, TOTAL		**155.2**	157.3
LIABILITIES TOTAL		**729.0**	669.1

Parent company cash flow statement

PARENT COMPANY CASH FLOW STATEMENT	2006 EUR millions	2005 EUR millions
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial year	**102.7**	67.2
Adjustments:		
Deprecation and appropriations	**11.0**	11.1
Other operating income	**-47.5**	-30.5
Other adjustments	**0.4**	
Financial expenses	**5.5**	4.9
Financial income	**-43.2**	-18.8
Income taxes	**22.4**	23.6
Changes in working capital:		
Change in trade and other receivables	**1.7**	-1.5
Change in inventories	**6.8**	-2.9
Change in trade payables and other liabilities	**2.4**	8.8
Interest paid	**-5.8**	-5.2
Interest received	**14.1**	18.4
Income taxes paid	**-25.8**	-27.3
NET CASH FROM OPERATING ACTIVITIES	**44.8**	47.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of subsidiaries less cash at date of disposal	**63.0**	11.7
Investments in tangible and intangible assets	**-56.2**	-21.9
Cash from tangible assets	**5.2**	
Capital expenditures on other investments	**-0.2**	
Cash from other investments	**0.8**	1.5
Dividends received	**0.1**	0.1
NET CASH USED IN INVESTING ACTIVITIES	**12.7**	-8.6
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in loans granted, increase (-), decrease (+)	**6.5**	-38.3
Proceeds from issue of share capital	**17.2**	13.9
Loans drawn down	**-14.9**	13.0
Repayments of loans		-35.0
Loans drawn down	**10.0**	
Dividends paid	**-59.5**	-53.2
Extraordinary items	**23.6**	37.6
NET CASH USED IN FINANCING ACTIVITIES	**-17.2**	-61.9
Change in cash and cash equivalents	**40.3**	**-22.8**
Cash and cash equivalents at start of the financial year	**5.9**	31.4
Transferred to Stockmann Auto Oy Ab through a transfer of operations on January 1, 2005		-2.6
Cash and cash equivalents at end of the financial year	**46.2**	5.9

Notes to the parent company financial statements

ACCOUNTING POLICY

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

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

At the end of accounting period foreign currency debtors and creditors in the balance sheet are translated at the rates prevailing on the balance sheet date. Gains and losses on foreign exchange in financial operations are entered as net amounts under other financial income or other financial expenses.

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 as well as charges for services rendered to foreign subsidiaries.

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

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

Tangible and intangible assets and depreciation on them
Tangible and intangible assets are valued according to the original cost excluding planned depreciation. The balance sheet values furthermore include revaluations of land areas and buildings. Revaluations have been made during the period from 1950 to 1984 and are based on then estimates of real-estate valuers. Revaluations are not depreciated.

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

- Intangible assets: 5 years
- Goodwill and goodwill arising on consolidation: 5 years
- Modification and renovation expenses for leased premisies: 5-10 years
- Buildings: 20-50 years
- Machinery and equipment: 4-10 years
- Motor vehicles and data processing equipment: 3-5 years

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

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

In the valuation of 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 FIFO method, the retail method or the weighted average cost method and it includes all the direct costs of the purchase.

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

Appropriations
The appropriations comprise the depreciation difference and voluntary provisions.

Notes to the parent company financial statements

1. Other operating income

EUR mill.	**2006**	2005
Capital gains on divestments	**15.3**	6.8
Other operating income	**0.3**	0.0
Rental income from subsidiaries	**3.7**	4.1
Compensation for services to Group companies	**7.3**	6.1
Total	**26.6**	17.1

2. Staff expenses

EUR mill.	**2006**	2005
Salaries and emoluments paid to the CEO and his alternate	**1.5**	1.1
Salaries and emoluments paid to the Board of Directors	**0.3**	0.3
Other wages and salaries	**105.3**	100.3
Wages during sick leave	**3.7**	3.4
Pension expenses	**16.6**	15.9
Other staff costs	**6.7**	6.9
Total	**134.2**	128.0
Parent company staff, average	**5 115**	4 939

Management pension liabilities

The agreed retirement age for the parent company CEO is 60 years. Annual payments are made to provide for these commitments.

