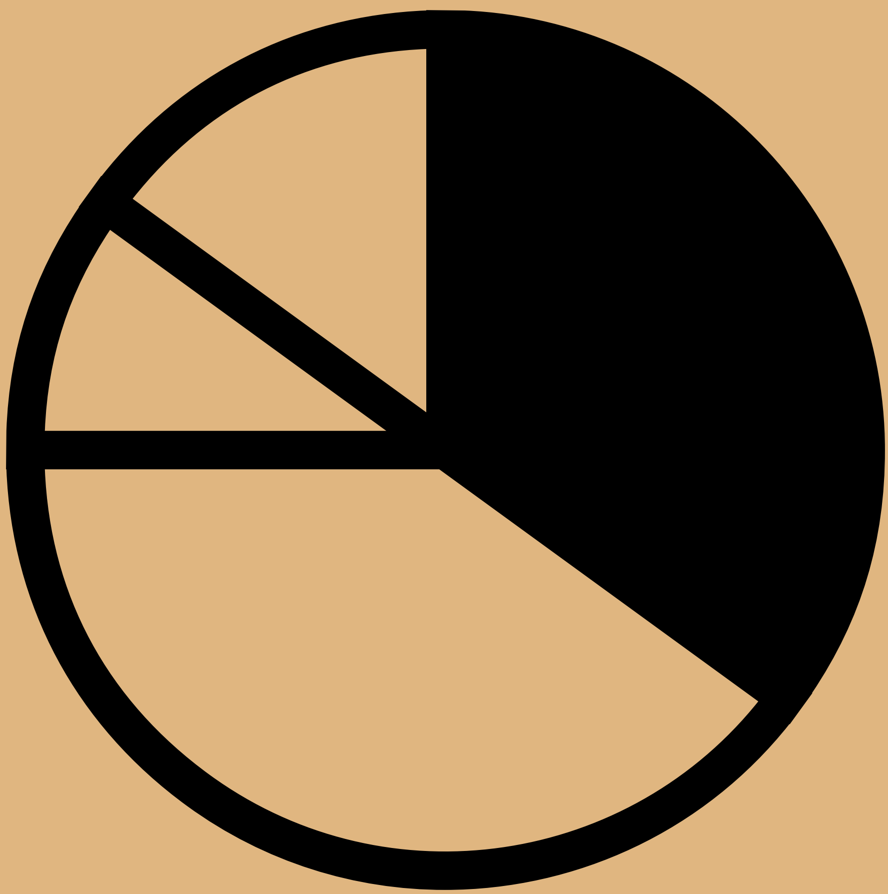
FINANCIAL REVIEW 2018



STOCKMANN

CONTENTS

REPORT BY THE BOARD OF DIRECTORS

The Stockmann Group's consolidated revenue was EUR 1 018.8 million (1 055.9) in 2018, down 1.0% in comparable currency rates. Gross margin was 56.9% (55.8). Adjusted operating result was EUR 28.4 million (12.3) and reported operating result was EUR -5.0 million (-148.4). Adjusted earnings per share were EUR -0.22 (-0.59) and reported earnings per share were EUR -0.68 (-2.82). The Board of Directors will propose that no distribution of funds take place for the 2018 financial year.

MARKET ENVIRONMENT

The general economic situation remained strong in Finland in 2018, and consumer confidence was at a high level. However, the fashion market in Finland in January-December was -2.6% (2017: -1.7%, source: Fashion and Sport Commerce Association, TMA).

In Sweden, the general economic situation continued relatively stable development, but the fashion market in January-December was -3.0% (-2.6%, source: Swedish Trade Federation, Stilindex).

The retail market in the Baltic countries continued its growth both in Estonia and Latvia.

REVENUE AND EARNINGS IN CONTINUING OPERATIONS

The Stockmann Group's revenue for the year was EUR 1 018.8 million (1 055.9). Revenue was down by 3.5% from the previous year in euros, or down by 1.0% in comparable currency rates.

The revenue in Finland was down by 4.1%, to EUR 386.2 million (402.6). Revenue in other countries was EUR 632.6 million (653.3), down by 3.2%, or up by 1.0% in comparable currency rates.

Other operating income consisted of the sales gain from the Book House property, EUR 7 million (0).

The gross profit amounted to EUR 580.1 million (588.8). The gross margin was up, to 56.9% (55.8) due to improvements in Lindex's business.

The Group's adjusted EBITDA was EUR 84.3 million (73.2). Depreciation was EUR 55.9 million (65.9, including an adjustment of EUR 5.0 million).

The adjusted operating profit for 2018 was EUR 28.4 million (12.3). The adjusted operating profit improved in Lindex and Real Estate, but Stockmann Retail's adjusted operating result was lower than in the previous year.

Operating costs, excluding adjustments, were down by EUR 19.8 million, partly due to currency rates. Cost savings measures, targeting savings of EUR 8 million in Stockmann and EUR 10 million in Lindex have been implemented. A portion of the savings will only be visible in the 2019 operating costs.

The reported operating result was EUR -5.0 million, including EUR -25 million impairment of Stockmann Retail's goodwill and other adjustments totalling EUR -8.4 million (-148.4, including EUR -150 million impairment of Lindex goodwill and other adjustments totalling EUR -10.6 million).

Net financial expenses were EUR -34.6 million (-31.1.) in 2018. The increase was due to the renewal of financing arrangements. Financial expenses included a write-off of EUR 1.7 million related to Hobby Hall, while in 2017 adjustments totalled EUR 5.2 million. Foreign exchange losses amounted to EUR 0.4 million (2.6). The result before taxes was EUR -39.6 million (-179.5).

Taxes for the year totalled EUR 4.2 million (18.7, including adjustments relating to fair value changes of real estate holdings and annulled additional taxes).

The result for the year was EUR -43.7 million (-198.1), or EUR -45.2 million (-209.4) including the discontinued operations of Stockmann Delicatessen in Finland.

Adjusted earnings per share for the period were EUR -0.59. Earnings per share for the period were EUR -0.68 (-2.82), or EUR -0.70 (-2.98) including discontinued operations. Equity per share was EUR 11.71 (12.29).

ITEMS AFFECTING COMPARABILITY

EUR million	**1–12/ 2018**	1–12/ 2017
Adjusted EBITDA	**84.3**	73.2
Adjustments to EBITDA		
Restructuring arrangements	**–3.3**	–9.6
Fair value gains and losses on investment properties		4.0
Gain on sale of properiteis	**6.8**	
Value adjustements to assets held for sale	**–11.9**	
Adjustments total	**–8.4**	–5.6
EBITDA	**76.0**	67.6

EUR million	1–12/ 2018	1–12/ 2017
Adjusted operating result (EBIT)	**28.4**	12.3
Adjustments to EBIT		
Goodwill impairment	**–25.0**	–150.0
Restructuring arrangements	**–3.3**	–14.6
Fair value gains and losses on investment properties		4.0
Gain on sale of properties	**6.8**	
Value adjustment to assets held for sale	**–11.9**	
Adjustments total	**–33.4**	–160.6
Operating result (EBIT)	**–5.0**	–148.4

FINANCING AND CAPITAL EMPLOYED

Cash flow from operating activities came to EUR 82.9 million (18.8) in January-December. Inventories were below the previous year's level both in Lindex and Stockmann Retail. Total inventories were EUR 141.9 million (162.2) at the end of the year. Cash tied in working capital was released mainly due to an ongoing working capital reduction programme and the impact of currency rates.

Interest-bearing liabilities at the end of December were EUR 587.8 million (763.6), of which long-term debt amounted to EUR 359.9 million (505.2). The debt declined due to the sale of the Book House property and the release of working capital. Part of the short-term debt has been raised in the commercial paper market. The Group has undrawn, long-term committed credit facilities of EUR 232.8 million. In addition, the Group has an uncommitted Commercial Paper programme of EUR 600.0 million, of which EUR 79.9 million is in use. Stockmann also has a EUR 84.3 million hybrid bond which is treated as equity.

Cash and cash equivalents totalled EUR 43.4 million (21.0) at the end of the year.

The equity ratio at the end of December was 46.2% (43.0), and net gearing was 64.5% (83.8).

The Group's capital employed at the end of December was EUR 1 431.5 million (1 648.7). The return on capital employed over the past 12 months was -0.4% (-9.1).

DISTRIBUTION OF FUNDS

Decisions by the 2018 Annual General Meeting were published in a stock exchange release on 22 March 2018. In accordance with a resolution of the meeting, no dividend was paid for the financial year 2017.

The Board of Directors will propose to the Annual General Meeting, to be held on 21 March 2019, that no distribution of funds is to be made for the 2018 financial year.

CAPITAL EXPENDITURE

Capital expenditure totalled EUR 29.3 million (34.7) in January-December. Most of the capital expenditure was used for both Lindex's and Stockmann Retail's digitalisation and Lindex store refurbishments. Depreciation was EUR 55.9 million (65.9, including an adjustment of EUR 5.0 million).

REVENUE AND EARNINGS BY DIVISION

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

LINDEX

LINDEX	1–12/ 2018	1–12/ 2017
Revenue, EUR mill.	**589.9**	606.0
Gross margin, %	**61.7**	60.1
Operating result, EUR mill.	**28.9**	13.4
Adjusted operating result, EUR mill.	**30.4**	16.1
Capital expenditure, EUR mill.	**20.1**	22.6

Lindex's revenue for the year was down by 2.7%, to EUR 589.9 million (606.0). The same-store sales at comparable exchange rates were up by 1.0%. Growth in the online store was 46.6%.

The gross margin was 61.7% (60.1). The gross margin was up due to fewer markdowns and higher start margins.

Operating costs were down by EUR 15.0 million, including EUR 1.5 million in items treated as adjustments. The costs declined mainly due to currency rates and the Profitability improvement programme.

The adjusted operating profit for the year was EUR 30.4 million (16.1) and the reported operating profit was EUR 28.9 million (13.4).

Store network

In 2018, in total 13 stores were opened and 29 stores were closed. The total number of stores was 474 at the year-end, compared to 490 a year earlier. Lindex also expanded to the 3rd party e-commerce platforms, Asos and Nelly, during 2018.

In 2019, Lindex will continue to focus on optimising its store locations. Unprofitable stores will either move to new locations or close down. The total number of stores is estimated to decline slightly, compared to 2018. Expansion into new sales channels will continue.

STOCKMANN RETAIL

STOCKMANN RETAIL	**1–12/ 2018**	1–12/ 2017
Revenue, EUR mill.	**386.2**	410.2
Gross margin, %	**45.0**	45.2
Operating result, EUR mill.	**–27.5**	–20.6
Adjusted operating result, EUR mill.	**–25.7**	–20.6
Capital expenditure, EUR mill.	**3.2**	5.7

Stockmann Retail's revenue for the year was EUR 386.2 million (410.2 or 408.5 excluding the Oulu department store which was closed in January 2017). Revenue in comparable stores was down by 5.5%. Growth in the online store was 14.8%.

Revenue in Finland was EUR 297.1 million (319.6). Revenue in comparable stores was down by 6.5%. Revenue in the Baltic department stores was down by 1.7%, to EUR 89.1 million (90.6).

The gross margin was 45.0% (45.2), due to lower margins during the last quarter of the year.

Operating costs were down by EUR 3.2 million due to savings in the support functions.

Adjusted EBITDA was EUR -12.5 million (-5.7). The adjusted operating result for the year was EUR -25.7 million (-20.6) and the reported operating result was EUR -27.5 million (-20.6).

REAL ESTATE

REAL ESTATE	**1–12/ 2018**	1–12/ 2017
Revenue, EUR mill.	**69.0**	67.1
Net operating income, Stockmann-owned properties, EUR mill.	**50.7**	50.6
Operating result, EUR mill.	**23.2**	29.0
Adjusted operating result, EUR mill.	**28.2**	25.0
Capital expenditure, EUR mill.	**3.6**	4.9

Real Estate's revenue for the year was EUR 69.0 million (67.1), mainly due to higher rent levels and new tenants.

The net operating income of the Stockmann-owned properties was EUR 50.7 million (50.6). The average monthly rent from these properties was EUR 38.53 per square metre (37.11). Net rental yield in 2018 was 5.6% (5.4).

The adjusted operating result for the year was EUR 28.2 million (25.0), or excluding Nevsky Centre EUR 10.2 million (7.1). The adjusted operating profit improved mainly due to increased revenue and lower depreciation levels. The reported operating result was EUR 23.2 million (29.0), including a capital gain of EUR 7.0 million due to the divestment of the Book House and a negative valuation adjustment of EUR 11.9 million to the net assets of the Nevsky Centre due to the divestment of the property.

Properties

On 1 January 2018, the fair value of Stockmann's three department store properties amounted to EUR 691.5 million. During the year, the depreciation of the properties is deducted from the fair value. At the end of 2018, the revalued amount of Stockmann's department store properties was EUR 681.0 million. The decrease in the fair value was due to the increased market yield requirement in Finland. The weighted average market yield requirement used at the year-end was 4.8% (4.6%).

The three department store properties have a gross leasable area (GLA) of 88 000 m^2, of which Stockmann Retail was using 73% at the end of December 2018. The occupancy rate of the properties remained at a high level, at 99.4% (99.9), with an average monthly rent of EUR 37.73 per square metre (35.09). Net rental yield was 4.5% (4.3). Due to the transfer of the Stockmann Delicatessen business operation in Finland in January 2018, the regional cooperatives started as Stockmann's tenants and subtenants in its properties. New partners which started operations in Stockmann's department stores in Finland and the Baltics in 2018 included the Fishmarket, Biang, Comptoir Farouge, Hanko Sushi and Pupu restaurants in the Helsinki flagship store, the Powau cafés in Tampere and Turku, Espresso House and Hanko Sushi in Tampere, and the Green Clean eco laundry in Riga.

The value of the Book House in Helsinki city centre was EUR 100.0 million on 1 January 2018. The property was sold to AEW Europe City Retail Fund for a price of EUR 108.6 million in May 2018.

The value of the Nevsky Centre in St Petersburg was EUR 181.0 million on 1 January 2018. In October 2018 Stockmann signed an agreement to sell the property to PPF Real Estate for a price of EUR 171.0 million. The transaction was closed in January 2019.

PROPERTIES

STOCKMANN GROUP	Gross leasable area, m2 31.12.2018	Occupancy rate, % 31.12.2018	Usage by Stockmann Retail, % 31.12.2018
Helsinki flagship building	51 000	99.8	66
Tallinn department store building	22 000	98.0	82
Riga department store building	15 000	100.0	86
Total, Stockmann-owned department store properties	**88 000**	**99.4**	**73**
Nevsky Centre, St Petersburg	46 000	99.7	0
Total, all Stockmann-owned properties	**133 000**	**99.5**	**48**

STORE NETWORK

STOCKMANN GROUP	Total 31.12.2017	New stores in 2018	Closed stores in 2018	**Total 31.12.2018**
Lindex stores	490	13	29	**474**
of which own stores	444	11	22	**433**
of which franchising	46	2	7	**41**
Department stores	8	0	0	**8**

CHANGES IN MANAGEMENT

Susanne Ehnbåge, M.Sc.(Econ.), born 1979, was appointed CEO of Lindex and as a member of Stockmann's Management Team in January 2018. She joined Stockmann on 10 August 2018.

Elena Stenholm, M.Sc. (Pol.), born 1971, was appointed Director, Real Estate and as a member of the Stockmann Management Team in June 2018. She joined Stockmann on 1 November 2018.

Outi Nylund, M.Sc.(Econ.), born 1975, was appointed Chief Customer Officer and as a member of the Stockmann Management Team in December 2018. Her areas of responsibility will include Stockmann's customership, brand development and marketing communications. She will join Stockmann on 1 May 2019.

Anna Salmi, M.Sc.(Econ.), born 1979, was appointed Chief Digital Officer, starting on 1 May 2019. Her areas of responsibility will include Stockmann's digital business operations, ICT and the development of data-driven business. Anna Salmi has worked at Stockmann since 2015. She is currently the Chief Customer Officer in charge of marketing, digital business operations and ICT.

The Annual General Meeting of Lindex decided in March to elect Stockmann's CEO Lauri Veijalainen, CFO Kai Laitinen, Director of Legal Affairs Jukka Naulapää and two representatives chosen by Lindex personnel to the Lindex Board of Directors. In the future, Lindex will be developed in more close cooperation with Stockmann. Former Lindex Board Members Eva Hamilton and

Tracy Stone started as members of Stockmann's Board of Directors.

During the year, the following persons have resigned from Stockmann and the Management Team: Björn Teir, Director of Real Estate, and Petteri Naulapää, CIO.

SHARES AND SHARE CAPITAL

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

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

The share capital remained at EUR 144.1 million. The market capitalisation was EUR 140.8 million (321.0) at the end of December.

The price of a Series A share was EUR 2.00 at the end of December, compared with EUR 4.60 at the end of 2017, while the price of a Series B share was EUR 1.92, compared with EUR 4.35 at the end of 2017.

A total of 3.9 million (2.0) Series A shares and 14.0 million (13.7) Series B shares were traded on Nasdaq Helsinki during 2018. This corresponds to 12.7% (6.6) of the average number of Series A shares and 33.6% (32.9) of the average number of Series B shares.

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

Stockmann was notified on 20 December 2018 that the holdings of Stiftelsen för Åbo Akademi's (business identity code 0246312-1) voting rights of Stockmann plc's shares had decreased below 5 per cent in connection with a sale of shares on 20 December 2018.

Stockmann was notified on 20 December 2018 that the holdings of Föreningen Konstsamfundet r.f. (business identity code 0200196-4) had increased above 10 per cent of Stockmann plc's shares and the voting rights of the shares had increased above 20 per cent in connection with a purchase of shares on 20 December 2018.

At the end of December, Stockmann had 44 396 shareholders, compared with 46 672 a year earlier.

DISCLOSURE OF NON-FINANCIAL INFORMATION

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

Customers

Stockmann builds ongoing dialogue to maintain and raise customer satisfaction. Efforts to improve customer dialogue include customer surveys, net promoter score (NPS) and brand tracking, engagement in social media and other feedback channels, to better understand customer needs and expectations. In 2018, the NPS at department stores in Finland was 51 (41), while the long-term target level is 60. To inspire and support its customers in making responsible choices, Stockmann actively shares information about its CSR work and sustainable choices in its selection, and engages in CSR and charity projects on a regular basis. Stockmann complies with valid competition and privacy legislations in its operations and promotes free competition in its sector. In 2018, there were two limited incidents concerning customers' personal data, one in Finland and one in Estonia. Stockmann has filed notifications to the local data protection authorities regarding the incidents. The Estonian data protection authority decided that no official procedure was required. The incident that took place in Finland is still pending with the authorities. Stockmann's annual target is zero incidents of breaches of customer privacy.

Personnel

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

The Group's average number of personnel in continuing operations was 7 241 (7 360) in 2018. In terms of full-time equivalents, the average number of employees was 5 299 (5 426). At the end of the year, the Group had 7 129 employees (7 325), of whom 2 145 (2 212) were working in Finland. The number of employees working outside Finland was 4 984 (5 113), which represented 69.9 % (69.8) of the total. Stockmann Retail employed 2 254 people (2 327), Real Estate 105 (113) and Lindex 4 509 (4 596), while 130 people (154) were employed in the Group's shared services in Finland and 131 (135) in production offices in Asia.

The Group's wages and salaries amounted to EUR 172.3 million in 2018, compared with EUR 183.6 million in 2017 and EUR 207.1 million in 2016. The total employee benefits expenses were EUR 222.0 million (236.2), which is equivalent to 21.8% (22.4) of revenue.

Among the Stockmann Group's employees, women represented 91% (91) and men 9% (9). 82% (82) were permanent employees, whereas 18% (18) had fixed-term employment contracts. The share of full-time employees was 36% (51). The Group's personnel turnover was 22% (19). In Finland, the turnover rate was 17% (17) and in Sweden 9% (6).

Products & Supply chain

Stockmann offers a wide selection of safe and lasting quality products. In the Stockmann department stores, the major part of merchandise is made up of international brand products, complemented with a wide selection of own brand products in the fashion and home areas, which are designed by Stockmann's own designers. At Lindex this applies to the majority of the products. Around 90% (93) of own brand fashion products are produced in risk countries as defined by amfori BSCI, mainly in China and Bangladesh. In 2018, there were zero product recalls in Stockmann's own brand and Lindex's products, as targeted.

To improve traceability and reduce the environmental impact of its products, Stockmann aims to increase the use of sustainable materials in its own brand garments. 55% (54) of the Lindex assortment was made from more sustainable materials in 2018 and approximately 96% (95) of all Lindex cotton was more sustainable, such as organic and Better Cotton. The target is that by 2020, 80% of Lindex's garments will be made from more sustainable materials, with more sustainable processes and more sustainable production facilities. 30% (10) of Stockmann's own brand garments in 2018 were made of sustainable materials, and 65% of own brand jersey garments were made of organic cotton.

Both Stockmann and Lindex publish comprehensive lists of own brands' suppliers and factories on the companies' websites.

Environment

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

The Stockmann Group's waste recycling rate was 72.7% (72.7). The rate varies according to activity and location. In Finland it was 73.2% (70.4), in the Baltics 39.7% (43.5) and in Sweden in the Lindex logistics centre 96.4% (96.9). The Group's greenhouse gas emissions in 2018 were 57 030 tCO_2e (62 970). The highest share of emissions, around 78%, came from the generation of purchased energy, especially electricity, which remained on the same level as the previous year. Stockmann reports on its CO_2 emissions annually in the Group's CSR Review and in the international Climate Change Disclosure (CDP) survey. Water consumption in Stockmann's own operations is minimal and these operations take place in areas where there is currently no scarcity of water.

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

Finance & Governance

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

Stockmann's policies relating to anti-corruption and anti-competitive behaviour are included in the Stockmann CoC and further specified in the anti-corruption policy. Stockmann's whistleblowing channel is a tool for the Group's own employees, business partners and other stakeholders to report suspected or detected violations of the Stockmann CoC or other corporate policies. Unethical business practices among Stockmann's employees or various stakeholders could cause reputational damage for Stockmann as well as a possible financial impact. During the year, Stockmann was not informed of any corruption-related lawsuits against the Group. There were no legal actions or fines for anti-competitive behaviour, anti-trust, or monopoly practices or their outcomes in 2018. At the end of 2018, 59% (30) of all Stockmann personnel in Finland had completed the CoC training. Of the members in the Stockmann support function and department store management teams, 94% (87) had completed the training. The long-term target is for 100% of the Group's personnel to have completed the training.

CSR risks and risk management

Stockmann Group's most significant CSR-related risks are identified to be found in the supply chains of the product selections. In the Stockmann department stores, the major part of merchandise is made up of international and domestic brand products. Suppliers of these products are expected to follow the Stockmann CoC or demonstrate a similar commitment. In addition, Stockmann department stores carry a wide selection of own brand products and at Lindex the majority of the selection is own brand products. A significant percentage of the own brand products are produced in areas classified as risk countries by the amfori BSCI. The Group is exposed to risks related to the traceability and transparency of the supply chain, the realization of human and labour rights, and the environmental impacts of production and raw material. These risks are managed through responsible purchasing management practices, established policies and risk management methods, and are monitored in accordance with the CSR strategy and good corporate governance. The Group's own brand suppliers and producers are required to comply with Stockmann's supplier Code of Conduct (CoC), which is based on the amfori BSCI CoC that sets out 11 core labour rights, or another similar commitment. The Group has purchase offices with local personnel in five main production locations to oversee production quality and compliance with the CoC, and producers in risk countries are also subject to amfori BSCI audits.

Other identified CSR-related risks to the Group's business operations include risks related to personnel competence and wellbeing, product safety and environmental awareness. A failure to respond to risks within these areas could have an impact on the Group's brand image and reliability. Open dialogue and co-operation with the Group's stakeholders, and transparent CSR communication are an essential part of Stockmann's risk management.

Further information on Stockmann's CSR activities and results is published in Stockmann's CSR Review, which will be published in the week starting 25 February 2019 at year2018.stockmanngroup.com. The CSR Review is reported according to the Global Reporting Initiative (GRI).

RISK FACTORS

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

The general economic situation affects consumers' purchasing behaviour and purchasing power in all of the Group's market areas. Consumers' purchasing behaviour is also influenced by digitalisation, increasing competition and changing purchasing trends. Rapid and unexpected movements in markets may influence the behaviour of both the financial markets and consumers. Uncertainties related to changes in purchasing behaviour are considered to be the principal risk arising from the operating environment that could affect Stockmann during 2019.

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

Fashion accounts for approximately 80% of the Group's revenue. An inherent feature of the fashion trade is the short lifecycle of products and their dependence on trends, the seasonality of sales and the susceptibility to abnormal changes in weather conditions. These factors may have an impact on the Group's revenue and gross margin. In the retail sector, the products' value chain from raw material to customers often contains many stages and involves risks related to the fulfilment of human rights, good working conditions, and environmental and other requirements set out in Stockmann's Code of Conduct and other policies. Responsible management of the supply chain and the sustainable use of natural resources are important for the Group's brands in order to retain customer confidence in Stockmann. Further information on CSR-related risks can be found in the section Disclosure of non-financial information.

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

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

EVENTS AFTER THE REPORTING PERIOD

Stockmann completed the sale of the Nevsky Centre shopping centre property in St. Petersburg. on 24 January 2019. The transaction price was EUR 171 million and the transaction had a positive cash flow effect of approximately EUR 141 million on Stockmann after taxes. Stockmann used the proceeds to repay its bank loan.

OUTLOOK FOR 2019

In the Stockmann Group's largest operating countries, Finland and Sweden, the general economic situations improved and the GDP growth as well as the consumer confidence development continued to be positive in 2018. In 2019, the retail growth is estimated to decline somewhat due to economic slowdown in Finland, but the growth is expected to continue in Sweden (source: Federation of Finnish Commerce, HUI Research).

Purchasing behaviour is changing due to digitalisation and increasing competition. E-commerce is expected to grow steadily, but the development in brick and mortar continues to be challenging. The retail industry is facing major structural challenges through digitalisation and further internationalisation.

In the Baltic countries, the outlook for the retail trade is expected to be better than that for the Stockmann Group's other main market areas (source: OECD).

Stockmann continues its efforts to improve its performance and in January 2019 launched an initiative aimed at reducing the Group's cost level by EUR 20 million by the end of 2019. In addition, the goal is to improve gross margin and accelerate strategic development projects that will deliver visible results to customers during the year. Of these measures, EUR 15 million will be allocated to Stockmann's operations in Finland and the Baltic countries and EUR 5 million to Lindex, which will continue its profitability improvement programme.

In addition to operational performance improvements, reported EBITDA and the operating profit will improve due to a change in accounting principles when the new IFRS 16 Leases standard is taken into use as of 2019. Comparative figures for 2018 will not be restated due to the adoption of the new standard.

Capital expenditure for 2019 is estimated to be approximately EUR 35 million, which is less than the estimated depreciation for the year.

GUIDANCE FOR 2019

Stockmann expects the Group's adjusted operating profit, excluding the impact of Nevsky Centre, to improve compared to 2018.

CORPORATE GOVERNANCE STATEMENT

Stockmann will publish a separate Corporate Governance Statement for 2018 in line with the recommendation by the Finnish Corporate Governance Code. The statement will be published during the week starting on 25 February 2019 (week 9).

Helsinki, Finland, 13 February 2019

STOCKMANN plc
Board of Directors

Key figures

		2018	2017	2016	2015	2014
Revenue *)	EUR mill.	**1 018.8**	1 055.9	1 175.7	1 434.8	1 605.5
Gross profit *)	EUR mill.	**580.1**	588.8	655.4	725.4	780.3
Gross margin *)	%	**56.9**	55.8	55.7	50.6	48.6
EBITDA *)	EUR mill.	**76.0**	67.6	85.6	19.3	-17.3
Adjustments to EBITDA *)	EUR mill.	**-8.4**	-5.6	-2.6	-24.0	-35.4
Adjusted EBITDA *)	EUR mill.	**84.3**	73.2	88.2	43.4	18.1
Operating result *)	EUR mill.	**-5.0**	-148.4	28.3	-52.5	-77.2
Share of revenue *)	%	**-0.5**	-14.1	2.4	-3.7	-4.8
Adjustments to operating result *)	EUR mill.	**-33.4**	-160.6	-2.6	-24.0	-39.3
Adjusted operating result *)	EUR mill.	**28.4**	12.3	30.9	-28.5	-37.8
Result for the period	EUR mill.	**-45.2**	-209.4	-3.2	-175.0	-99.8
Share capital	EUR mill.	**144.1**	144.1	144.1	144.1	144.1
A share	EUR mill.	**61.1**	61.1	61.1	61.2	61.2
B share	EUR mill.	**83.0**	83.0	83.0	82.9	82.9
Return on equity	%	**-5.2**	-21.3	-0.3	-19.4	-12.1
Return on capital employed	%	**-0.4**	-9.1	1.8	-7.6	-4.9
Capital employed	EUR mill.	**1 540.1**	1 745.4	1 836.1	1 740.4	1 657.9
Capital turnover rate		**0.7**	0.7	0.6	0.9	1.1
Inventories rate		**3.1**	3.4	3.4	4.8	4.1
Equity ratio	%	**46.2**	43.0	48.3	46.1	39.3
Net gearing	%	**64.5**	83.8	68.3	72.1	105.4
Capital expenditure	EUR mill.	**29.3**	34.7	44.2	53.4	53.8
Share of revenue *)	%	**2.9**	3.3	3.8	3.7	3.4
Interest-bearing net debt	EUR mill.	**543.3**	739.4	736.4	753.6	799.4
Net debt / EBITDA	EUR mill.	**7.2**	10.9	8.6	39.0	-46.2
Total assets	EUR mill.	**1 827.9**	2 061.4	2 241.2	2 273.9	1 936.5
Employee benefits expenses *)	EUR mill.	**222.0**	236.2	270.4	321.5	356.3
Personnel. average *)	persons	**7 241**	7 360	8 164	10 762	12 157
Average number of employees, converted to full-time equivalents *)	persons	**5 299**	5 426	5 960	7 643	8 916
Revenue per person *)	EUR thousands	**140.7**	143.5	144.0	133.3	132.1

*) continuing operations
Stockmann Delicatessen in Finland reported as discontinued operations for years ended 31 December 2018 and 2017, comparison year 2016 restated.
Department store operations in Russia reported as discontinued operations for years ended 31 December 2016 and 2015, comparison year 2014 restated.

Key figures per share

		2018	2017	2016	2015	2014
Earnings per share, continuing operations	EUR	–0.68	–2.82	–0.18	–1.24	–1.34
Earnings per share, discontinued operations	EUR	–0.02	–0.16	0.06	–1.20	–0.04
Earnings per share (undiluted and diluted)	EUR	–0.70	–2.98	–0.12	–2.43	–1.39
Cash flow from operating activities per share	EUR	1.15	0.26	0.58	0.24	0.41
Equity per share	EUR	11.71	12.29	14.99	14.53	10.55
Dividend per share *	EUR					
P/E ratio of shares						
A share		–2.9	–1.5	–60.4	–2.6	–4.6
B share		–2.7	–1.5	–60.2	–2.6	–4.6
Share quotation at 31.12.	EUR					
A share		2.00	4.60	7.09	6.22	6.42
B share		1.92	4.35	7.06	6.25	6.36
Highest price during the period	EUR					
A share		5.64	8.20	7.55	8.00	12.40
B share		5.13	8.00	7.31	8.41	12.58
Lowest price during the period	EUR					
A share		1.84	4.22	5.26	5.94	6.20
B share		1.65	4.05	5.06	5.98	6.21
Average price during the period	EUR					
A share		2.53	5.29	5.97	6.86	9.76
B share		3.31	6.19	6.33	7.10	10.00
Share turnover	thousands					
A share		3 875	1 996	2 791	2 188	933
B share		13 952	13 664	12 231	14 615	17 625
Share turnover	%					
A share		12.7	6.5	9.1	7.2	3.0
B share		33.6	32.9	29.5	35.2	42.5
Market capitalisation at 31.12.	EUR mill.	140.8	321.0	509.6	449.4	460.1
Number of shares at 31.12.	thousands	72 049	72 049	72 049	72 049	72 049
A share		30 531	30 531	30 531	30 553	30 596
B share		41 518	41 518	41 518	41 495	41 453
Weighted average number of shares	thousands	72 049	72 049	72 049	72 049	72 049
A share		30 531	30 531	30 533	30 590	30 596
B share		41 518	41 518	41 515	41 459	41 453
Total number of shareholders at 31.12.		44 396	46 672	49 813	52 415	55 343

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

Items affecting comparability

Stockmann uses Alternative Performance Measures according to the guidelines of the European Securities and Market Authority (ESMA) to better reflect the operational business performance and to facilitate comparisons between financial periods.

	2018	2017	2016	2015	2014
EUR million					
Adjusted EBITDA	84.3	73.2	88.2	43.4	18.1
Adjustments to EBITDA					
Restructuring arrangements	–3.3	–9.6	–2.6	–1.1	–35.4
Fair value gains and losses on investment properties		4.0			
Gain on sale of properties	6.8				
Loss on sale of business				–22.9	
Value adjustment to assets held for sale	–11.9				
Adjustments total	–8.4	–5.6	–2.6	–24.0	–35.4
EBITDA	76.0	67.6	85.6	19.3	–17.3
Adjusted operating result (EBIT)	28.4	12.3	30.9	–28.5	–37.8
Adjustments to EBIT					
Goodwill impairment	–25.0	–150.0			
Restructuring arrangements	–3.3	–14.6	–2.6	–1.1	–39.3
Fair value gains and losses on investment properties		4.0			
Gain on sale of properties	6.8				
Loss on sale of business				–22.9	
Value adjustment to assets held for sale	–11.9				
Adjustments total	–33.4	–160.6	–2.6	–24.0	–39.3
Operating result (EBIT)	–5.0	–148.4	28.3	–52.5	–77.2

Definition of key figures

Performance measures according to IFRS

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

Alternative performance measures

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

Key figures per share

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

Shares and shareholders

The share capital of Stockmann plc is divided into Series A and Series B shares. Series A shares carry ten votes and Series B shares one vote. The par value of both series of shares is EUR 2.00 and the shares of both series entitle their holders to an equal dividend.

The company's shares are in the book-entry system and they are listed on Nasdaq Helsinki. The trading code for the Series A share is STCAS and for the Series B share STCBV. The number of registered shareholders at 31 December 2018 was 44 396 (46 672 shareholders at 31 December 2017).

The company's market capitalisation at 31 December 2018 was EUR 140.8 million (EUR 321.0 million at 31 December 2017).