3. Depreciation and reduction in value

EUR mill.	**2006**	2005
Intangible rights	**1.4**	1.6
Goodwill		0.0
Modification and renovation expenses for leased premises	**1.9**	1.6
Buildings and constructions	**3.7**	3.4
Machinery and equipment	**5.2**	5.8
Total	**12.2**	12.4

4. Other operating expenses

EUR mill.	**2006**	2005
Site expenses	**55.1**	49.2
Marketing expenses	**11.6**	11.3
Goods handling expenses	**4.4**	3.5
Credit losses	**0.3**	0.2
Voluntary indirect employee costs	**2.0**	2.2
Other costs	**21.2**	20.8
Total	**94.6**	87.1

5. Financial income and expenses

EUR mill.	**2006**	2005
Dividend income	**0.1**	0.1
Interim dividend from Group undertakings	**28.4**	
Interest income from interest-bearing trade debtors	**7.8**	8.1
Interest income	**0.3**	0.9
Interest income from Group undertakings	**3.9**	3.5
Other interest and financial income from parties outside the Group		0.3
Capital gains on divestments	**0.8**	0.9
Interest and other financial expenses paid to Group undertakings	**-0.7**	-4.0
Foreign exchange losses and gains (net)	**-1.6**	4.2
Other interest and financial expenses paid to parties outside the Group	**-1.1**	0.0
Total	**37.8**	14.1

6. Extraordinary items

EUR mill.	**2006**	2005
Contributions from Group companies	**22.0**	27.7
Contributions to Group companies	**-1.2**	-4.1
Total	**20.8**	23.6

7. Appropriations

EUR mill.	**2006**	2005
Change in depreciation reserve		
Intangible rights	**0.0**	0.1
Modification and renovation expenses for leased premises	**0.3**	0.2
Buildings and constructions	**-1.5**	-1.2
Machinery and equipment	**2.4**	2.3
Total	**1.2**	1.4

Non-current assets

9. Intangible assets

EUR mill.	**2006**	2005
Intangible rights		
Acquisition cost Jan. 1	**10.0**	11.8
Increases Jan. 1-Dec. 31	**1.6**	0.9
Decreases Jan. 1-Dec. 31	**-2.6**	-2.7
Acquisition cost Dec. 31	**9.0**	10.0
Accumulated depreciation Jan. 1	**6.7**	7.2
Depreciation on reductions	**-2.6**	-2.2
Depreciation for the financial year	**1.4**	1.6
Accumulated depreciation Dec. 31	**5.4**	6.7
Book value Dec. 31	**3.5**	3.3

Advance payments and projects in progress

EUR mill.	**2006**	2005
Acquisition cost Jan. 1	**1.1**	0.6
Increases Jan. 1-Dec. 31	**1.1**	1.1
Transfers between items	**-1.1**	-0.6
Book value Dec. 31	**1.1**	1.1
Intangible assets, total	**4.6**	4.4

10. Tangible assets

EUR mill.	**2006**	2005
Land and water		
Acquisition cost Jan. 1	**5.6**	5.6
Increases Jan. 1-Dec. 31	**2.4**	
Decreases Jan. 1-Dec. 31	**-0.4**	
Acquisition cost Dec. 31	**7.5**	5.6
Revaluations Jan. 1 and Dec. 31	**5.9**	5.9
Book value Dec. 31	**13.4**	11.5

Buildings and constructions

EUR mill.	**2006**	2005
Acquisition cost Jan. 1	**127.4**	124.7
Increases Jan. 1-Dec. 31	**8.4**	10.3
Decreases Jan. 1-Dec. 31	**-0.2**	-7.6
Acquisition cost Dec. 31	**135.6**	127.4
Accumulated depreciation Jan. 1	**39.3**	38.2
Depreciation on reductions	**-0.2**	-2.2
Depreciation for the financial year	**3.7**	3.4
Accumulated depreciation Dec. 31	**42.8**	39.3
Revaluations Jan. 1 and Dec. 31	**26.5**	26.5
Book value Dec. 31	**119.3**	114.6

Machinery and equipment

EUR mill.	2006	2005
Acquisition cost Jan. 1	**48.4**	61.5
Increases Jan. 1-Dec. 31	**0.8**	1.5
Decreases Jan. 1-Dec. 31	**-5.6**	-14.6
Acquisition cost Dec. 31	**43.6**	48.4
Accumulated depreciation Jan. 1	**33.9**	40.0
Depreciation on reductions	**-5.6**	-12.0
Depreciation for the financial year	**5.2**	5.8
Accumulated depreciation Dec. 31	**33.5**	33.9
Book value Dec. 31	**10.1**	14.6