Number of shares, 31 December 2018	Number	Shareholders %	Percentage of shares %	Percentage of votes %
1-100	29 610	66,7	1,6	0,6
101-1000	12 080	27,2	5,7	4,2
1001-10000	2 453	5,5	8,9	5,7
10001-100000	212	0,5	7,5	4,3
100001-1000000	30	0,1	12,6	13,3
1000001-	11	0,0	63,7	71,9
Total	44 396	100,0	100,0	100,0

Ownership structure, 31 December 2018	Number	Shareholders %	Percentage of shares %	Percentage of votes %
Households	43 220	97,4	23,7	21,1
Private and public corporations	709	1,6	21,4	20,9
Foundations and associations	253	0,6	44,8	55,2
Nominee registrations (incl. foreign shareholders)	184	0,4	8,5	2,3
Financial and insurance companies	30	0,1	1,5	0,4
Unregistered shares			0,1	0,0
Total	44 396	100,0	100,0	100,0

Major shareholders, 31 December 2018	Percentage of shares %	Percentage of votes %
1 Föreningen Konstsamfundet Grouping	13,6	21,8
2 HTT STC Holding Oy Ab	11,7	10,7
3 Varma Mutual Pension Insurance Company	9,1	5,4
4 Society of Swedish Literature in Finland	7,6	15,8
5 Niemistö Kari	5,8	9,4
6 Etola Group	4,2	6,1
7 The State Pension Fund	2,3	0,5
8 Samfundet Folkhälsan i svenska Finland r.f.	2,2	2,7
9 Jenny ja Antti Wihuri Foundation	1,9	2,1
10 Ilmarinen Mutual Pension Insurance Company	1,7	0,8
11 Inez och Julius Polins Fond	1,5	0,8
12 Wilhelm och Else Stockmanns Stiftelse	1,1	2,2
13 Helene och Walter Grönqvists Stiftelse	0,7	1,5
14 City of Turku	0,5	0,1
15 William Thurings Stiftelse	0,5	0,7
16 Taaleritehdas Value Markka Osake Fund	0,4	0,1
17 Turun Kaupungin Vahinkorahasto	0,4	0,1
18 Petter och Margit Forsströms Stiftelse till K och O Forsströms minne	0,3	0,1
19 Nordea Pro Finland Fund	0,3	0,1
20 Veritas Pension Insurance Company Ltd.	0,2	0,5
Other	34,1	18,6
Total	100,0	100,0

CONSOLIDATED INCOME STATEMENT

EUR mill.	Note	**1.1.–31.12.2018**	1.1.–31.12.2017
Continuing operations			
REVENUE	2.2	**1 018.8**	1 055.9
Other operating income	2.2	**7.0**	0.0
Fair value changes on investment properties	2.2, 3.4	**−0.3**	3.7
Materials and consumables	2.3	**−438.7**	−467.1
Wages, salaries and employee benefit expenses	2.5, 5.5	**−222.0**	−236.2
Depreciation, amortisation and impairment losses	3	**−80.9**	−215.9
Other operating expenses	2.6	**−288.9**	−288.8
Total expenses		**−1 030.5**	−1 208.0
OPERATING PROFIT/LOSS	2.1	**−5.0**	−148.4
Financial income	4.1	**0.6**	0.7
Financial expenses	4.1	**−35.3**	−31.8
Total financial income and expenses		**−34.6**	−31.1
PROFIT/LOSS BEFORE TAX		**−39.6**	−179.5
Income taxes	2.7	**−4.2**	−18.7
PROFIT/LOSS FROM CONTINUING OPERATIONS		**−43.7**	−198.1
Profit/loss from discontinued operations	5.1	**−1.4**	−11.3
NET PROFIT/LOSS FOR THE PERIOD		**−45.2**	−209.4
Profit/loss for the period attributable to:			
Equity holders of the parent company		**−45.2**	−209.4
Earnings per share, EUR:	4.13		
From continuing operations (undiluted and diluted)		**−0.68**	−2.82
From discontinued operations (undiluted and diluted)		**−0.02**	−0.16
From the period result (undiluted and diluted)		**−0.70**	−2.98

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR mill.	Note	**1.1.–31.12.2018**	1.1.–31.12.2017
PROFIT/LOSS FOR THE PERIOD		**−45.2**	−209.4
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Changes in revaluation surplus (IAS 16), before tax		**8.7**	38.0
Changes in revaluation surplus (IAS 16), tax	2.7, 4.12	**−1.7**	−7.5
Changes in revaluation surplus (IAS 16), net of tax		**6.9**	30.5
Items that may be subsequently reclassified to profit and loss			
Exchange differences on translating foreign operations, before tax	2.7, 4.12	**2.8**	−7.2
Exchange differences on translating foreign operations, net of tax		**2.8**	−7.2
Cash flow hedges, before tax		**0.6**	−2.0
Cash flow hedges, tax		**−0.1**	0.4
Cash flow hedges, net of tax	2.7, 4.12	**0.5**	−1.6
Other comprehensive income for the period, net of tax		**10.3**	21.7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**−34.9**	−187.7
Total comprehensive income attributable to:			
Equity holders of the parent company, continuing operations		**−33.5**	−176.4
Equity holders of the parent company, discontinued operations		**−1.4**	−11.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR mill.	Note	**31.12.2018**	31.12.2017
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill		**516.1**	563.8
Trademark		**88.7**	92.4
Intangible rights		**39.6**	38.5
Other intangible assets		**2.3**	2.7
Advance payments and construction in progress		**0.9**	0.6
Intangible assets, total	3.2	**647.5**	698.0
Property, plant and equipment			
Land and water		**102.5**	103.9
Buildings and constructions		**578.5**	587.6
Machinery and equipment		**64.1**	76.2
Modification and renovation expenses for leased premises		**5.1**	4.4
Advance payments and construction in progress		**0.8**	1.2
Property, plant and equipment, total	3.3	**751.1**	773.2
Investment properties	3.4	**0.5**	100.5
Non-current receivables	4.10, 4.11	**0.6**	3.0
Other investments	4.10	**0.3**	0.3
Deferred tax assets	2.8	**14.7**	33.2
NON-CURRENT ASSETS, TOTAL		**1 414.7**	1 608.2
CURRENT ASSETS			
Inventories	2.4	**141.9**	162.2
Current receivables			
Interest-bearing receivables		**0.8**	2.2
Income tax receivables		**7.8**	3.6
Non-interest-bearing receivables		**43.7**	79.6
Current receivables, total	4.3	**52.2**	85.4
Cash and cash equivalents	4.4	**43.4**	21.0
CURRENT ASSETS, TOTAL		**237.6**	268.6
ASSETS CLASSIFIED AS HELD FOR SALE	5.1	**175.7**	184.6
ASSETS, TOTAL		**1 827.9**	2 061.4

EUR mill.	Note	**31.12.2018**	31.12.2017
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**144.1**	144.1
Share premium fund		**186.1**	186.1
Revaluation surplus		**358.2**	418.6
Invested unrestricted equity fund		**250.4**	250.4
Other funds		**44.2**	43.8
Translation reserve		**−11.6**	−14.5
Retained earnings		**−212.1**	−227.6
Hybrid bond		**84.3**	84.3
Equity attributable to equity holders of the parent company	4.12	**843.7**	885.1
EQUITY, TOTAL		**843.7**	885.1
NON-CURRENT LIABILITIES			
Deferred tax liabilities	2.8	**128.3**	146.7
Non-current interest-bearing financing liabilities	4.5	**359.9**	505.2
Non-current non-interest-bearing liabilities and provisions	4.9, 4.10, 5.3	**17.5**	20.7
NON-CURRENT LIABILITIES, TOTAL		**505.7**	672.6
CURRENT LIABILITIES			
Current interest-bearing financing liabilities	4.6	**227.9**	258.3
Current non-interest-bearing liabilities			
Trade payables and other current liabilities	4.6, 4.9	**190.1**	183.5
Income tax liabilities	4.6	**20.9**	16.4
Current provisions	5.3	**5.0**	5.7
Current non-interest-bearing liabilities, total		**215.9**	205.7
CURRENT LIABILITIES, TOTAL		**443.8**	464.0
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	5.1	**34.7**	39.6
LIABILITIES, TOTAL		**984.3**	1 176.3
EQUITY AND LIABILITIES, TOTAL		**1 827.9**	2 061.4

Includes continuing and discontinued operations

CONSOLIDATED CASH FLOW STATEMENT

EUR mill.	Note	**1/1–12/31/2018**	1/1–12/31/2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/loss for the period		**−45.2**	−209.4
Adjustments for:			
Depreciation, amortisation and impairment losses		**80.9**	215.9
Gains (-) and losses (+) of disposals of fixed assets and other non-current assets		**5.6**	0.3
Interest and other financial expenses		**35.3**	31.8
Interest income		**−0.6**	−0.7
Income taxes		**4.2**	18.7
Other adjustments		**−3.0**	11.9
Working capital changes:			
Increase (-) /decrease (+) in inventories		**16.3**	15.5
Increase (-) / decrease (+) in trade and other current receivables		**11.9**	3.1
Increase (+) / decrease (-) in current liabilities		**10.5**	−33.4
Interest expenses paid		**−24.4**	−23.6
Interest received from operating activities		**0.6**	0.6
Income taxes paid from operating activities		**−9.2**	−11.8
Net cash from operating activities		**82.9**	18.8
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible and intangible assets		**−28.1**	−33.7
Proceeds from sale of tangible and intangible assets		**122.5**	
Exchange rate gain on the hedge of a net investment and internal loan*		**31.6**	7.1
Dividends received from investing activities			0.0
Net cash used in investing activities		**126.0**	−26.6
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from current liabilities		**79.9**	246.1
Repayment of current liabilities		**−249.1**	−380.6
Proceeds from non-current liabilities		**215.0**	737.4
Repayment of non-current liabilities		**−213.8**	−582.9
Loan arrangement expenses			−10.4
Interest on hybrid bond		**−6.6**	−7.4
Net cash used in financing activities		**−174.6**	2.3
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**34.3**	−5.5
Cash and cash equivalents at the beginning of the period		**21.0**	20.2
Cheque account with overdraft facility		**−12.2**	−5.7
Cash and cash equivalents at the beginning of the period		**8.8**	14.5
Net increase/decrease in cash and cash equivalents		**34.3**	−5.5
Effects of exchange rate fluctuations on cash held		**−0.1**	−0.2
Cash and cash equivalents at the end of the period		**43.4**	21.0
Cheque account with overdraft facility		**−0.4**	−12.2
Cash and cash equivalents at the end of the period	4.4	**43.0**	8.8

Includes continuing and discontinued operations
*Realised foreign exchange rate gain on the hedge of a net investment in a foreign operation and internal loan.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

EUR mill.	Share capital	Share premum fund	Revaluation surplus	Hedging reserve	Reserve for un-restricted equity	Other reserves	Translation differences	Retained earnings	Hybrid bond	**Total**
EQUITY 1.1.2018	144.1	186.1	418.6	−0.1	250.4	43.8	−14.5	−227.6	84.3	**885.1**
Profit/loss for the period								−45.2		**−45.2**
Changes in revaluation surplus (IAS 16)			6.9							**6.9**
Exchange differences on translating foreign operations 2)							2.8			**2.8**
Cash flow hedges 2)				0.5						**0.5**
Total comprehensive income for the period, net of tax			6.9	0.5			2.8	−45.2		**−34.9**
Disposal of revalued assets			−58.4					58.4		
Interest paid on hybrid bond								−6.6		**−6.6**
Other changes 1)			−8.9					8.9		
Total transactions with the equity owners			−67.3					60.7		**−6.6**
EQUITY 31.12.2018	144.1	186.1	358.2	0.4	250.4	43.8	−11.6	−212.1	84.3	**843.7**

1) A yearly transfer of the difference between depreciation based on the revalued carrying amount of buildings and depreciation based on the buildings' original cost.
2) Notes 2.7, 4.12
Includes continuing and discontinued operations

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1 Basis of preparation

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

1.1 General

Stockmann's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), complying with the IAS and IFRS standards and IFRIC and SIC interpretations in force on 31 December 2018. In the Finnish accounting legislation and the regulations issued pursuant to it, International Financial Reporting Standards (IFRS) refer to the standards and their interpretations that have been approved for application in the EU in accordance with the procedure stipulated in EU regulation (EC) No 1606/2002. The notes to the consolidated financial statements are also in accordance with Finnish accounting and company legislation that supplements IFRS regulations. The information in the financial statements is based on original acquisition costs, unless stated otherwise in the accounting policies. The financial statements are presented in millions of euros.

As from 1 January 2018, the Stockmann Group has applied the following new and revised standards and interpretations:

IFRS 15 Revenue from Contracts with Customers, replaces IAS 18 and IAS 11 standards and related interpretations. The IFRS 15 standard provides a five-step model outlining the amount and the timing of revenue recognition. According to the new standard, revenue is recognised as control is passed, either over time or at a point in time. Most of the Group's revenue comes from the retail sale of goods and services that are paid for with cash or credit card, and the revenue is recognised at the time of sale. Online store sales and sales to franchising-partners are recognised as revenue when all goods or services related to the order are delivered to the customer or the franchising partner and the customer obtains control over goods or services at a point in time. Thus the adoption of IFRS 15 has not had an effect on consolidated financial statements.

IFRS 9 Financial instruments and its amendments made to the standard, replaces IAS 39 standard. The IFRS 9 standard includes revised guidelines for the recognition and measurement of financial instruments. The standard also contains a new accounting model for expected credit losses that is applied in determining the impairment recognised for financial assets. In the Stockmann Group, the amount of future credit losses is estimated on the basis of experience and recognised in profit or loss as a percentage of all outstanding trade and lease receivables. The impairment is recognized to the extent of the expected credit losses for the entire validity period of the receivable. The standard's requirements related to general hedge accounting have also been revised. Hedge accounting is applied in the Group to certain foreign currency-denominated derivatives that hedge foreign currency denominated net investments in foreign operations as well as for cash flow hedges of foreign currency risk in forecasted purchases and sales in foreign currency. Realised foreign exchange rate gains on the hedge of a net investment in a foreign operations and internal loans are included in the cash flow from investment activities in the consolidated cash flow statement. The hedging relationship must meet requirements of the risk management and be effective, but the effectiveness testing is not required to carry out at each financial statements date. The new standard has not had an effect on the consolidated figures.

Amendments to IFRS 2 Share-based Payment - Clarification and Measurement of Share-based Payment Transactions. The amendments clarify the accounting for certain types of arrangements. The amendments concern three areas: valuation of cash-settled payments, share-based payments with tax at source deducted and changing cash-settled share-based payments to equity-settled share-based payments. The amendment to the standard has not had an effect on the consolidated financial statements.

Interpretation of IFRIC 22, Foreign Currency Transactions and Advance Consideration. When a foreign currency advance consideration related to an asset, expense or income is received or paid, IAS 21 The Effects of Changes in Foreign Exchange Rates does not provide an opinion on the date of the transaction, for the purpose of determining the exchange rate. The interpretation clarifies that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the prepayment asset or deferred income liability arising from the advance consideration. If a transaction is made up of several advance considerations, the date of the transaction is determined separately for each individual consideration. The amendment to the standard has not had an effect on the consolidated financial statements.

Amendments to IAS 40 Investment Property – Transfers of Investment Property. The amendments clarify that changes in the intentions of the management alone is not enough to indicate a change in use of the investment property. The examples of a change in use listed in the standard have also been changed so that they also refer to a property under construction as well as a completed property. The amendment to the standard has not had an effect on the consolidated financial statements.

The Annual Improvements to IFRSs 2014–2016, which applies to financial periods beginning on or after 1 January 2018. In the Annual Improvements process, minor and non-urgent amendments to standards are compiled into a single package and applied once a year. The amendments cover IFRS 1 and IAS 28 standards. The amendments to the standard have not had an effect on the consolidated financial statements.

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

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

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

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

The management used its discretion when classifying the Nevsky Centre shopping centre property as available for sale. Stockmann plc signed an agreement to sell its Nevsky Centre shopping centre property in St. Petersburg, Russia, to PPF Real Estate on 16 October 2018. Stockmann completed the sale of the shopping centre property in St. Petersburg to the new owner PPF Real Estate on 24 January 2019. The transaction included Stockmann's fully-owned Russian subsidiary, OOO Stockmann Nevsky Centre, which owns 100% of the Nevsky Centre property.

Moreover, the management exercised discretion during the financial period when testing Lindex's and Stockmann Retail's goodwill for impairment. As a result of the testing, Stockmann recognised a write-down of EUR 25 million on Stockmann Retail's goodwill in December 2018.

The principal assumptions concerning the future and the main uncertainties relating to estimates at the end of the reporting period that constitute a significant risk of causing a material change in the carrying amounts of assets and liabilities within the next financial year, concern the fair values of properties, inventories and provisions, as well as the impairment testing of goodwill and the Lindex brand. More detailed information on these is provided in notes 2.4, 3, and 5.3.

1.3 Principles of consolidation

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

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

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

1.4 Items denominated in foreign currency

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

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

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

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

1.5 Application of new or revised IFRS standards and interpretations

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

IFRS 16 Leases, which was published in January 2016 and applies to financial periods beginning on or after 1 January 2019. The new standard replaces IAS 17 and the related interpretations. The IFRS 16 standard requires lessees to recognise leases on the balance sheet as a lease liability and as a right-of-use asset. Stockmann will use the exemption provided by IFRS 16 not to recognize in the balance sheet lease liability for leases which have a lease term of 12 months or less, and for leases in which the underlying asset is of low value. The Group will apply the standard using the modified retrospective approach, which means that the comparative figures for the year preceding adoption will not be restated. Lessor accounting will remain substantially unchanged from the current IAS 17.

The new standard will have a significant impact on the Group's assets and liabilities. Based on Stockmann's analysis the right-of-use asset and lease liability will be composed of leased business premises, warehouses, cars, and other machinery and equipment. At the time the standard is initially applied, the lease liability is recognised at the present value of the minimum lease payments payable on the basis of leases, discounted using the incremental borrowing rate. A single discount rate will be applied to all leases that are in a similar economic environment. The amount of lease liability will be included in the acquisition cost of right-of-use assets at the date of initial application. Right-of-use assets transferred to the lessee under a sublease agreement and classified as a finance lease will be derecognised and presented as a net investment in a sublease in the balance sheet. On 31 December 2018, the minimum lease payments payable on the basis of leases for the Group's business premises totalled EUR 583.6 million (note 3.5). Stockmann estimates that at the time the standard is initially applied on 1 January 2019 the lease liability in the Group will amount to approximately EUR 550 million.

The reporting of leases in accordance with the new standard will also have a significant impact on the consolidated income statement. The lessee will not recognise any lease payment as a cost, but instead depreciation or a possible impairment loss for the period will be recognised through profit or loss. Stockmann estimates that the Group's EBITDA will increase by approximately EUR 100 million and operating result (EBIT) by approximately EUR 12 million whereas the Group's result for the period will decrease by approximately EUR 9 million in the financial period 2019 as a result of adopting the standard. The interest on lease liability, which is calculated using the discount rate at the lease commencement date, will be recognised as a financial expense; and variable lease payments that are not included in the lease liability will be recgnised as lease expenses. Lease income from a sublease classified as a finance lease shall not be included in the profit or loss, instead the interest income from a net investment in a sublease is included in financial items. Stockmann estimates that the adoption of the new standard will increase financial expenses by approximately EUR 24 million in the financial year 2019. In addition, the adoption of IFRS 16 will also have impact on the net cash flows from operating activities, as the amortisation of lease liabilities is presented in cash flows from financing activities. The IFRS 16 has also a significant impact on certain key figures: with the standard the Group's equity ratio at the end of the financial year 2018 would have been approximately 35 per cent (reported 46.2%) and the net gearing approximately 130 per cent (reported 64.5%).

IFRIC 23 Uncertainty over Income Tax Treatments, effective in financial periods beginning on or after 1 January 2019. The interpretation clarifies accounting for situations where an entity's tax treatment is pending approval by a taxation authority. An entity has to consider whether it is probable that the taxation authority will accept the tax treatment that it has used. When doing so, the entity is to assume that the taxation authority will have full knowledge of all relevant information when examining the tax treatment. The amendment to the standard has no effect on the consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation, effective in financial years beginning on or after 1 January 2019. The amendments allow certain financial instruments with symmetric prepayment options to be measured at amortised cost. The amendment to the standard has no effect on the consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures, effective in financial periods beginning on or after 1 January 2019. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendment to the standard has no effect on the consolidated financial statements.

Annual Improvements to IFRSs 2015–2017 Cycle, effective in financial periods beginning on or after 1 January 2019. In the Annual Improvements process, minor and non-urgent amendments to standards are compiled into a single package and applied once a year. The amendments cover the IFRS 3, IFRS 11, IAS 12 and IAS 23 standards. The amendments will have no effect on the consolidated financial statements. As at 31 December 2018, the standard had not yet been approved for application in the EU.