Modification and renovation expenses for leased premises

EUR mill.	2006	2005
Acquisition cost Jan. 1	**19.7**	22.4
Increases Jan. 1-Dec. 31	**2.1**	3.5
Decreases Jan. 1-Dec. 31	**-1.0**	-6.3
Acquisition cost Dec. 31	**20.8**	19.7
Accumulated depreciation Jan. 1	**8.9**	11.0
Depreciation on reductions	**-1.0**	-3.8
Depreciation for the financial year	**1.9**	1.6
Accumulated depreciation Dec. 31	**9.8**	8.9
Book value Dec. 31	**11.0**	10.8

Other tangible assets

EUR mill.	2006	2005
Acquisition cost Jan. 1	**0.1**	0.1
Decreases Jan. 1-Dec. 31		0.0
Acquisition cost Dec. 31	**0.1**	0.1
Book value Dec. 31	**0.1**	0.1

Advance payments and construction in progress

EUR mill.	2006	2005
Acquisition cost Jan. 1	**9.1**	7.0
Increases Jan. 1-Dec. 31	**52.9**	9.1
Transfers between items	**-9.1**	-7.0
Acquisition cost Dec. 31	**52.9**	9.1
Book value Dec. 31	**52.9**	9.1

Tangible assets, total	**206.8**	160.7

Revaluations included in balance sheet values

EUR mill.	2006	2005
Land and water	**5.9**	5.9
Buildings	**26.5**	26.5
Total	**32.4**	32.4

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

11. Investments

EUR mill.	2006	2005
Holdings in Group undertakings		
Acquisition cost Jan. 1	**77.9**	47.7
Increases Jan. 1-Dec. 31		39.7
Decreases Jan. 1-Dec. 31	**-39.1**	-9.5
Book value Dec. 31	**38.7**	77.9

Own shares

EUR mill.	2006	2005
Acquisition cost Jan. 1		6.1
Decreases Jan. 1-Dec. 31		-6.1
Book value Dec. 31		0.0

Other shares and participations

EUR mill.	2006	2005
Acquisition cost Jan. 1	**17.3**	17.9
Increases Jan. 1-Dec. 31	**0.2**	
Decreases Jan. 1-Dec. 31	**0.0**	-0.6
Book value Dec. 31	**17.5**	17.3

Investments, total	**56.3**	95.2

Debtors

12. Non-current debtors

EUR mill.	2006	2005
Amounts owed by Group undertakings	**77.6**	39.7
Other debtors		0.0
Non-current debtors, total	**77.6**	39.7

13. Current debtors

EUR mill.	2006	2005
Interest-bearing trade debtors	**41.4**	44.7
Non-interest bearing trade debtors	**49.3**	46.7
Trade debtors, total	**90.7**	91.4
Interest-bearing loan receivables		
Amounts owed by Group undertakings*	**166.6**	186.2
Other debtors	**5.5**	1.4
Prepayments and accrued income	**1.8**	4.7
Current debtors, total	**264.6**	283.7

*including the receivable of interim dividend 28.4 EUR mill. year 2006

Essential items in prepayments and accrued income

EUR mill.	2006	2005
Deferred annual discounts	**0.6**	0.6
Periodized financial income and expenses	**0.0**	0.1
Deferred indirect employee costs	**0.6**	1.0
Other receivables	**0.6**	3.0
Total	**1.8**	4.7

14. Cash and cash equivalents

EUR mill.	2006	2005
Cash in hand and at banks	**39.0**	0.1
Securities held in current assets	**7.3**	5.8
Total	**46.2**	5.9

Difference between cost and market value of securities held in current asset

Securities held in current assets consist primarily of publicly traded bonds and notes.

EUR mill.	2006	2005
Market value Dec. 31	**39.0**	0.1
Book value Dec. 31	**39.0**	0.1
Difference	**0.0**	0.0

15. Changes in equity

EUR mill.	2006	2005
Share capital		
Series A shares Jan. 1 and Dec. 31	**49.1**	49.1
Series B shares Jan. 1	**59.8**	57.7
Subscriptions with options	**2.4**	2.1
Series B shares Dec. 31	**62.2**	59.8
Share capital, total	**111.3**	108.9
Share issue	**0.4**	0.0
Premium fund Jan. 1	**166.8**	155.0
Subscriptions with options	**16.7**	11.7
Share bonus	**0.2**	0.1
Premium fund Dec. 31	**183.7**	166.8
Fund for own shares Jan. 1		6.1
Share bonus		-0.2
Eliminated due to changes in Bookkeeping Act		-6.0
Fund for own shares Dec. 31		0.0
Other funds Jan. 1 and Dec. 31	**43.7**	43.7
Retained earnings Jan. 1	**122.8**	108.4
Dividends	**-59.5**	-53.0
Dividends which haven't been drawn		0.1
Adjustment of group contribution in 2005	**0.1**	
Share bonus	**0.2**	0.2
Total	**63.5**	55.6
Net profit for the financial year	**102.7**	67.2
Equity, total	**505.4**	442.3