Amendments to IAS 19 Employee Benefits, effective in financial periods beginning on or after 1 January 2019. The amendments concern an amendment, curtailment or settlement in a defined benefit pension plan. The amendments will have no effect on the consolidated financial statements. As at 31 December 2018, the standard had not yet been approved for application in the EU.

Conceptual Framework for Financial Reporting, effective in financial periods beginning on or after 1 January 2020. The Framework doesn't replace any existing standard, the Framework's purpose is to assist all parties to understand and interpret IFRS in areas that are not covered by a standard. Included are revised definitions of an asset and a liability as well as a new guidance on measurement and derecognition, presentation and disclosure. As at 31 December 2018, the Framework had not yet been approved for application in the EU.

Amendments to IAS Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, effective in financial periods beginning on or after 1 January 2020. The amendments clarify the definition of ‘material’ in the standards. The amendments will have no effect on the consolidated financial statements. As at 31 December 2018, the standard had not yet been approved for application in the EU.

Amendments to IFRS 3 Business Combinations, amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. The amendments are changes to Appendix A Defined terms, the application guidance, and the illustrative examples. The amendments will have no effect on the consolidated financial statements. As at 31 December 2018, the standard had not yet been approved for application in the EU.

2 Key numbers

2.1 Segment information

Accounting policies
The Stockmann Group’s reportable segments are Lindex which engages in the fashion trade, Stockmann Retail which engages in the department store trade, and the Real Estate segment which manages the properties owned by the Group. Segments are divisions of the Group that are managed and monitored as separate units selling different products and services. Unallocated items include functions serving the entire Group.

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

2.1.1 Operating segments

Lindex
The Lindex fashion chain has a total of 474 stores in 18 countries and the online store. Lindex’s business idea is to offer inspiring affordable fashion. Its range of women’s wear, lingerie, children’s wear and cosmetics consists of a variety of concepts.

Stockmann Retail
Stockmann’s eight department stores in three countries and the Stockmann online store in Finland offer an extensive and high-quality product range, a good price/quality ratio and an excellent customer service expertise in a premium and international shopping environment.

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

The Book House property in Helsinki city centre was sold to AEW Europe City Retail Fund in May 2018.

Stockmann completed the sale of Nevsky Centre shopping centre property in St. Petersburg to the new owner PPF Real Estate on 24 January 2019. The transaction included Stockmann’s fully-owned Russian subsidiary, OOO Stockmann Nevsky Centre, which owns 100% of the Nevsky Centre property. Nevsky Centre is classified as assets held for sale in the consolidated financial statements 2017 and 2018.

Operating segments, EUR mill.

Revenue	2018	2017
Lindex	589,9	606,0
Stockmann Retail	386,2	410,2
Real Estate	69,0	67,1
Unallocated	0,4	0,0
Eliminations	-26,6	-27,5
Group total	1 018,8	1 055,9

Operating profit/loss	2018	2017
Lindex	28,9	13,4
Stockmann Retail	-27,5	-20,6
Real Estate *	23,2	29,0
Unallocated	-4,5	-20,2
Goodwill impairment	-25,0	-150,0
Group total	-5,0	-148,4
Financial income	0,6	0,7
Financial expenses	-35,3	-31,8
Consolidated profit/loss before taxes	-39,6	-179,5

* 2018 operating result of Real Estate included capital gain of the divested Book House of EUR 7.0 million and negative valuation adjustment of EUR 11.9 million relating to the net assets of Nevsky Centre. In 2017 the operating result of Real Estate included fair value changes on investment properties of EUR 3.7 million.

Depreciation, amortisation and impairment losses	2018	2017
Lindex	19,7	20,5
Stockmann Retail	13,2	14,9
Real Estate	21,3	23,2
Unallocated	1,7	7,3
Goodwill impairment	25,0	150,0
Group total	80,9	215,9

Capital expenditure	2018	2017
Lindex	20,1	22,6
Stockmann Retail	3,2	5,7
Real Estate	3,6	4,9
Unallocated	2,5	1,5
Group, total	29,3	34,7

Assets	2018	2017
Lindex	802,6	830,0
Stockmann Retail	138,0	189,1
Real Estate	678,2	786,4
Unallocated	33,4	71,3
Non-current assets classified as held for sale	175,7	184,6
Group, total	1 827,9	2 061,4

2.1.2 Information on market areas

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

Revenue	2018	2017
Finland	386,2	402,6
Sweden* and Norway	449,1	474,7
Baltic countries, Russia and other countries	183,5	178,6
Group total	1 018,8	1 055,9
Finland, %	37,9	38,1
International operations, %	62,1	61,9

Operating profit/loss	2018	2017
Finland	-27,0	-34,0
Sweden* and Norway	26,1	20,5
Baltic countries, Russia and other countries	20,9	15,2
Market areas total	20,0	1,6
Goodwill impairment	-25,0	-150,0
Group total	-5,0	-148,4

Non-current assets	2018	2017
Finland	642,9	791,3
Sweden and Norway	642,5	668,3
Baltic countries, Russia and other countries	287,3	298,5
Group, total	1 572,8	1 758,1
Finland, %	40,9	45,0
International operations, %	59,1	55,0

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

2.2 Operating income

2.2.1 Revenue recognition

Accounting policies

Revenue is recognised as the performance obligation is satisfied by transferring a promised good or service to a customer and the customer obtains control of that good or service. Most of the Group's income comes from the retail sale of goods or services that are paid for with cash or credit card and revenue is recognised at the time of sale. Online store sales and sales to franchising-partners are recognised as revenue when all goods or services related to the order are delivered to the customer or the franchising partner and the customer obtains control over goods or services at a point in time.

Customers have a right to return the products purchased from store or online store within a certain time frame, in the financial statements provision is made for returns by creating a return accrual, which is based on experience, as a percentage of all outstanding trade and lease receivables. A provision is booked in the balance sheet and revenue as well as materials and consumables used are adjusted. Cost of goods for anticipated returns is recognised in the inventory value.

Interest income on e-commerce is included in the selling price and recognised in revenue.

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

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

In calculating revenue indirect taxes and discounts granted have been deducted from the sales.

2.2.1.1 Revenue

EUR mill.	2018	2017
Sales of goods	944,7	985,3
Rental income and service charges	74,2	70,5
Total	1 018,8	1 055,9
Investment property rentals and service charges	22,0	22,6

Investment property rentals income and service charges relate to Nevsky Centre in Russia and is included in the amount EUR 74.2 EUR million (EUR 70.5 million). More information on the investment properties is given in note 3.4.

2.2.1.2 Disaggregated revenue information

1.1.–31.12.2018, EUR mill.	Lindex	Stockmann Retail	Real Estate	Other	Elim.	Total
Revenue streams						
Sales of goods	589,9	354,8				944,7
Rental income and service charges		31,4	47,0	0,4	–26,6	52,2
Investment property rentals and service charges			22,0			22,0
Total	589,9	386,2	69,0	0,4	–26,6	1 018,8
Market areas						
Finland	70,2	297,1	18,5	0,4		386,2
Sweden and Norway	449,1					449,1
Baltic countries, Russia and other countries	70,6	89,1	51,4		–27,5	183,5
Total	589,9	386,2	69,9	0,4	–27,5	1 018,8

2.2.1.3 Contract balances

EUR mill.	2018
Receivables that are included in trade and other receivables	11,6
Receivables that are included in assets held for sale	0,5
Contract assets	0,4
Contract liabilities	6,5

No information is provided about remaining performance obligations at 31 December 2018 that have an original expected duration of one year or less, as allowed by IFRS 15.

2.2.2 Other operating income

Accounting policies

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

EUR mill.	2018	2017
Gain on sale of property, plant and equipment	7,0	0,0
Total	7,0	0,0

Information on the sales of investment properties is given in note 3.4.

2.2.3 Fair value changes

EUR mill.	2018	2017
Fair value gain on investment property		7,3
Fair value loss on investment property	–0,3	–3,7
Fair value changes on investment properties, total	–0,3	3,7

Information on the investment properties is given in note 3.4.

2.3 Gross margin

EUR mill.	2018	2017
Revenue	1 018,8	1 055,9
Raw material and consumables used	438,7	467,0
Gross profit	580,1	588,8
Gross margin, % of revenue	56.9%	55.8%

2.4 Inventories

Accounting policies

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

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

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

EUR mill.	2018	2017
Raw material and consumables	141,9	162,2
Advance payments for inventories		0,0
Total	141,9	162,2

The value of inventories has been written off by EUR 6.5 million for obsolete assets (EUR 5.4 million).

2.5 Employee benefits

Pension obligations

Accounting policies

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

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

Defined benefit pension plans are based on the calculations of authorised actuaries. The pension expenditure based on the work performance during the period and the net interest of the net debt of the defined benefit plan are recognised in the income statement and presented as expenses arising from employee benefits. The net debt of the defined benefit pension plan is entered in the statement of financial position. The Group had no defined benefit pension plans in the 2018 financial year.

Other long-term employee benefits

Accounting policies

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

EUR mill.	2018	2017
Wages and salaries	172,3	183,6
Pension expenses, defined contribution plans	16,2	18,1
Other employee benefits expenses	33,4	34,6
Total	222,0	236,2

Information on management's employee benefits is given in note 5.5, Related party transactions.

2.6 Other operating expenses

Accounting policies

Other operating expenses include the sale of property, plant and equipment and other expenses not related to the actual sale of goods and services as well as valuation losses related to assets classified as held for sale.

EUR mill.	2018	2017
Site expenses	168,2	175,8
Marketing expenses	38,1	44,1
Goods handling expenses	4,9	6,0
Credit losses	0,7	0,8
Voluntary social security expenses	3,0	4,3
Direct maintenance expenses of investment property	2,4	2,5
Value adjustment to assets held for sale	11,9	
Other expenses	59,7	55,3
Total	288,9	288,8

Fees to the auditors

EUR mill.	2018	2017
Auditing	0,4	0,4
Certificates and statements	0,0	0,0
Tax advisory	0,2	0,2
Other services	0,1	0,1
Total	0,7	0,7

2.7 Income taxes

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

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

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

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

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

EUR mill.	2018	2017
Income taxes for the financial period	-4,7	-5,0
Income taxes from previous financial periods	-4,8	1,0
Change in deferred tax liability/assets	5,3	-14,7
Total	-4,2	-18,7

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

EUR mill.	2018	2017
Profit before taxes	-39,6	-179,5
Income taxes at current tax rate	7,9	35,9
Income taxes from previous financial periods	-4,8	1,0
Tax-exempt income	0,3	0,0
Differing tax rates of foreign subsidiaries	2,3	-1,5
Non-deductible expenses	-23,7	-40,3
Change in deferred tax related to revaluation of Nevsky Centre property	4,6	-12,8
Unrecognised deferred tax assets from losses in taxation	-9,9	-5,7
Effect of change in the tax base to deferred taxes	1,0	0,8
Reverse of deferred tax relating to previous financial periods	18,1	4,1
Income taxes in the income statement	-4,2	-18,7

The Stockmann Group has received tax reassessment decisions from the Swedish tax authorities for years 2013, 2014, 2015 and 2016. According to decisions, a Group company Stockmann Sverige AB is requested to pay EUR 19.8 million in additional taxes, including related interest. Stockmann considers the decisions unfounded and has appealed against them. The total additional tax is booked in the financial statements and result for the periods for 2015-2018, of which EUR 4.8 million was recognised to the income statement 2018.

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

2.8 Deferred tax assets and deferred tax liabilities

Changes in deferred tax assets 2018

EUR mill.	1.1.2018	Recognised in income statement	Recognised in equity	Translation difference	31.12.2018
Confirmed losses	30,5	−18,1		0,0	12,4
Measurement of derivatives and other financial instruments at fair value					
Difference between carrying amounts and tax bases of property, plant and equipment	1,5			0,0	1,5
Difference between carrying amounts and tax bases of investment property					
Financial lease	0,2	−0,2			
Other temporary differences	1,0	−0,2		0,0	0,8
Total	33,2	−18,4		0,0	14,7

Changes in deferred tax assets 2017

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

Changes in deferred tax liabilities 2018

EUR mill.	1.1.2018	Recognised in income statement	Recognised in equity	Translation difference	Liabitilies related to assets classified as held for sale	31.12.2018
Cumulative depreciation differences	23,0	1,0		-0,3		23,7
Difference between carrying amount and tax bases of prop., plant and equip.	7,0	-0,9		-0,1		6,0
Difference between carrying amounts and tax bases of investment property						
Measurement at fair value of intangible and tangible assets	115,8	-23,9	1,7	-0,7	4,6	97,5
Measurement at fair value of investment property						
Unrelialised exchange rate difference on the non-current foreign currency loan						
Other temporary differences	0,9	0,0	0,1	0,0		1,1
Total	146,7	-23,7	1,9	-1,1	4,6	128,3

Changes in deferred tax liabilities 2017

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

Losses in taxation on which deferred tax assets have not been recognised in financial year amount to EUR 44.7 million (EUR 28.5 million). In accordance with IAS 12 paragraph 52 A, deferred tax liabilities have not been recorded on the accumulated distributable earnings, EUR 37.7 million (EUR 32.9 million), of the Estonian and Latvian subsidiaries.

3 Intangible and tangible assets and leasing arrangements

3.1 Depreciation, amortisation and impairment losses

EUR mill.	2018	2017
Intangible assets	11,9	12,4
Buildings and constructions	21,3	23,2
Machinery and equipment	22,0	24,5
Modification and renovation costs for leased premises	0,7	0,9
Depreciation and amortisation, total	55,9	60,9
Intangible assets		5,0
Goodwill	25,0	150,0
Impairment losses, total	25,0	155,0
Depreciation, amortisation and impairment losses, total	80,9	215,9

3.2 Goodwill and other intangible assets

Accounting policies

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

The amortisation periods of intangible assets are:

software	5–10 years
other intangible rights	5 years

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

Goodwill

EUR mill.	2018	2017
Acquisition cost 1.1.	713,8	735,6
Translation difference +/–	–28,6	–21,8
Acquisition cost 31.12.	685,2	713,8
Impairment losses 1.1.	–150,0	
Translation difference +/–	5,9	
Impairment losses for the financial period	–25,0	–150,0
Accumulated impairment losses 31.12.	–169,1	–150,0
Carrying amount 1.1.	563,8	735,6
Carrying amount 31.12.	516,1	563,8

Trademark

EUR mill.	2018	2017
Acquisition cost 1.1.	92,7	95,5
Translation difference +/–	–3,7	–2,8
Acquisition cost 31.12.	88,9	92,7
Accumulated amortisation 1.1.	–0,3	–0,3
Translation difference +/–	0,0	0,0
Accumulated amortisation 31.12.	–0,3	–0,3
Carrying amount 1.1.	**92,4**	95,2
Carrying amount 31.12.	**88,7**	92,4

Impairment testing

Accounting policies

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

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

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

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

The Stockmann Group's reportable segments under IFRS 8, fashion chain Lindex and Stockmann Retail for department store business, are cash-generating units. Their accumulated cash flows are largely independent of the cash flows accumulated by the other classes or groups of assets. In Stockmann Group, asset items are tested for impairment when preparing the financial statements or if there are indications that assets may be impaired. For the purposes of impairment testing, on 31 December 2018 EUR 516.1 million of goodwill was allocated to the Lindex and EUR 25 million of goodwill to Stockmann Retail.

The Lindex trademark of EUR 88.7 million is allocated in its entirety to the Lindex segment. The Lindex brand is deemed to have an indefinite useful life due to high brand awareness. The Lindex brand has existed more than 60 years and the Group will continue to use the brand both in its present markets and when the Lindex product range and business model are introduced into new markets.

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

In the impairment testing, the cash flow forecasts for Lindex and the Stockmann Retail are based on market-area forecasts and are approved by management. The cash flow forecasts cover a five-year period and also have an effect on the terminal period. Long-term forecasts, which were updated during the financial year, take into account changes in the economy compared with the previous year. Lindex's cash flows beyond this management-approved forecast period were extrapolated using a steady 1.7 per cent growth rate and Stockmann Retail's cash flows beyond approved forecast period were extrapolated using a steady 1.5 per cent growth rate. As a result of the impairment test, an impairment loss of EUR 25 million related to Stockmann Retail's remaining goodwill was recognised in the income statement in December 2018. The main assumptions behind the impairment were related to the weaker revenue and profitability growth than estimated earlier for the Retail-segment. Following the impairment loss recognised in Stockmann Retail CGU, the recoverable amount of goodwill in the Group is equal to the carrying amount of EUR 516.1 million.

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

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

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

The discount rate determined is a pre-tax rate. The discount rate of Lindex is based on the market interest rate and country-specific risk pertaining to Sweden and Finland; the discount rate used for Lindex is 8.6 per cent (7.3% in 2017). The discount rates of Stockmann Retail are based on the market interest rate in Finland and country-specific risk. The discount rate used for the Stockmann Retail is 8.4 per cent (7.3% in 2017).

Sensitivity in the determining of the recoverable amount

In the impairment testing the recoverable amount of Lindex is more than 10 percent larger than the carrying amount of the non-current assets and the working capital in the balance sheet. However due to the challenging competition and general economic situation affecting consumers' purchasing behaviour and purchasing power, any changes in the variables used can lead to a situation in which the recoverable amount Lindex would be less than the segment's carrying amount which leads to need for impairment.

A sensitivity analysis was carried out on Lindex using downside scenarios. The scenarios involved reducing either the sales growth from the level given in the management's estimates, or raising the discount rate. If the sales growth of Lindex were on the average 1.4 percentage point less than forecasted during the forecasting period also reflecting to the value of the terminal period, or if the discount rate were increased by one percentage point, the combined total of the carrying amount of the non-current assets and the working capital would exceed the recoverable amount of the unit. Based on the impairment testing carried out, there is no need for impairment entries.

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

Intangible rights

EUR mill.	2018	2017
Acquisition cost 1.1.	88,4	85,8
Translation difference +/–	–1,4	–0,8
Increases 1.1.–31.12.	9,4	7,1
Decreases 1.1.–31.12.	–10,9	–10,1
Transfers between items 1.1.–31.12.	3,7	6,5
Acquisition cost 31.12.	89,1	88,4
Accumulated amortisation and impairment losses 1.1.	–49,9	–40,5
Translation difference +/–	0,9	0,6
Amortisation on disposals	10,9	6,8
Write-downs		–5,0
Amortisation for the financial period	–11,5	–11,9
Accumulated amortisation and impairment losses 31.12.	–49,5	–49,9
Carrying amount 1.1.	38,5	45,3
Carrying amount 31.12.	39,6	38,5

Other intangible assets

EUR mill.	2018	2017
Acquisition cost 1.1.	7,8	8,3
Translation difference +/–	–0,5	–0,5
Acquisition cost 31.12.	7,3	7,8
Accumulated amortisation 1.1.	–7,0	–7,3
Translation difference +/–	0,5	0,4
Amortisation for the financial period	–0,1	–0,2
Accumulated amortisation 31.12.	–6,6	–7,0
Carrying amount 1.1.	0,8	1,0
Carrying amount 31.12.	0,6	0,8

Other intangible assets, finance lease

EUR mill.	2018	2017
Acquisition cost 1.1.	3,2	3,2
Acquisition cost 31.12.	3,2	3,2
Accumulated amortisation 1.1.	–1,3	–1,0
Amortisation for the financial period	–0,3	–0,3
Accumulated amortisation 31.12.	–1,6	–1,3
Carrying amount 1.1.	1,9	2,2
Carrying amount 31.12.	1,6	1,9

Advance payments and construction in progress

EUR mill.	2018	2017
Acquisition cost 1.1.	0,6	3,7
Increases 1.1.–31.12.	4,0	3,3
Decreases 1.1.–31.12.	0,0	
Transfers between items 1.1.–31.12.	–3,7	–6,5
Acquisition cost 31.12.	0,9	0,6
Carrying amount 1.1.	0,6	3,7
Carrying amount 31.12.	0,9	0,6

Intangible assets, total	647,5	698,0

In 2018 and 2017 advance payments for intangible assets and construction in progress included mainly development of ICT systems.

3.3 Property, plant and equipment

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

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

Land areas and buildings in own use have been carried on the balance sheet at the revalued amount in accordance with standard IAS 16 paragraph 31. Land areas and buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The depreciation charge from revalued amount of buildings for each period is recognised in profit and loss. Revaluation is carried out regularly so that the carrying amount of land areas and buildings does not deviate substantially from the fair value at the close of the reporting period. The revaluation of properties at fair value is based on the market standards valid at each valuation date, which have been defined by the International Valuation Standard Committee. The valuation is carried out by authorised property valuers in each market based on ten years discounted cash flows. Stockmann Real Estate reviews them and presents recommended fair values to Stockmann Board. The Board evaluates valuations and confirms fair values which are used in the revaluation. If the carrying amount of land areas and buildings increases as a result of revaluation, the increase is disclosed in items of other comprehensive income and the accumulated increase is disclosed in the revaluation surplus in equity. However, if the increase cancels out the reduction resulting from the revaluation, which has earlier been entered in the income statement, the increase is also entered in the income statement. If the carrying amount of the asset decreases as a consequence of revaluation, the decrease is entered in the income statement. However, the decrease is presented in items of other comprehensive income up to the revaluation surplus amount. The difference between depreciation based on the revalued carrying amount of buildings and depreciation based on the buildings' original cost is transferred yearly from the revaluation surplus to retained earnings.

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

The depreciation periods for property, plant and equipment are:

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

Land and water

EUR mill.	2018	2017
Acquisition cost including the fair value valuations 1.1.	103,9	114,3
Fair value change from revaluation of the real estates 31.12.	–1,4	3,2
Reclassification to investment property		–13,6
Acquisition cost 31.12.	102,5	103,9
Carrying amount 1.1.	103,9	114,3
Carrying amount 31.12.	102,5	103,9

Share of the fair value valuation was EUR 85.0 million (EUR 86.5 million).

Buildings and constructions

EUR mill.	2018	2017
Acquisition cost including the fair value valuations 1.1.	741,4	804,6
Fair value change from revaluation of the real estates 31.12.	10,1	34,9
Translation difference +/–		0,0
Increases 1.1.–31.12.	0,1	0,0
Decreases 1.1.–31.12.	–0,3	–2,6
Reclassification to investment property		–99,8
Transfers between items 1.1.–31.12.	2,0	4,3
Acquisition cost 31.12.	753,3	741,4
Accumulated depreciation 1.1.	–153,9	–149,9
Translation difference +/–		0,0
Depreciation on disposals	0,3	2,6
Reclassification to investment property		16,6
Depreciation for the financial period	–21,3	–23,2
Accumulated depreciation 31.12.	–174,8	–153,9
Carrying amount 1.1.	587,6	654,8
Carrying amount 31.12.	578,5	587,6

Share of the fair value valuation was EUR 375.1 million (EUR 365.1 million).

The weighted average market yield requirement used in the fair value calculation of three department store properties was 4.8 per cent (4.6 per cent). In the fair value hierarchy the valuation of land areas and buildings is categorised within level 3.

Independent valuers calculate the fair value for each land area and building using the data provided by Stockmann:

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

Machinery and equipment

EUR mill.	2018	2017
Acquisition cost 1.1.	262,9	262,2
Translation difference +/–	–4,3	–6,0
Increases 1.1.–31.12.	12,1	16,3
Decreases 1.1.–31.12.	–10,4	–12,1
Transfers between items 1.1.–31.12.	0,2	9,4
Transfers to non-current assets classified as held for sale	0,0	–6,9
Acquisition cost 31.12.	260,4	262,9
Accumulated depreciation 1.1.	–186,7	–181,2
Translation difference +/–	3,8	5,2
Depreciation on disposals	8,7	7,3
Accumulated depreciation on transfers to non-current assets classified as held for sale	0,0	6,4
Depreciation for the financial period	–22,0	–24,5
Accumulated depreciation 31.12.	–196,3	–186,7
Carrying amount 1.1.	76,2	81,0
Carrying amount 31.12.	64,1	76,2

Modification and renovation costs of leased premises

EUR mill.	2018	2017
Acquisition cost 1.1.	36,0	37,5
Translation difference +/–	0,0	0,0
Increases 1.1.–31.12.	0,1	0,1
Decreases 1.1.–31.12.	0,0	–2,9
Transfers between items 1.1.–31.12.	1,4	1,4
Acquisition cost 31.12.	37,4	36,0
Accumulated depreciation 1.1.	–31,6	–31,3
Translation difference +/–	0,0	0,0
Depreciation on disposals	0,0	0,6
Depreciation for the financial period	–0,7	–0,9
Accumulated depreciation 31.12.	–32,3	–31,6
Carrying amount 1.1.	4,4	6,1
Carrying amount 31.12.	5,1	4,4

Advance payments and construction in progress

EUR mill.	2018	2017
Acquisition cost 1.1.	1,2	8,7
Translation difference +/–		0,0
Increases 1.1.–31.12.	3,7	7,9
Decreases 1.1.–31.12.	–0,2	–0,1
Transfers between items 1.1.–31.12.	–3,9	–15,1
Transfers to non-current assets classified as held for sale	0,0	–0,2
Acquisition cost 31.12.	0,8	1,2
Carrying amount 1.1.	1,2	8,7
Carrying amount 31.12.	0,8	1,2

EUR mill.	2018	2017
Property, plant and equipment, total	751,1	773,2

In 2018 and 2017 advance payments for plant, property and equipment and construction in progress included mainly modification and renovation costs for department stores and real estate premises.

3.4 Investment property

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

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

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

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

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

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

The Book House property located at Pohjoisesplanadinkatu 39 in Helsinki and the Tapiolan Säästötammi property in Espoo, of which Stockmann owns 37.8 per cent, were classified as investment properties in accordance with IAS 40 on 31 December 2017. Stockmann sold the Book House property to AEW Europe City Retail Fund and the closing of the transaction will took place on 24 May 2018.

EUR mill.	2018	2017
Fair value at 1.1.	100,5	181,0
Decreases 1.1.-31.12.	-100,0	
Reclassification from land		13,6
Reclassification from buildings		83,3
Fair value valuation	-0,3	3,7
Transfers to non-current assets held for sale	0,3	-67,6
Fair value at 31.12.	0,5	100,5

Independent valuers calculate the fair value for each land area and building using the data provided by Stockmann:
- revenue and operating profit of real estate business including rent income and maintenance expenses of properties
- budget of the real estate business
- rent agreements in force
- investment history of properties
- calculations of investments for new tenants
- a ten years plan for improvements of properties

3.5 Operating leases

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

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

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

Group as lessee

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

EUR mill.	2018	2017
Within one year	122,7	129,3
Within 1–5 years	316,2	331,4
In five years or more	142,5	224,3
Total	581,4	685,1

The calculation of lease agreements on business premises in 2018 has been defined by excluding the service and marketing costs. The comparison figures have not been changed. The effect is approximately EUR 28.3 million.

Lease payments

EUR mill.	2018	2017
Within one year	0,7	0,7
Within 1–5 years	1,2	1,4
In five years or more	0,3	0,3
Total	2,2	2,4

Group as lessor

The main properties owned by Stockmann are the properties of the Helsinki department store located in Helsinki, Finland, and the department store in Tallinn, Estonia. Stockmann is the majority owner in a real estate company, which owns the Stockmann department store building in Riga. The area of these properties is 88 000 square metres, 58 per cent of which consists of the Finnish properties. Approximately 73 per cent of the gross leasable gross area of the properties is used by Stockmann Retail and the remaining area is used by external tenants.

4 Capital structure

4.1 Financial income and expenses

Financial income

EUR mill.	2018	2017
Dividend income from other investments		0,0
Interest income on bank deposits, other investments and currency derivatives	0,6	0,6
Change in fair value of financial assets at fair value through profit or loss	0,0	0,1
Total	0,6	0,7

Financial expenses

EUR mill.	2018	2017
Interest expenses on financial liabilities measured at amortised cost	–33,0	–22,9
Write–off related to the investment in Cooperative		–3,8
Impairment loss on loans and receivables	–1,7	–3,5
Adjustments to earlier recognised interests related to tax audits		3,0
Expenses on early redemptions		–2,0
Other financial expenses	–0,2	
Foreign exchange differences	–0,4	–2,6
Total	–35,3	–31,8

Financial income and expenses, total	–34,6	–31,1

4.2 Financial instruments

Accounting policies

Financial instruments are classified under IFRS 9 into the following groups: financial assets and liabilities at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss and other investments. The classification is made at the time of the original acquisition based on the objective of the business model and the characteristics of contractual cash flows of the investment. At reporting date, Stockmann Group did not hold any financial assets classified as fair value through other comprehensive income.

Trade receivables and other receivables are not derivatives are measured at amortised cost. They are included in either current or non-current assets in the statement of financial position, as appropriate. Receivables are deemed non-current assets if they mature after more than 12 months. Trade receivables are recognised at their fair value in the statement of financial position on initial recognition. Stockmann Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The amount of future credit losses is estimated on the basis of experience and recognised in profit or loss as a percentage of all outstanding trade and lease receivables.
Other investments include the Group's investments in shares, and they are measured at fair value through profit or loss. The fair value of publicly quoted shares is the market price at the financial statements date. Unlisted shares are stated at cost if their fair values cannot be measured reliably.

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

Liabilities that are not derivatives are classified as amortised cost and are recognised at their fair value in the statement of financial position on initial recognition. Transaction costs are included in the original carrying amount of interest-bearing liabilities. Subsequently, interest-bearing liabilities are measured at amortised cost using the effective interest method. Non-current liabilities fall due in 12 or more months and current liabilities have a maturity of less than 12 months.

Derivative financial instruments are classified as financial assets or liabilities at fair value through profit or loss, and changes in their fair value are recognised through profit or loss, except for derivatives to which hedge accounting for cash flow hedges or for hedges of net investments are applied and which meet the criteria for hedge accounting defined in IFRS 9.

Hedge accounting is applied to certain currency derivatives that are used in hedging forecasted foreign currency denominated sales and purchases and which meet the hedge accounting requirements of IFRS 9. The hedged cash flow must be highly probable and ultimately affect profit or loss. Changes in the fair value of derivative contracts taken out to hedge cash flows are recognised in the statement of comprehensive income and presented in the fair value reserve under equity, and any ineffective component is recognised through profit or loss. Cumulative changes in fair value in equity are recognised in items adjusting sales or purchases through profit or loss in the same period as that in which the forecast transactions covered by hedge accounting are recognised in the income statement. If a hedged cash flow is no longer expected to be realized, the related fair value change that has been recognised for the hedging instrument directly to equity is transferred to the income statement.

Hedge accounting is also applied to certain currency derivatives that hedge foreign currency denominated net investments in foreign operations. Changes in the fair value of the hedging instrument are recognised in the statement of comprehensive income and presented in the translation difference in shareholders' equity. Gains and losses from the hedging of net investments that are recognised in translation differences are transferred to the income statement when the net investment is disposed of in full or in part. Realised foreign exchange rate gain on the hedge of a net investment in a foreign operations and internal loans are included in a cash flow from investment activities in the consolidated cash flow statement.

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

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

The fair value of currency forwards and currency swaps is calculated by measuring them at their market prices at the financial statements date. The fair value of currency options is calculated using the Black-Scholes model. The results of the measurement of currency derivatives are recognised through profit or loss, except for currency derivatives to which hedge accounting for cash flow hedges or hedges of net investments are defined in IFRS 9 is applied.

4.3 Current receivables

EUR mill.	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Interest-bearing trade receivables	0,8	0,8	2,2	2,2
Non-interest-bearing trade receivables	10,8	10,8	15,9	15,9
Receivables based on derivative contracts	1,4	1,4	5,3	5,3
Other receivables	1,8	1,8	27,1	27,1
Prepayments and accrued income	29,7	29,7	31,3	31,3
Income tax receivables	7,8	7,8	3,6	3,6
Current receivables, total	52,2	52,2	85,4	85,4

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

Interest-bearing trade receivables of EUR 0.8 million consist of one-time credits on distance retail sales in 2018 (EUR 2.2 million). Interest income on these receivables is included in the selling price and recognised in revenue instead of interest income.

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

Prepayments and accrued income

EUR mill.	2018	2017
Prepaid rents	16,4	17,3
Receivable from credit card co-operation	2,7	2,8
Periodised indirect employee expenses	2,3	2,7
Periodised ICT expenses	1,5	1,7
Receivable from trademark co-operation	0,8	0,5
Others	6,0	6,4
Total	29,7	31,3

4.4 Cash and cash equivalents

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

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

EUR mill.	2018	2017
Cash and cash equivalents	43,4	21,0
Overdraft facilities	-0,4	-12,2
Total	43,0	8,8

4.5 Non-current liabilities, interest-bearing

EUR mill.	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Bond issues	247,8	226,5	247,0	245,8
Loans from financial institutions	112,2	112,5	257,1	257,3
Other liabilities			1,2	1,2
Total	359,9	339,0	505,2	504,2

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

4.6 Current liabilities

EUR mill.	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Loans from financial institutions	147,0	147,2	108,5	108,6
Current account with overdraft facility	0,4	0,4	12,2	12,2
Other interest-bearing liabilities	80,4	80,5	137,6	137,7
Trade payables	78,6	78,6	68,6	68,6
Other current liabilities	39,7	39,7	42,7	42,7
Accruals and prepaid income	73,6	73,6	71,6	71,6
Derivative contract liabilities	3,1	3,1	6,3	6,3
Income tax liability	20,9	20,9	16,4	16,4
Total	443,8	444,0	464,0	464,2
of which interest-bearing	227,9	228,1	258,3	258,5

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

Accruals and prepaid income

EUR mill.	2018	2017
Personnel expenses	41,9	45,4
Periodised purchases	11,3	9,1
Customer bonus schemes/Loyalty program MORE	5,1	5,1
Interest and other financial expenses	6,4	1,8
Accrued site expenses	1,1	1,6
Reserve for returns	1,4	1,5
Others	6,4	7,1
Total	73,6	71,6

4.7 Reconciliation of liabilities arising from financing activities

EUR mill.	1.1.2018	Cash flows from loans	Non-cash changes from loans		Cash flows from loan arrangement expenses	Non-cash changes from loan arrangement expenses	31.12.2018
			The effect of changes in foreign exchange rates	Transfer between items			
Non-current liabilities, interest-bearing	505,2	1,2		-150,0		3,5	359,9
Current liabilities, interest-bearing	246,1	-169,2		150,0		0,5	227,4
Cheque account with overdraft facility	12,2	-11,8					0,4
Total liabilities from financing activities	**763,6**	**-179,8**		**0,0**		**4,0**	**587,8**

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

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

4.8 Financial risk management

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 policy adopted by the Board of Directors.

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

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

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

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

Transaction risk
Stockmann's transaction risk derives from the currency flows connected with sales and purchases of the Group's divisions as well as from loans and receivables denominated in foreign currency. The most important sales currencies during 2018 were the euro, the Swedish krona, and the Norwegian krone. The primary purchasing currencies were the euro, the United States dollar, and the Swedish krona. In 2018, non-EUR sales accounted for 49 per cent of the Group's entire sales (2017: 45 per cent including the food operations in Finland, which were reported as discontinued operations). Purchases with a transaction risk made up 45 per cent of the Group's purchases (2017: 47 per cent including the food operations in Finland). In addition the Group has purchases in foreign currency without a transaction risk, mainly local purchases in Sweden. In 2018 these purchases accounted for 4 per cent of the Group's total purchases (2017: 3 per cent).

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

Currency derivatives that are used to hedge forecasted cash flows are classified as cash flow hedges. All outstanding contracts that are classified as cash flow hedges refer to Lindex. Stockmann Retail operates mainly in local currency and its transaction exposure is limited. The cash flow hedges are hedging Lindex's purchases in US-dollar and sales in Swedish Krona, Norwegian Krona and euro and will mature during the first 8 months of 2019. The gain/loss of these hedge instruments will affect the Group's operating profit in the same period during which the forecasted hedged items affect profit, which is on average 4 months after maturity. Information about the fair value of these hedges is provided in Note 4.9. The table below shows the distribution of currency for outstanding derivatives hedging cash flows. For each derivative, the amounts are shown for both the bought and the sold currency. No ineffectiveness arose on cash flow hedges during the year 2018.

Foreign exchange derivatives hedging cash flows

EUR mill	**2018**	2017
USD	56,8	55,9
SEK	−32,9	−31,0
NOK	−12,7	−13,8
EUR	−10,4	−11,0

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

2018 EUR mill	USD	SEK	NOK
Change + 10 %	–4,1	–0,7	0,9
Change - 10 %	5,0	0,9	–1,1

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

All outstanding derivatives hedging cash flows defined as transaction risk relate to Lindex. The functional currency of Lindex is the Swedish krona. At year-end, the outstanding cash flow hedges in US dollars covered approximately 74 % of the Stockmann Group's estimated net USD flows for the coming 6 months.