Breakdown of distributable funds Dec. 31

EUR mill.	2006	2005
Other funds	**43.7**	43.7
Retained earnings	**63.5**	55.6
Net profit for the financial year	**102.7**	67.2
Total	**210.0**	166.5

16. The parent company's shares

Par value EUR 2.00	Number of shares	Number of shares
Series A shares (10 votes each)	**24 564 243**	24 564 243
Series B shares (1 vote each)	**30 714 892**	29 498 573
Own B shares	**382 903**	396 876
Total	**55 662 038**	54 459 692

17. Accumulated appropriations

EUR mill.	2006	2005
Depreciation difference	**48.3**	49.5
Voluntary provisions	**20.1**	20.1
Total	**68.4**	69.6

18. Essential items in accruals and prepaid income

EUR mill.	2006	2005
Accrued staff expenses	**21.8**	23.6
Accrued interest expenses	**0.1**	0.0
Accrued taxes	**0.2**	3.6
Other accruals	**1.0**	0.7
Total	**23.1**	27.9

19. Creditors

EUR mill.	2006	2005
Current interest-bearing liabilities		33.6
Current non-interest-bearing liabilities	**145.2**	123.7
Total	**145.2**	157.3

20. Security pledged

EUR mill.	2006	2005
Security pledged on behalf of the company		
Mortgages given	**1.7**	1.7
Security pledged	**0.1**	0.1
Total	**1.7**	1.7
Security pledged on behalf of other parties		
Guarantees	**1.5**	
Total	**1.5**	
Security pledged on behalf of Group undertakings		
Rent guarantees	**30.2**	21.0
Other guarantees	**12.9**	23.9
Total	**43.1**	45.0
Security pledged, total		
Mortgages	**1.7**	1.7
Pledges	**0.1**	0.1
Guarantees	**44.7**	45.0
Total	**46.4**	46.7

21. Other commitments

Leasing commitments		
Payable during the 2007 financial year	**5.8**	4.7
Payable at a later date	**18.1**	16.9
Total	**23.9**	21.6

22. Pension liabilities

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

The pension liabilities are fully covered.

Shares and participations

Group undertakings

Parent company holdings	Number	Shareholding %	Voting rights %	Currency	Par value in given currency thousands	Book value, EUR thousands	Shareholders' equity EUR thousands
Oy Hobby Hall Ab, Helsinki	120 000	100	100	EUR	10 092	18 802	15 358
Seppälä Oy, Helsinki	30 000	100	100	EUR	5 046	5 046	12 313
Stockmann AS, Tallinn	1 800	100	100	EEK	18 000	1 136	22 969
SIA Stockmann, Riga	1 615 500	100	100	LVL	3 231	4 831	1 621
SIA Stockmann Centrs, Riga	31 500	63	63	LVL	63	116	252
Oy Stockmann Russia Holding Ab, Helsinki	4 000	100	100	EUR	673	796	1 067
Z-Fashion Finland Oy, Helsinki	50	100	100	EUR	9	8	496
Oy Suomen Pääomarahoitus-Finlands Kapitalfinans Ab, Helsinki	1 000	100	100	EUR	1 682	1 682	2 245
UAB Stockmann, Vilnius	52 000	100	100	LTL	5 200	1 510	-1 055
Kiinteistö Oy Friisinkeskus II, Espoo	1 948	97	97	EUR	9	612	734
Kiinteistö Oy Muuntajankatu 4, Helsinki	50	100	100	EUR	9	3 272	2 190
Kiinteistö Oy Stävö, Helsinki	50	100	100	EUR	9	9	9
Oy Hullut Päivät-Galna Dagar Ab, Helsinki	40	100	100	EUR	11	11	11
Espoon Autotalo Oy, Espoo	400	100	100	EUR	11	463	35
TF-Autokeskus Oy, Vantaa	600	100	100	EUR	11	455	294
Parent company holdings, total						38 748	58 537

Holdings of subsidiaries	Number	Shareholding %	Voting rights %	Currency	Par value in given currency thousands	Book value, EUR thousands	Shareholders' equity EUR thousands
ZAO Kalinka-Stockmann, Moscow	583 450	100	100	RUB	58 345	3 561	13 875
ZAO Stockmann, Moscow	2 000	100	100	RUB	20 000	587	-11 624
Oy Stockmann Russia Finance Ab, Helsinki	40 000	100	100	EUR	673	784	1 725
Bullworker Myynti Oy, Helsinki	100	100	100	EUR	8	8	466
Hobby Hall AB, Stockholm	1 000	100	100	SEK	100	11	6
ZAO Kalinka-Stockmann STP, St Petersburg	100	100	100	RUB	30 000	32	3 483
Stockmann Stp Centre Ltd, St Petersburg	5	100	100	RUB	1 500	13 095	123
Group undertakings owned by subsidiaries, total						18 079	8 053
Group undertakings, total						56 827	66 590

Joint ventures	Number	Shareholding %	Currency	Par value in given currency thousands	Book value, EUR thousands
Arabian Liiketalo Oy, Helsinki	1 590	12.0	EUR	1	940
Kiinteistö Oy Raitinkartano, Espoo	1 029	15.6	EUR	86	5 274
Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab, Espoo	3 125	37.8	EUR	258	5 949
Joint ventures, total					12 163

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

Other undertakings

Parent company holdings	Number	Shareholding %	Currency	Par value in given currency thousands	Book value, EUR thousands
Kiinteistö Oy Raitinkartano, Espoo	1 029	15.6	EUR	86	5 533
Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab, Espoo	3 125	37.8	EUR	258	6 242
Oy Kamppiparkki Ab, Helsinki	50	6.1	EUR	168	1 556
Tuko Logistics Oy, Kerava	600	10.0	EUR	1 009	3 760
Others					443
Parent company holdings, total					17 533

Proposal for the distribution of parent company profit

The parent company's distributable funds according to the balance sheet at December 31, 2006, were EUR 210.0 million. According to the Parent Company Balance Sheet at December 31, 2006, the following amounts are at the disposal of the Annual General Meeting:

- retained earnings, including the Contingency fund	107 268 771.67
- net profit for the financial year	102 701 291.54
	209 970 063.21

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

- on the 55 481 769 shares owned by external parties be paid a dividend of EUR 1.30 per share for the 2006 financial year	72 126 299.70
- to be carried forward to the Contingency fund and Retained earnings	137 843 763.51
	209 970 063.21

No material changes have taken place in the company's financial position after the close of the financial year. The company's liquidity is good, and in the view of the Board of Directors, the proposed dividend payout will not jeopardize the company's ability to meet its payment obligations.

Helsinki, February 8, 2007

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

Board of Directors

Lasse Koivu

Erkki Etola *Eva Liljeblom* *Kari Niemistö*

Christoffer Taxell *Carola Teir-Lehtinen* *Henry Wiklund*

CEO

Hannu Penttilä

Auditors' report

To the shareholders of Stockmann plc

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Stockmann plc for the period 1 January - 31 December 2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, 13 February 2007

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

Contact information

www.stockmann.com
firstname.surname@stockmann.com

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

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

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

Stores

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

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

Jumbo Department Store
Valuuttakatu 2, FI-01510 VANTAA
Tel. +358 9 121 251
Fax +358 9 121 2555

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

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

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

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

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

Bookstores
Helsinki centre, Itäkeskus, Tapiola, Tampere, Turku, Vantaa

Stockmann Outlet
Valimotie 11
FI-01510 VANTAA
Tel. +358 9 121 6551
Fax +358 9 321 6429

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

Stores
Helsinki (2), Espoo (2), Joensuu, Jyväskylä, Kuopio, Lahti, Lempäälä, Pori, Seinäjoki, Tampere, Vaasa, Vantaa

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

Stores
Helsinki centre, Itäkeskus, Vantaa, Turku

Russia

Moscow Office
ZAO Stockmann
Microdistrict No 8, Khimki
141400 MOSCOW REGION, Russia
Tel. +7 495 790 3261
Fax +7 495 739 8642

Smolenskaya Department Store
Smolenskaya Square, 3
121099 MOSCOW, Russia
Tel. +7 495 785 2500
Fax +7 495 785 2505

Mega South Department Store
Mega Teplyj Stan Shopping Centre
Leninsky District, Kaluzhskoe main road, 21
142704 MOSCOW REGION, Russia
Tel. + 7 495 980 8282
Fax + 7 495 980 8283