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

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

The Group's transaction exposure

2018, EUR mill	SEK*	GBP	RUB	NOK	CZK	USD	PLN
Receivables	112,1	0,1	0,0	1,3		2,7	
Loans from financial institutions							
Trade payables and other current liabilities	–138,2	–1,5		–0,2	–2,5	–15,3	–0,3
Foreign currency exposure in the balance sheet	–26,1	–1,4	0,0	1,2	–2,5	–12,7	–0,3
Foreign exchange derivatives hedging balance sheet items	32,1	–0,9			1,0	12,8	
Foreign currency loans hedging the net investment							
Net position in the balance sheet	6,0	–2,3	0,0	1,2	–1,6	0,2	–0,3

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

*) The Swedish Krona transaction exposure has changed significantly due to the reclassification of the Swedish Krona denominated intra-group loan as part of a net investment to a foreign subsidiary.

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

Sensitivity Analysis, effect on income statement after tax

2018 EUR mill	SEK	GBP	RUB	NOK	CZK	USD	PLN
Change + 10 %	–0,4	0,2	0,0	–0,1	0,1	0,0	0,0
Change - 10 %	0,5	–0,2	0,0	0,1	–0,1	0,0	0,0

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

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

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

During 2018 Stockmann has reclassified the major part of the Swedish krona denominated intra-group loan, granted for the acquisition of the shares in Lindex, as part of its net investment to a foreign subsidiary. The net investment has been designated in a net investment hedge and has been hedged by currency derivatives. The hedging strategy during 2018 has been to hedge 50% of the net investment however the degree of hedging can vary from 0 to 100% according to the policy approved by the Board. The objective of the hedge is to eliminate the effect of EUR/SEK currency rate changes to translation difference. At the end of the year, the hedged amount of the net investment amounted to SEK 3 633 million, and the hedging instruments amounted to SEK 3 633 million. Information about the fair value of these hedges is provided in Note 4.9. No ineffectiveness arose on net investment hedges during the year 2018.

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

Sensitivity Analysis, effect on equity

2018 EUR mill	SEK	RUB*
Change + 10 %	–32,7	–12,4
Change - 10 %	39,9	15,2

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

*)Due to the sale of the Nevsky Centre property in St Petersburg in January 2019, Stockmann will not be exposed to the RUB risk in the future.

Interest rate risk
Fluctuations in the level of interest rates affect the Group's interest expenses and interest income. The Group has large Swedish Krona-denominated assets originating from the acquisition of Lindex. These assets are partly financed with debt swapped to Swedish Krona. Thus, Stockmann is mainly exposed to fluctuations in euro interest rates and in Swedish Krona interest rates. The objective of the Group's management of interest rate risk is to reduce the uncertainty to which Stockmann's earnings may be subject due to changes in the level of interest rates. A dual approach is employed in managing interest rate risk. The Group's borrowings and investments are diversified across different maturities and, furthermore, floating rate and fixed-interest instruments are used. The duration of the loan and investment portfolio is a maximum of five years. Interest rate derivatives can be used in managing interest rate risk. At the balance sheet date, 31 December 2018, Stockmann's interest-bearing loans and bank receivables had a duration of 14.1 months. Interest rate derivatives were not in use.

Interest terms of the Group's interest bearing liabilities and bank receivables at 31 December 2018:

Interest rate adjustment, period, EUR mill	< 1 month	1–12 months	1–3 years	3–5 years	Total
Bond Issues				247,8	247,8
Loans from financial institutions	147,0	112,2			259,2
Other interest bearing liabilities	45,3	35,6			80,8
Total	192,3	147,7		247,8	587,8
Cash and bank receivables	−43,4				−43,4
Total	148,9	147,7		247,8	544,4

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

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

A rise of one percentage point in market interest rates would have had an imputed effect on Stockmann's profit after taxes up to EUR -2.1 million (2017: EUR -3.2 million) at the balance sheet date, 31 December 2018. A decline of one percentage point in market interest rates would have only a very minor effect on Stockmann's profit after taxes, since almost all relevant market interest rates already are below zero and Stockmann can't benefit from rates below zero. At the balance sheet date there were no items that were recognised directly in equity.

Electricity price risk

Stockmann Group hedges the price risk affecting future electricity procurements. In accordance with the financial policy, the degree of hedging of future electricity prices is a maximum of 100% for the coming three years. At the balance sheet date, 31 December 2018, a change of 10 percentage points in the market price of electricity has no material impact on Stockmann's profit and equity after taxes.

Financing and liquidity risk

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

At the end of the year Stockmann had committed credit facilities totaling EUR 743 million, of which EUR 507 million was utilized for financing and EUR 2 million for bank guarantees and Letters of Credit. In addition to this, Stockmann has an uncommitted commercial paper programme amounting to EUR 600 million of which EUR 79.9 million was in use and uncommitted overdraft facilities amounting to EUR 3 million of which EUR 0.5 million was in use.

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

In November 2017, Stockmann refinanced its long-term committed credit facilities. The new committed credit facility is a secured syndicated facility, split between term loans and revolving credit facilities, originally amounting to EUR 609 million. EUR 112 million of the facility has been repaid during 2018 and EUR 147 million in January 2019 after the sale of the Nevsky Centre property in St Petersburg. The remaining part of the facility, EUR 350 million, will mature in January 2021. In December 2017 Stockmann issued senior secured notes in principal amount of EUR 250 million. The notes will mature in January 2022 and carry a fixed interest of 4.75 per cent per annum. The notes are listed on Nasdaq Helsinki. The syndicated facility as well as the notes, are secured by property mortgage and a pledge over certain shares. In addition, a share pledge related to the Nevsky

Centre property is granted for the credit facilities. The facilities include financial covenants related to equity ratio and leverage. The conditions in the financial covenants have been met during 2018. The new IFRS 16 leasing standard will not affect the covenant calculations.

In December 2015 Stockmann issued a hybrid bond of EUR 85 million. The bond has no maturity but Stockmann may exercise an early redemption option earliest on January 2020 in case all committed loan facilities have been paid first or it is repaid with similar instrument. The coupon rate of the bond is 7.75% per annum. The hybrid bond is treated as equity in the consolidated financial statements prepared in accordance with IFRS. More information about the hybrid bond is provided in Note 4.12.

Short term credit facilities include a domestic commercial paper programme of EUR 600 million as well as bank overdraft facilities. Borrowing within the commercial paper programme amounted to EUR 80 million at year-end.

Cash and bank receivables as well as unused committed credit facilities

EUR mill	2018	2017
Cash and bank receivables	43,4	20,2
Credit facility, due in 2018		
Credit facility, due in 2019		
Credit facility, due in 2020		
Credit facility, due in 2021	232,8	224,6
Overdraft facilities	2,9	1,4
Total	279,1	246,2

The unused committed credit facilities EUR 232.8 million due in 2021 cannot be used for the agreed prepayment of EUR 147 million in January 2019.

Cash flows based on agreements in financial liabilities, including financing costs, at 31 December 2018:

EUR mill	Carrying amount	2019	2020	2021	2022	2023+	Total
Bonds	247,8	−11,9	−11,9	−11,8	−255,9		−291,6
Loans from financial institutions	259,2	−149,1	−3,4	−116,8			−269,4
Other interest-bearing liabilities	80,8	−80,8	−0,2				−81,0
Trade payables and other current liabilities	190,0	−190,0					−190,0
Total	777,8	−431,8	−15,5	−128,7	−255,9		−832,0
Derivatives							
FX Derivatives	3,0						
Assets		388,3					388,3
Liabilities		−391,3					−391,3
Electricity Derivatives							
Net cash flow							
Total	3,0	−3,0					−3,0

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

EUR mill	Carrying amount	2018	2019	2020	20121	2022+	Total
Bonds	247,0	–6,9	–11,9	–11,9	–11,8	–255,9	–298,5
Loans from financial institutions	365,6	–115,4	–154,5	–3,7	–114,8		–388,4
Other interest-bearing liabilities	151,0	–150,1	–1,2	–0,2			–151,5
Trade payables and other current liabilities	186,2	–186,2					–186,2
Total	949,8	–458,6	–167,6	–15,8	–126,6	–255,9	–1 024,5
Derivatives							
FX Derivatives	6,2						
Assets		561,2					561,2
Liabilities		–567,1					–567,1
Electricity Derivatives	0,2						
Net cash flow		–0,2					–0,2
Total	6,4	–6,1					–6,1

Credit and counterparty risk

Trade receivables as well as receivables based on investments and derivative contracts expose the Group to credit risk. The counterparty risk associated with investments is managed by means of counterparty limits approved by the Board of Directors. Derivative contracts are entered into only with counterparties that are judged to be highly creditworthy and financially solid. Cash assets are invested in financial instruments that are judged to be liquid and to have a low risk. At the balance sheet date, 31 December 2018, the Group's liquid assets consisted mainly of deposits in banks, with a very short maturity. The Group does not incur major credit risk relating to commercial trade receivables because its outstanding receivables consist of a large amount of small receivables, and customers are primarily private individuals whose creditworthiness has been checked.

Ageing of trade receivables

December 31,2018

EUR mill.	Gross carrying amount	Loss allowance
Trade receivables not due	9,5	0,0
Trade receivables fallen due in 1–30 days	1,3	0,0
Trade receivables fallen due in 31–60 days	0,4	0,0
Trade receivables fallen due in 61–90 days	0,4	0,0
Trade receivables fallen due in 91–120 days	0,0	0,0
Trade receivables fallen due in over 120 days	0,2	0,1
Total	11,8	0,2

December 31,2017

EUR mill.	Gross carrying amount	Loss allowance
Trade receivables not due	14,5	0,0
Trade receivables fallen due in 1–30 days	2,1	0,0
Trade receivables fallen due in 31–60 days	0,7	0,0
Trade receivables fallen due in 61–90 days	0,1	0,0
Trade receivables fallen due in 91–120 days	0,1	0,0
Trade receivables fallen due in over 120 days	1,0	0,3
Total	18,4	0,3

Stockmann Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Stockmann applies a simplified credit loss matrix for trade receivables. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other operating expenses.

4.9 Derivative contracts

Nominal values of derivative contracts

Derivative contracts, hedge accounting applied

EUR mill.	2018	2017
Cash flow hedges, currency forwards	56,0	55,8
Hedges of net investments, currency swaps	351,2	
Total	407,2	55,8

Derivative contracts, hedge accounting not applied

EUR mill.	2018	2017
Currency swaps	62,9	750,0
Electricity forwards	1,4	1,4
Total	64,3	751,4

Fair value of derivative contracts 2018

Derivative contracts, hedge accounting applied

EUR mill.	Positive	Negative	Net
Cash flow hedges, currency forwards	0,6	–0,1	0,5
Hedges of net investments, currency swaps	0,1	–3,0	–2,9
Total	0,6	–3,0	–2,4

Derivative contracts, hedge accounting not applied

EUR mill.	Positive	Negative	Net
Currency swaps	0,2	0,0	0,2
Electricity forwards	0,6		0,6
Total	0,8	0,0	0,8

Fair value of derivative contracts 2017

Derivative contracts, hedge accounting applied

EUR mill.	Positive	Negative	Net
Cash flow hedges, currency forwards	0,5	–0,7	–0,1
Total	0,5	–0,7	–0,1

Derivative contracts, hedge accounting not applied

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

All the derivatives that are open on the balance sheet date, 31 December 2018, fall due in one year.

Currency swaps and forwards have been measured at fair value using market prices on the balance sheet date. Changes in the fair values of currency derivatives are recognised either in equity or in the profit and loss depending on whether hedge accounting has been applied to them. Currency derivative contracts did not result in hedge accounting-related ineffectiveness that was to be recorded through profit and loss in 2018. The fair values of electricity derivatives are based on market prices on the balance sheet date and the changes in the fair values are recognised in the profit and loss.

4.10 Financial assets and liabilities by measurement category and hierarchical classification of fair values

The Group uses the following hierarchy of valuation techniques to determine and disclose the fair value of financial instruments:

Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets.

Level 2: The valuation techniques use as input data quoted market prices which are regularly available from stock exchanges, brokers or pricing services. Level 2 financial instruments are: over-the-counter derivative contracts which are classified either for recognition at fair value on the income statement or as hedging instruments.

Level 3: Techniques, which require most management's judgment.

There were no transfers between the levels during the financial year.

Financial assets, EUR mill.	Level	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Derivative contracts, hedge accounting applied	2	0,6	0,6	0,5	0,5
Financial assets at fair value through profit or loss					
Derivative contracts, hedge accounting not applied					
Currency derivatives	2	0,2	0,2	4,8	4,8
Electricity derivatives	1	0,6	0,6		
Financial assets at amortised cost					
Non-current receivables		0,6	0,6	3,0	3,0
Current receivables, interest-bearing		0,8	0,8	2,2	2,2
Current receivables, non-interest-bearing		42,3	42,3	74,3	74,3
Cash and cash equivalents		43,4	43,4	21,0	21,0
Other investments	3	0,3	0,3	0,3	0,3
Financial assets, total		88,8	88,8	106,1	106,1

Financial liabilities, EUR mill.	Level	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Derivative contracts, hedge accounting applied	2	3,0	3,0	0,7	0,7
Financial assets at fair value through profit or loss					
Derivative contracts, hedge accounting not applied					
Currency derivatives	2	0,0	0,0	5,6	5,6
Electricity derivatives	1			0,2	0,2
Financial liabilities at amortised cost					
Non-current interest-bearing liabilities	2	359,9	339,0	505,2	504,2
Current liabilities, interest-bearing	2	227,9	228,1	258,3	258,5
Current liabilities, non-interest-bearing		187,0	187,0	177,2	177,2
Financial liabilities, total		777,9	757,2	947,2	946,3

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

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

Change in fair value of other investments, EUR mill.	2018	2017
Carrying amount 1.1.	0,3	5,5
Translation difference +/-	0,0	-0,1
Sale of shares		0,0
Write-off related to the investment in Cooperative		-3,8
Transfers to non-current assets held for sale		-1,4
Total	0,3	0,3

4.11 Financial instruments subject to netting arrangements

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

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

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

December 31, 2018

Financial assets, EUR mill.	Carrying amount	Items under netting arrangements	Net
Currency derivatives, hedge accounting applied	0,6	-0,1	0,5
Currency derivatives, hedge accounting not applied	0,2	0,0	0,2
Electricity derivatives, hedge accounting not applied	0,6		0,6
Financial assets, total	1,4	-0,1	1,3
Financial liabilities, EUR mill.			
Currency derivatives, hedge accounting applied	-3,0	0,1	-2,9
Currency derivatives, hedge accounting not applied		0,0	0,0
Electricity derivatives, hedge accounting not applied			
Financial liabilities, total	-3,0	0,1	-2,9

December 31, 2017

Financial assets, EUR mill.	Carrying amount	Items under netting arrangements	Net
Currency derivatives, hedge accounting applied	0,5	-0,4	0,1
Currency derivatives, hedge accounting not applied	4,8	-2,5	2,3
Electricity derivatives, hedge accounting not applied			
Financial assets, total	5,3	-2,9	2,4
Financial liabilities, EUR mill.			
Currency derivatives, hedge accounting applied	-0,7	0,4	-0,3
Currency derivatives, hedge accounting not applied	-5,6	2,5	-3,1
Electricity derivatives, hedge accounting not applied	-0,2		-0,2
Financial liabilities, total	-6,5	2,9	-3,6

4.12 Shareholders' equity

EUR mill.	Number of shares	Share capital	Share premium fund	Invested unrestricted equity fund	Total
Dec. 31, 2016	72 048 683	144,1	186,1	250,4	580,6
–					
Dec. 31, 2017	72 048 683	144,1	186,1	250,4	580,6
–					
Dec. 31, 2018	72 048 683	144,1	186,1	250,4	580,6

Share capital

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

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

Total amount of registered shares 31 December 2018

pcs	2018	2017
Series A shares	30 530 868	30 530 868
Series B shares	41 517 815	41 517 815
Total	72 048 683	72 048 683

Voting right differences between Series A and B shares

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

Conversion of Shares

A Series A Share can be converted to a Series B Share upon the demand of a shareholder provided that the conversion can take place within the limits of the minimum and maximum amounts of the share series. A written demand concerning conversion of the company's shares must be made to the company's Board of Directors in the manner specified in the Articles of Association.

Redemption obligation

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

Share premium fund

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

Revaluation surplus

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

Invested unrestricted equity fund

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

Translation differences

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

Other funds

EUR mill.	2018	2017
Reserve fund	0,1	0,1
Hedging reserve	0,4	-0,1
Other funds	43,7	43,7
Total	44,2	43,8

Other funds comprise

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

Hybrid bond

Total equity includes EUR 85 million hybrid bond issued in December 2015. The hybrid bond recognised in equity is EUR 84.3 million due to issuing expenses. The coupon rate of the bond is 7.75 per cent per annum until 31 January 2020. Stockmann can postpone interest payment, if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it earliest on 31 January 2020. The hybrid bond is unsecured and subordinated to the company's other debt obligations. A holder of hybrid bond notes has no shareholder rights. The accrued non - recognised interest on the bond was EUR 6.0 million at 31 December 2018 (2017: EUR 6.0 million). The accrued interest of EUR 6.6 million was paid out in January 2019.

Dividends

The dividend payout proposed by the Board of Directors has not been recognised in the financial statements. Dividends are recognised on the basis of a resolution passed by a General Meeting of the shareholders.
After the balance sheet date, the Board of Directors proposed on 13 February 2019 that no distribution of funds will take place for 2018.

Share option programmes

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

	2018 Number of Options	Subscription price as weighted average EUR/share	Turnover weighted share price during subscription period EUR/share	2017 Number of Options	Subscription price as weighted average EUR/share	Turnover weighted share price during subscription period EUR/share
Key employee share options 2010 Series B						
Outstanding at the beginning of the period						
Expired during the period						
Outstanding at the end of the period						
Key employee share options 2010 Series C						
Outstanding at the beginning of the period				279 400		
Expired during the period				279 400		
Outstanding at the end of the period						
Options, total						
Outstanding at the beginning of the period				279 400		
Expired during the period				279 400		
Outstanding at the end of the period						

4.13 Earnings per share

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

EUR	2018	2017
Profit/loss for the period attributable to the equity holders of the parent company	–45 153 113	–209 439 063
Accrued interest on the hybrid bond	–6 587 500	–6 587 500
Tax effect	1 317 500	1 317 500
Net effect	–5 270 000	–5 270 000
	–50 423 113	–214 709 063
Share issue–adjusted number of outstanding shares, weighted average, thousands	72 048 683	72 048 683
From continuing operations (undiluted and diluted)	–0,68	–2,82
From discontinued operations (undiluted and diluted)	–0,02	–0,16
From the period result (undiluted and diluted)	–0,70	–2,98

4.14 Management of the capital structure

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

The strategic goal is to have an equity ratio amounting to at least 40 per cent. The ratio of equity to total capital at 31 December 2018 was 46.2 per cent (at 31 December 2017 43.0 per cent). Information about the impact of the adoption of standard IFRS 16 Leases, which applies starting 1 January 2019, on the capital structure of the Group is given in note 1.5 Application of new or revised IFRS standards and interpretations.