Mega North Department Store
Mega Khimki Shopping Centre
Microdistrict No 8, Khimki
141400 MOSCOW REGION, Russia
Tel. +7 495 739 8636
Fax +7 495 739 8640

Mega East Department Store
Mega Belaya Dacha Shopping Centre
Ljuberetsky district, Kotelniki
Pokrovsky proezd, 5
140053 Moscow Region, Russia
Tel. +7 495 660 8844
Fax +7 495 660 8845

Bestseller
Stores
Moscow (5), St Petersburg (5), Kazan (2), Nizhny Novgorod, Yekaterinburg

Nike
Stores
St Petersburg (2)

Other stores
Stockmann Outlet, Moscow
Fashion store, St Petersburg
Supermarket, St Petersburg

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

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

HOBBY HALL
Hämeentie 157
P.O.Box 47, FI-00561 HELSINKI
Tel. +358 9 777 611
Fax +358 9 7776 1646
www.hobbyhall.fi
firstname.surname@stockmann.com

Finland
Online Store and Customer Service
www.hobbyhall.fi
asiakaspalvelu@hobbyhall.fi
Tel. +358 106 7722

Stores
Hämeentie 157
FI-00560 HELSINKI
Tel. +358 106 7722
Fax +358 9 7776 1290

Valimotie 11
FI-01510 VANTAA
Tel. +358 106 7722
Fax +358 9 7776 1614

Logistics Centres
Tahkotie 2
FI-01530 VANTAA
Tel. +358 9 777 611
Fax +358 9 7776 1481

Pakkalantie 19
FI-01510 VANTAA
Tel. +358 9 777 611
Fax +358 9 321 8743

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

Estonia
Office
Stockmann AS/Hobby Hall
Maakri 25
10145 TALLINN, Estonia
Tel. +372 633 9600
Fax +372 633 9603

Online Store and Customer Service
www.hobbyhall.ee
klienditeenindus@hobbyhall.ee

Store
Paldiski maantee 102
Rocca al Mare kaubanduskeskus
10149 TALLINN, Estonia
Tel. +372 665 9065

Latvia
Office
SIA Stockmann/Hobby Hall
Katlakalna 11 c
RIGA LV-1073, Latvia
Tel. +371 707 3200
Fax +371 707 3215

Online Store and Customer Service
www.hobbyhall.lv
klientu.serviss@hobbyhall.fi

Lithuania
Online Store and Customer Service
www.hobbyhall.lt
asiakaspalvelu@hobbyhall.lt
Tel. 8 800 22555 (local calls)

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

Stores

Finland
Alajärvi, Espoo (4), Forssa, Hamina, Haukipudas, Heinola, Helsinki (7), Hollola, Huittinen, Hyvinkää, Hämeenlinna (2), Iisalmi, Imatra, Joensuu (2), Jyväskylä (3), Jämsä, Järvenpää, Kaarina, Kajaani, Kangasala, Kankaanpää, Karhula, Kauhajoki, Kauhava, Kemi, Kemijärvi, Kempele, Kerava, Keuruu, Kirkkonummi, Klaukkala, Kokkola (2), Kotka, Kouvola (2), Kuopio (3), Kurikka, Kuusamo, Kuusankoski, Lahti (3), Lappeenranta (2), Lapua, Laukaa, Lempäälä (2), Lieksa, Lohja, Loimaa, Loviisa, Mikkeli, Muurame, Mäntsälä, Naantali, Nastola, Nivala, Nokia (2), Orimattila, Oulu (3), Palokka, Parainen, Pello, Pieksämäki, Pietarsaari, Pirkkala, Pori (3), Porvoo, Raahe, Raisio, Rauma, Riihimäki (2), Rovaniemi, Salo, Savonlinna, Seinäjoki (2), Siilinjärvi, Sodankylä, Sotkamo, Tammisaari, Tampere (5), Tornio, Turku (5), Uusikaupunki, Vaasa, Valkeakoski, Vammala, Vantaa (3), Varkaus, Ylivieska, Ylöjärvi, Äänekoski.

Estonia
Haapsalu, Jõhvi, Narva, Pärnu, Tallinn (7), Tartu (2), Viljandi

Latvia
Riga (7), Daugavpils, Liepaja

Lithuania
Vilnius (2), Kaunas, Klaipeda

Russia
Moscow (6), St Petersburg (6), Yekaterinburg (2), Kazan (2), Nizhny Novgorod

STOCKMANN

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