5 Other notes

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

Accounting policies

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

Stockmann plc signed an agreement to sell its Nevsky Centre shopping centre property in St. Petersburg, Russia, to PPF Real Estate on 16 October 2018. Stockmann completed the sale of the shopping centre property in St. Petersburg to the new owner PPF Real Estate on 24 January 2019. The transaction included Stockmann’s fully-owned Russian subsidiary, OOO Stockmann Nevsky Centre, which owns 100% of the Nevsky Centre property. Nevsky Centre is classified as assets held for sale in the consolidated financial statements 2017 and 2018.

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

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

Assets held for sale and discontinued operations

EUR mill.	2018	2017
Discontinued operations		
Profit/loss for the financial period from discontinued operations		
Income	0,0	118,7
Expenses	–1,5	–129,5
Profit/loss before and after taxes	–1,4	–10,8
Profit/loss relating to the sales of discontinued operations after income tax		–0,5
Result from discontinued operation *	–1,4	–11,3
Cash flows from discontinued operations		
Cash flow from operations		–9,6
Cash flow from investments	14,3	–0,9
Cash flow total	14,3	–10,5
Other assets classified as held for sale and the relating liabilities		
Intangible assets and property, plant and equipment	172,8	183,0
Other receivables	0,5	0,9
Cash and cash equivalents	2,4	0,7
Other liabilities including deferred tax liability	34,6	39,6
Net assets	141,1	145,0

* Profit/loss for the years 2018 and 2017 includes the result of Delicatessen in Finland.

5.2 Joint arrangements

Joint operations

The Group has a 37.8% shareholding in Kiinteistö Oy Tapiolan Säästötammi Fastighets Ab. The real estate company is based in Espoo. The joint operation is not essential for Stockmann.
The Group has a 67% shareholding in real estate company SIA Stockmann Centrs, which entitles the company to 63% control of the real estate company's premises, so the Group has a 63% involvement in the joint operation. SIA Stockmann Centrs owns a shopping centre property in Latvia. Stockmann's share of the joint operation covers the commercial premises of Stockmann's department store in Latvia. The joint operation is essential for Stockmann.
The share corresponding to the Group's ownership of both the assets and liabilities and income and expenses of the joint operation is included in the Group's consolidated financial statements.

Assets and liabilities of joint operations

EUR mill.	2018	2017
Non-current assets excluding fair value valuations	14,7	15,3
Current assets	0,8	0,6
Non-current liabilities	0,5	2,8
Current liabilities	0,6	0,2

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

Income and expenses of joint operations

EUR mill.	2018	2017
Income	3,2	3,2
Expenses	1,8	1,3

5.3 Provisions

Accounting policies
A provision is recognised when the Group has a legal or factual obligation as a result of a past event and it is probable that a payment obligation will be realised and the amount of the obligation can be estimated reliably. An onerous contract is a contract in which the unavoidable costs under the contract exceed the expected economic benefits. The restructuring provision shall be recognised if the Group is committed to a sale or a termination of the significant line of business or a closure of business in the geographical area.

EUR mill.	2018	2017
Non-current provisions		
Provision for onerous contracts		
Provision for onerous contracts 1.1.	17,1	2,8
Increase in provisions		17,1
Used provisions	-1,8	-2,8
Reversal of unused provisions	-0,4	
Change due to reassessment of discount rate	-0,3	
Carrying amount 31.12.	14,6	17,1
Other provisions		
Carrying amount 1.1.	0,2	0,2
Used provisions	-0,1	0,0
Carrying amount 31.12.	0,1	0,2
Non-current provisions total	14,7	17,2

EUR mill.	2018	2017
Current provisions		
Restructuring provision		
Carrying amount 1.1.	2,6	2,3
Translation difference +/–	–0,1	
Increase in provisions	0,3	2,6
Used provisions	–1,7	–2,3
Carrying amount 31.12.	1,1	2,6
Provision for onerous contracts		
Carrying amount 1.1.	3,0	1,0
Increase in provisions	0,2	3,0
Used provisions		–1,0
Change due to reassessment of discount rate	–0,4	
Carrying amount 31.12.	2,9	3,0
Other provisions		
Carrying amount 1.1.	0,0	1,1
Increase in provisions	1,0	
Used provisions	0,0	–1,1
Carrying amount 31.12.	1,0	0,0
Current provisions total	5,0	5,7

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

5.4 Contingent liabilities

Mortgages given as collateral for liabilities and commitments

	2018			2017		
EUR mill.	Debt at the year end	Collaterals	Fair value of the assets	Debt at the year end	Collaterals	Fair value of the assets
Loans from credit institutions	511,0	1 500,0		631,0	1 800,0	
Other commitments	0,0	1,7		0,0	1,7	
Total	511,0	1 501,7	852,5	631,0	1 801,7	972,5

Other collaterals given for own liabilities

EUR mill.	2018	2017
Guarantees	1,9	2,9
Electricity commitments	1,3	1,6
Liabilities of adjustments of VAT deductions made on investments to immovable property	5,7	12,7
Total	9,0	17,2

Contingent liabilities, total

EUR mill.	2018	2017
Mortgages	1 501,7	1 801,7
Guarantees	1,9	2,9
Electricity commitments	1,3	1,6
Liabilities of adjustments of VAT deductions made on investments to immovable property	5,7	12,7
Total	1 510,6	1 818,9

Electricity commitments relate to agreements to buy electricity for certain price in years 2019-2021.

Interest on the hybrid bond

On 17 December 2015, Stockmann issued a hybrid bond of EUR 85 million. The accrued non-recognised interest on the bond was EUR 6.0 million at 31 December 2018 (EUR 6.0 million in 2017). More information about the hybrid bond is provided in note 4.12.

Investments in real estate

Certain group companies are required to adjust the VAT deductions made on real estate investments completed in 2009–2018 if the VAT-liable use of the real estate decreases during the adjustment period. The last adjustment year is 2028, and the maximum liability is EUR 5.7 million (EUR 12.7 million in 2017).

5.5 Related party transactions

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

Members of the Board of Directors and Management Team belonging to the Group's related party during financial year 2018:

- Jukka Hienonen, Chairman of the Board of Directors
- Kaj-Gustaf Bergh, Member of the Board of Directors
- Eva Hamilton, Member of the Board of Directors as of 22 March 2018
- Esa Lager, Member of the Board of Directors
- Susanne Najafi, Member of the Board of Directors until 22 March 2018
- Leena Niemistö, Vice Chairman of the Board of Directors and Member of the Board of Directors
- Michael Rosenlew, Member of the Board of Directors
- Per Sjödell, Member of the Board of Directors until 22 March 2018
- Tracy Stone, Member of the Board of Directors as of 22 March 2018
- Dag Wallgren, Member of the Board of Directors
- Lauri Veijalainen, CEO
- Susanne Ehnbåge, CEO, Lindex as of 10 August 2018
- Mikko Huttunen, Director, Human Resources
- Kai Laitinen, CFO
- Nora Malin, Director, Corporate Development as of 1 January 2018
- Jukka Naulapää, Director, Legal affairs
- Petteri Naulapää, CIO until 22 June 2018
- Maiju Niskanen, Director, Store Operations
- Elisabeth Peregi, interim CEO, Lindex until 10 August 2018
- Anna Salmi, Chief Customer Officer
- Elena Stenholm, Director, Real Estate as of 1 November 2018
- Björn Teir, Director, Real Estate until 17 August 2018
- Tove Westermark, Director, Supply Chain

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

- Jukka Hienonen, Chairman of the Board of Directors
- Kaj-Gustaf Bergh, Member of the Board of Directors
- Torborg Chetkovich, Member of the Board of Directors until 23 March 2017
- Esa Lager, Member of the Board of Directors as of 23 March 2017
- Susanne Najafi, Member of the Board of Directors
- Leena Niemistö, Vice Chairman of the Board of Directors and Member of the Board of Directors
- Michael Rosenlew, Member of the Board of Directors
- Per Sjödell, Member of the Board of Directors
- Dag Wallgren, Member of the Board of Directors
- Lauri Veijalainen, CEO
- Mikko Huttunen, Director, Human Resources
- Kai Laitinen, CFO as of 1 August 2017
- Ingvar Larsson, Managing director, Lindex until 21 August 2017
- Nora Malin, Director, Corporate Communications
- Jukka Naulapää, Director, Legal affairs
- Petteri Naulapää, CIO
- Maiju Niskanen, Director, Store Operations
- Susanna Ottila, Director, Delicatessen until 31 December 2017
- Elisabeth Peregi, interim CEO, Lindex as of 21 August 2017
- Anna Salmi, Chief Customer Officer
- Björn Teir, Director, Real Estate
- Tove Westermark, Director, Supply Chain

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

The following transactions were carried out with related parties:

Management's employee benefits, EUR 2018	Chief Executive Officer	Other members of the Management Committee	Total
Short-term employee benefits	556 278	2 120 429	2 676 707
Other long-term employee benefits		56 556	56 556
Employee benefits total	556 278	2 176 985	2 733 263

Remunerations to the Board of Directors, EUR 2018	Fixed annual remuneration *	Remuneration based on participation	Total
Hienonen Jukka	80 000	13 800	93 800
Bergh Kaj-Gustaf	40 000	7 700	47 700
Hamilton Eva	40 000	5 400	45 400
Lager Esa	40 000	12 700	52 700
Najafi Susanne **		1 000	1 000
Niemistö Leena	50 000	8 300	58 300
Rosenlew Michael	40 000	11 200	51 200
Sjödell Per **		1 000	1 000
Stone Tracy	40 000	6 000	46 000
Wallgren Dag	40 000	11 500	51 500
Remunerations to the Board of Directors total	370 000	78 600	448 600

Fees and remunerations to key personnel total	3 181 863

* paid in 36 586 company shares and cash

** resigned from the Board of Directors on 22 March 2018

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

Remunerations to the Board of Directors, EUR 2017	Fixed annual remuneration *	Remuneration based on participation	Total
Hienonen Jukka	76 000	14 000	90 000
Bergh Kaj-Gustaf	38 000	6 500	44 500
Chetkovich Torborg **		2 200	2 200
Lager Esa	38 000	9 000	47 000
Najafi Susanne	38 000	6 000	44 000
Niemistö Leena	49 000	7 000	56 000
Rosenlew Michael	38 000	10 700	48 700
Sjödell Per	38 000	6 500	44 500
Wallgren Dag	38 000	12 500	50 500
Remunerations to the Board of Directors total	353 000	72 200	425 200

Fees and remunerations to key personnel total	3 740 559

* paid in 34 167 company shares and cash
** resigned from the Board of Directors on 23 March 2017

Management's pension commitments
The CEO Lauri Veijalainen's retirement age is determined in accordance with Finnish employment pension legislation. The CEO's pension will accrue on the basis of the Employees' Pensions Act. No voluntary insurance contribution has been paid in 2018 and 2017.

The retirement age of the Management Team members is 63 or 65 or determined in accordance with Finnish employment pension legislation, depending on the particular executive agreement in question. At the end of 2018 one Management Team member had voluntary defined contribution pension insurance taken by the company. The costs of the insurances in 2018 amounted to EUR 56 556 (EUR 62 204 in 2017).

Other related party transactions
In 2018 the Board members were paid other compensations EUR 21 933 (EUR 61 945 in 2017).

5.6 Events after the reporting period

Stockmann completed the sale of Nevsky Centre shopping centre property in St. Petersburg to the new owner PPF Real Estate on 24 January 2019. The transaction included Stockmann's fully-owned Russian subsidiary, OOO Stockmann Nevsky Centre, which owns 100% of the Nevsky Centre property. The transaction price was EUR 171 million and the transaction had a positive cash flow effect of approximately EUR 141 million on Stockmann after taxes. Stockmann used the proceeds to repay its bank loan. After the divestment of the Nevsky Centre property, Stockmann Group has no longer any own operations in Russia.

Stockmann plc
Income Statement, FAS

	Note	1.1.-31.12.2018 EUR	% of Rev.	1.1.-31.12.2017 EUR	% of Rev.
REVENUE	2	**320 790 101,55**	100,0	457 825 004,03	100,0
Other operating income	3	**96 418 953,27**	30,1	6 452 801,26	1,4
Materials and services					
Materials and consumables:					
Purchases during the financial year		**-149 738 974,81**		-241 899 633,09	
Change in inventories, increase (+), decrease (-)		**-5 950 178,63**		-8 126 889,51	
Materials and services, total		**-155 689 153,44**	48,5	-250 026 522,60	54,6
Wages, salaries and employee benefits	4	**-63 590 521,65**	19,8	-91 800 558,79	20,1
Depreciation, amortisation and impairment losses	5	**-23 660 214,58**	7,4	-32 369 755,60	7,1
Other operating expenses	6	**-99 972 425,15**	31,2	-125 635 936,92	27,4
		-342 912 314,82	106,9	-499 832 773,91	109,2
OPERATING PROFIT (LOSS)		**74 296 740,00**	23,2	-35 554 968,62	-7,8
Financial income and expenses	7	**-21 158 648,64**	-6,6	-75 744 014,09	-16,5
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		**53 138 091,36**	16,6	-111 298 982,71	-24,3
Appropriations	8	**17 751 333,26**	5,5	41 788 099,32	9,1
Income taxes					
For previous financial years				5 615 618,39	
Income taxes, total				5 615 618,39	1,2
PROFIT (LOSS) FOR THE PERIOD		**70 889 424,62**	22,1	-63 895 265,00	-14,0

Stockmann plc
Balance sheet, FAS

ASSETS	Note	31.12.2018 EUR	31.12.2017 EUR
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		23 153 574,89	26 042 812,54
Other intangible assets		353 191,56	423 768,43
Advance payments and construction in progress		812 960,08	502 033,23
Intangible assets, total		24 319 726,53	26 968 614,20
Property, plant, equipment	10		
Land and water		12 232 609,70	13 435 033,59
Buildings and constructions		253 686 523,36	278 968 828,98
Machinery and equipment		30 395 667,10	37 085 932,19
Modification and renovation expenses for leased premises		4 295 837,28	3 481 601,79
Other tangible assets		54 601,65	54 601,65
Advance payments and construction in progress		742 388,24	964 432,87
Property, plant, equipment, total		301 407 627,33	333 990 431,07
Investments	11		
Shares in Group companies		254 205 718,11	215 686 260,39
Other shares and participations		760 443,74	760 443,74
Investments, total		254 966 161,85	216 446 704,13
NON-CURRENT ASSETS, TOTAL		580 693 515,71	577 405 749,40
CURRENT ASSETS			
Inventories			
Materials and consumables		48 644 420,07	54 594 598,70
Inventories, total		48 644 420,07	54 594 598,70
Non-current receivables			
Loan receivables from Group companies		743 759 379,83	776 772 193,74
Loan receivables from others			1 669 862,43
Non-current receivables, total		743 759 379,83	778 442 056,17
Current receivables	12		
Trade receivables		4 356 907,93	9 039 375,63
Receivables from Group companies		32 198 329,46	28 446 575,83
Other receivables		1 925,20	24 725 218,05
Prepayments and accrued income		14 454 320,97	23 141 354,48
Current receivables, total		51 011 483,56	85 352 523,99
Cash in hand and at banks	13	15 776 843,70	8 212 659,78
CURRENT ASSETS, TOTAL		859 192 127,16	926 601 838,64
ASSETS, TOTAL		1 439 885 642,87	1 504 007 588,04

Stockmann plc
Balance sheet, FAS

EQUITY AND LIABILITIES	Note	31.12.2018	31.12.2017
		EUR	EUR
EQUITY	14-15		
Share capital		144 097 366,00	144 097 366,00
Share premium fund		186 346 445,72	186 346 445,72
Invested unrestricted equity fund		255 735 789,28	255 735 789,28
Other funds		43 728 921,17	43 728 921,17
Retained earnings		-300 382 362,36	-234 805 218,10
Net profit (loss) for the financial year		70 889 424,62	-63 895 265,00
EQUITY, TOTAL		400 415 584,43	331 208 039,07
ACCUMULATED APPROPRIATIONS	16	87 409 702,98	79 151 036,24
PROVISIONS	17	18 424 698,81	20 100 288,74
LIABILITIES			
Non-current liabilities			
Hybrid bond		85 000 000,00	85 000 000,00
Bonds		250 000 000,00	250 000 000,00
Loans from credit institutions		114 000 000,00	262 000 000,00
Accrued expenses and prepaid income	18	2 770 516,00	3 392 896,00
Liabilities to Group companies		170 289 977,60	132 370 814,37
Non-current liabilities, total		622 060 493,60	732 763 710,37
Current liabilities	19		
Loans from credit institutions		147 032 109,11	112 266 780,63
Advances received		607 915,52	607 920,45
Trade payables		25 785 256,16	32 628 772,98
Liabilities to Group companies		7 211 634,47	3 419 469,44
Other payables		96 412 760,80	156 514 822,33
Accrued expenses and prepaid income	20	34 525 486,99	35 346 747,79
Current liabilities, total		311 575 163,05	340 784 513,62
LIABILITIES, TOTAL		933 635 656,65	1 073 548 223,99
EQUITY AND LIABILITIES, TOTAL		1 439 885 642,87	1 504 007 588,04

Stockmann plc
Cash flow statement

	2018 EUR	2017 EUR
CASH FLOW FROM OPERATING ACTIVITIES		
Profit (loss) for the financial year	70 889 424,62	-63 895 265,00
Adjustments for:		
Depreciation and amortisation according to plan	23 660 214,58	27 369 755,60
Non-current assets write-offs		5 000 000,00
Other non-cash income and expenses	-89 999 009,73	4 878 448,50
Financial income and expenses	21 158 649,12	75 744 014,09
Appropriations	-17 751 333,26	-41 788 099,32
Income taxes		5 615 618,39
Changes in working capital:		
Increase (-) / decrease (+) of current receivables	9 369 896,61	11 047 456,66
Increase (-) / decrease (+) of inventories	5 950 178,63	3 864 024,99
Increase (+) / decrease (-) of current non-interest bearing liabilities	-7 973 015,72	-26 441 598,64
Interest and other financial expenses paid from operating activities	-30 309 453,00	-33 240 826,92
Interest received from operating activities	593 709,05	475 068,42
Direct income taxes paid		-969 469,17
CASH FLOW FROM OPERATING ACTIVITIES	-14 410 739,10	-32 340 872,40
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-7 594 257,46	-8 936 106,54
Proceeds from disposal of tangible and intangible assets	122 530 957,50	
Additions to holdings in Group companies	-58 519 457,72	-100 293 585,81
Realised exchange rate difference on the hedge of a net investment *	31 644 682,42	7 085 224,27
Proceeds from disposal of other investments		35 000,00
NET CASH FROM INVESTING ACTIVITIES	88 061 924,74	-102 109 468,08
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (-)/decrease (+) of loan receivables	66 228 259,83	100 934 243,52
Proceeds from (+)/ repayments of (-) short-term loans	-172 108 863,43	-131 534 443,37
Proceeds from long-term loans	311 475 315,14	843 369 617,12
Repayments of long-term loans	-271 681 713,26	-666 402 258,33
Loan arrangement expenses		-10 371 437,28
NET CASH FROM FINANCING ACTIVITIES	-66 087 001,72	135 995 721,66
Change in cash in hand and at banks, increase (+) / decrease (-)	7 564 183,92	1 545 381,18
Cash in hand and at banks in the beginning of the financial year	8 212 659,78	6 667 278,60
Cash in hand and at banks at the end of the financial year	15 776 843,70	8 212 659,78

*Realised foreign exchange rate gains on the hedge of investment in subsidiary.

Notes to the parent company financial statements

1. Accounting principles

The financial statements of Stockmann Oyj have been prepared according to Finnish Accounting Standards (FAS).

Transactions in foreign currencies

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

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

Revenue

Revenue comprises sales income excluding indirect taxes, discounts granted and foreign exchange rate differences.

Other operating income

The items stated as other operating income are capital gains on the sale of non-current assets connected with business operations, compensation obtained from the sale of businesses and charges for services rendered to subsidiaries.

Income taxes

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

Intangible and tangible assets

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

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

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

Investments in non-current assets

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

Inventories

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

Non-current liabilities

Loans payable are recognized at nominal value. Transaction costs are initially recognized as accruals and amortized over the life of the instrument. Transaction cost and loan interest are recognized in the income statement as financial expenses over the life of the instrument.

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

Appropriations

The difference between total and planned depreciation is shown as accumulated appropriations in the balance sheet and the change during the financial year in the income statement. Appropriations contain also given and received group contributions

Provisions

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

Derivative instruments

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

2. Revenue by segment

EUR	2018	2017
Retail	297 872 260,87	438 652 320,89
Real Estate	22 917 840,68	19 172 683,14
Total	320 790 101,55	457 825 004,03

3. Other operating income

EUR	2018	2017
Compensation for services to Group companies	7 080 160,51	6 401 407,60
Other capital gains	89 336 389,77	29 702,75
Other operating income	2 402,99	21 690,91
Total	96 418 953,27	6 452 801,26

4. Wages, salaries and employee benefits expenses

EUR	2018	2017
Salaries and remuneration paid to the CEO and his deputy	556 278,00	716 721,35
Salaries and remuneration paid to the Board of Directors	448 600,00	427 400,00
Other wages and salaries	50 965 129,05	71 980 753,59
Wages during sick leave	1 533 807,72	2 285 334,10
Pension expenses	8 007 349,32	13 328 754,20
Other employee benefits expenses	2 079 357,56	3 061 595,55
Total	63 590 521,65	91 800 558,79
Personnel, average	1 608	2 456

Management pension liabilities

CEO Lauri Veijalainen's retirement age is determined in accordance with Finnish employment pension legislation. The CEO's pension will accrue on the basis of the Employees' Pensions Act. No voluntary insurance contribution has been paid in 2018 and 2017. The retirement age of the Management Team members is 63 or 65 or determined in accordance with Finnish employment pension legislation, depending on the particular executive agreement in question. In 2017 one of the Management Team members had voluntary defined contribution pension insurance taken by the company. This insurance was terminated in 2018. The costs of the insurances in 2018 amounted to EUR 56 556 (EUR 62 204 in 2017).

5. Depreciation, amortisation and impairment losses

EUR	2018	2017
Intangible rights	7 145 776,53	13 477 951,03
Buildings and constructions	9 262 048,31	9 639 728,62
Machinery and equipment	6 581 564,80	8 358 427,89
Modification and renovation expenses for leased premises	670 824,94	893 648,06
Total	23 660 214,58	32 369 755,60

6. Other operating expenses

EUR	2018	2017
Site expenses	49 985 063,87	66 040 967,56
Marketing expenses	15 746 848,29	19 664 533,52
ICT expenses	11 743 280,93	16 462 272,97
Staff leasing expenses	5 055 056,40	5 046 178,10
Goods handling expenses	4 293 689,40	6 918 122,28
Rental expenses	2 584 263,80	2 243 911,71
Voluntary indirect employee expenses	837 114,51	1 621 794,05
Credit losses	504 150,20	739 735,15
Other expenses	9 222 957,75	6 898 421,58
Total	99 972 425,15	125 635 936,92

Auditors' fees

EUR	2018	2017
Auditing	130 000,00	115 000,00
Tax advisory	115 000,00	150 286,25
Other services	22 000,00	51 350,00
Total	267 000,00	316 636,25

7. Financial income and expenses

EUR	2018	2017
Interest income from Group companies	39 367 391,52	28 340 753,92
Interest income from parties outside the Group	473 493,97	451 261,23
Interest expenses to Group companies	-8 035 788,48	-4 068 845,56
Interest and other financial expenses to parties outside the Group	-38 764 443,58	-29 450 712,62
Adjustments to earlier recognised interests related to tax audits		2 957 538,21
Expenses on early redemptions		-1 993 760,71
Impairment of loan receivables and investments	-21 667 362,43	-71 763 117,75
Foreign exchange gains and losses (net)	7 468 060,36	-217 130,81
Total	-21 158 648,64	-75 744 014,09

8. Appropriations

EUR	2018	2017
Difference between depreciation according to plan and depreciation in taxation	-8 258 666,74	15 763 099,32
Received Group contributions	30 250 000,00	26 025 000,00
Granted Group contributions	-4 240 000,00	
Total	17 751 333,26	41 788 099,32

Non-current assets

9. Intangible assets

Intangible rights

EUR	2018	2017
Acquisition cost 1 January	52 931 636,43	56 408 273,11
Increases	576 945,28	90 721,55
Transfers between items	3 679 593,60	6 497 177,86
Decreases	-10 943 416,24	-10 064 536,09
Acquisition cost 31 December	46 244 759,07	52 931 636,43
Accumulated amortisation 1 January	26 888 823,89	20 243 813,07
Accumulated amortisation on decreases	-10 943 416,24	-6 832 940,21
Write-downs		5 000 000,00
Amortisation for the financial year	7 145 776,53	8 477 951,03
Accumulated amortisation 31 December	23 091 184,18	26 888 823,89
Book value 31 December	23 153 574,89	26 042 812,54

Other intangible assets

EUR	2018	2017
Acquisition cost 1 January	705 768,85	716 422,36
Decreases		-10 653,51
Acquisition cost 31 December	705 768,85	705 768,85
Accumulated amortisation 1 January	282 000,42	217 308,30
Accumulated amortisation on decreases		-10 653,51
Amortisation for the financial year	70 576,87	75 345,63
Accumulated amortisation 31 December	352 577,29	282 000,42
Book value 31 December	353 191,56	423 768,43

Advance payments and construction in progress

EUR	2018	2017
Acquisition cost 1 January	502 033,23	3 674 281,49
Increases	3 990 520,45	3 324 929,60
Transfers between items	-3 679 593,60	-6 497 177,86
Acquisition cost 31 December	812 960,08	502 033,23
Book value 31 December	812 960,08	502 033,23

Intangible assets, total	24 319 726,53	26 968 614,20

10. Tangible assets

Land and water

EUR	2018	2017
Acquisition cost 1 January	7 536 683,01	7 536 683,01
Decreases	-1 202 423,89	
Acquisition cost 31 December	6 334 259,12	7 536 683,01
Revaluations 1 January and 31 December	5 898 350,58	5 898 350,58
Book value 31 December	12 232 609,70	13 435 033,59

Buildings and constructions

EUR	2018	2017
Acquisition cost 1 January	358 913 176,31	357 478 905,11
Increases	59 022,84	40 378,18
Transfers between items	2 039 601,10	4 019 290,13
Decreases	-24 955 432,14	-2 625 397,11
Acquisition cost 31 December	336 056 368,11	358 913 176,31
Accumulated depreciation 1 January	106 475 056,93	99 460 725,42
Accumulated depreciation on decreases	-8 518 430,15	-2 625 397,11
Depreciation for the financial year	9 262 048,31	9 639 728,62
Accumulated depreciation 31 December	107 218 675,09	106 475 056,93
Revaluations 1 January	26 530 709,60	26 530 709,60
Decrease in revaluations on sales of Non-current assets	-1 681 879,26	
Revaluations 31 December	24 848 830,34	26 530 709,60
Book value 31 December	253 686 523,36	278 968 828,98

Machinery and equipment

EUR	2018	2017
Acquisition cost 1 January	53 329 946,41	54 107 819,76
Increases	696 888,09	291 443,80
Transfers between items	74 460,00	9 037 534,53
Decreases	-9 465 747,16	-10 106 851,68
Acquisition cost 31 December	44 635 547,34	53 329 946,41
Accumulated depreciation 1 January	16 244 014,22	14 784 741,96
Accumulated depreciation on decreases	-8 585 698,78	-6 898 987,42
Depreciation for the financial year	6 581 564,80	8 358 259,68
Accumulated depreciation 31 December	14 239 880,24	16 244 014,22
Book value 31 December	30 395 667,10	37 085 932,19

Modification and renovation expenses for leased premises

EUR	2018	2017
Acquisition cost 1 January	**4 996 849,18**	6 436 816,03
Increases	**53 562,43**	61 072,71
Transfers between items	**1 360 921,11**	1 346 761,39
Decreases	**-312,90**	-2 847 800,95
Acquisition cost 31 December	**6 411 019,82**	4 996 849,18
Accumulated depreciation 1 January	**1 515 247,39**	1 204 521,87
Accumulated depreciation on decreases	**-312,90**	-507 576,99
Depreciation for the financial year	**600 248,05**	818 302,51
Accumulated depreciation 31 December	**2 115 182,54**	1 515 247,39
Book value 31 December	**4 295 837,28**	3 481 601,79

Other tangible assets

EUR	2018	2017
Acquisition cost 1 January	**54 601,65**	54 769,84
Decreases		-168,19
Acquisition cost 31 December	**54 601,65**	54 601,65
Book value 31 December	**54 601,65**	54 601,65

Advance payments and construction in progress

EUR	2018	2017
Acquisition cost 1 January	**964 432,87**	8 360 232,35
Increases	**3 259 721,85**	7 007 786,57
Transfers between items	**-3 474 982,21**	-14 403 586,05
Decreases	**-6 784,27**	
Acquisition cost 31 December	**742 388,24**	964 432,87
Book value 31 December	**742 388,24**	964 432,87

Tangible assets, total	**301 407 627,33**	333 990 431,07

Revaluations included in balance sheet values

EUR	2018	2017
Land and water	**5 898 350,58**	5 898 350,58
Buildings	**24 848 830,34**	26 530 709,60
Total	**30 747 180,92**	32 429 060,18

Revaluations of real-estate properties have been made during the period from 1950 to 1984 and are based on the estimates of real estate valuers at that time.

11. Investments

Investments in Group companies

EUR	2018	2017
Acquisition cost 1 January	**215 686 260,39**	176 392 674,58
Increases	**58 519 457,72**	100 293 585,81
Impairments*	**-20 000 000,00**	-61 000 000,00
Book value 31 December	**254 205 718,11**	215 686 260,39

* Impairment of Lindex business operations

Other shares and participations

EUR	2018	2017
Acquisition cost 1 January	**760 443,74**	8 028 858,74
Decreases		-5 297,25
Impairments		-7 263 117,75
Book value 31 December	**760 443,74**	760 443,74

Investments, total	**254 966 161,85**	216 446 704,13

12. Current receivables

Trade receivables

EUR	2018	2017
Interest-bearing trade receivables	**750 254,30**	2 184 196,93
Non-interest bearing trade receivables	**3 606 653,63**	6 855 178,70
Total	**4 356 907,93**	9 039 375,63

Receivables from Group companies

EUR	2018	2017
Group contribution receivables	**30 250 000,00**	26 025 000,00
Trade receivables	**1 939 691,47**	2 412 940,52
Prepayments and accrued income	**8 637,99**	8 635,31
Total	**32 198 329,46**	28 446 575,83

Other receivables

EUR	2018	2017
Receivable from sales of business operations		24 706 293,24
Other receivables	**1 925,20**	18 924,81
Total	**1 925,20**	24 725 218,05

Prepayments and accrued income

EUR	2018	2017
Periodised loan arrangement expenses	**4 265 315,26**	8 420 973,29
Receivable from credit card co-operation	**2 680 357,98**	2 787 555,23
Periodised indirect employee expenses	**2 270 983,95**	2 656 801,09
Periodised ICT expenses	**1 528 732,45**	1 668 183,24
Receivable from trademark co-operation	**750 000,00**	500 000,00
Receivables from suppliers	**400 126,13**	1 469 472,66
Derivative receivables	**218 758,34**	4 501 491,09
Taxes and customs duties receivable	**200 000,00**	276 997,98
Periodised rental and leasing expenses	**190 985,84**	165 255,79
Other prepayments and accrued income	**1 949 061,02**	694 624,12
Total	**14 454 320,97**	23 141 354,49

13. Cash in hand and at banks

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

14. Changes in equity

Share capital

EUR	2018	2017
Series A shares 1 January	**61 061 736,00**	61 061 736,00
Series A shares 31 December	**61 061 736,00**	61 061 736,00
Series B shares 1 January	**83 035 630,00**	83 035 630,00
Series B shares 31 December	**83 035 630,00**	83 035 630,00
Share capital, total	**144 097 366,00**	144 097 366,00
Share premium fund 1 January and 31 December	**186 346 445,72**	186 346 445,72
Reserve for invested unrestricted equity 1 January and 31 December	**255 735 789,28**	255 735 789,28
Other funds 1 January and 31 December	**43 728 921,17**	43 728 921,17
Retained earnings 1 January	**-298 700 483,10**	-234 805 218,10
Decrease in revaluation on sales of Non-current assets	**-1 681 879,26**	
Retained earnings 31 December	**-300 382 362,36**	-234 805 218,10
Net profit (loss) for the financial year	**70 889 424,62**	-63 895 265,00
Equity, total	**400 415 584,43**	331 208 039,07

Breakdown of distributable funds 31 December

EUR	2018	2017
Funds	**299 464 710,45**	299 464 710,45
Retained earnings	**-300 382 362,36**	-234 805 218,10
Net profit (loss) for the financial year	**70 889 424,62**	-63 895 265,00
Total	**69 971 772,71**	764 227,35

15. Parent company's shares

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

16. Accumulated appropriations

The accumulated appropriations comprise accumulated depreciation difference.

17. Provisions

Other provisions

EUR	2018	2017
Business restructuring cost	**18 424 698,81**	20 100 288,74
Total	**18 424 698,81**	20 100 288,74

18. Accruals and prepaid income, non-current

EUR	2018	2017
Accrued site expenses	**1 770 300,00**	2 142 626,00
Accrued it expenses	**1 000 216,00**	1 250 270,00
Total	**2 770 516,00**	3 392 896,00

19. Current liabilities

EUR	2018	2017
Interest-bearing liabilities	**229 336 216,65**	251 316 308,32
Non-interest-bearing liabilities	**82 238 946,40**	89 468 205,30
Total	**311 575 163,05**	340 784 513,62

Liabilities to Group companies

EUR	2018	2017
Trade payables	**367 652,37**	367 323,95
Other liabilities, interest-bearing	**2 263 370,59**	1 423 056,50
Other liabilities, non-interest-bearing	**339 776,56**	339 776,56
Accrued liabilities	**4 240 834,95**	1 289 312,43
Total	**7 211 634,47**	3 419 469,44

20. Accruals and prepaid income, current

EUR	2018	2017
Accrued interest and other financial expenses	**12 400 669,30**	8 167 198,29
Accrued personnel expenses	**11 499 571,82**	13 672 225,07
Periodised purchases of stock items	**4 493 819,96**	3 772 864,76
Derivative payables	**3 076 722,36**	5 544 885,03
Accrued site expenses	**1 101 670,82**	1 584 785,72
Reserve for returns	**660 000,00**	669 600,00
Other accrued expenses and prepaid income	**1 293 032,73**	1 935 188,92
Total	**34 525 486,99**	35 346 747,79

21. Contingent liabilities

Mortgages given as collateral for liabilities and commitments

EUR	2018	2017
Loans from credit institutions	**511 032 109,11**	624 266 780,63
Mortgages given	**1 501 681 800,00**	1 801 681 800,00
Book value of the assets	**373 594 103,01**	400 078 832,52
Guarantees	**210 000,00**	300 000,00
Security pledged on behalf of the company, total	**1 501 891 800,00**	1 801 981 800,00

Security pledged on behalf of Group companies

EUR	2018	2017
Rent guarantees	**6 984 036,70**	8 460 395,46
Other guarantees	**33 016 815,40**	33 375 630,39
Total	**40 000 852,10**	41 836 025,84

Security pledged, total

EUR	2018	2017
Mortgages	**1 501 681 800,00**	1 801 681 800,00
Guarantees	**40 210 852,10**	42 136 025,84
Total	**1 541 892 652,10**	1 843 817 825,84

22. Liability engagements and other commitments

EUR	2018	2017
Rental commitments	**321 492 815,94**	380 822 937,12
Electricity commitments	**1 323 047,00**	1 587 989,90
Leasing commitments	**1 252 768,39**	1 401 725,42
Total	**324 068 631,33**	383 812 652,44

The calculation of rental commitments in 2018 has been defined by excluding the service and marketing costs.
The comparison figures have not been changed. The effect is approximately EUR 28.3 million.

Investments in real estate

The company is required to adjust the VAT deductions made on real estate investments completed in 2009-2018, if the VAT-liable use of the real estate decreases during the adjustment period. The last adjustment year is 2028, and the maximum liability is EUR 5 741 298. In 2017 the maximum liability was EUR 12 736 119.

Pension liabilities

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

23. Shares and participations

Group companies

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

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

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

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

Other companies

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

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

The parent company's distributable funds according to the balance sheet at 31 December 2018 were EUR 70.0 million.

According to the parent company's balance sheet at 31 December 2018, the distributable funds at disposal of the Annual General Meeting comprise:

reserve for invested unrestricted equity	255 735 789.28
contingency fund	43 728 921.17
retained earnings	-300 382 362.36
profit for the financial year	70 889 424.62
	69 971 772.71

The Board of Directors proposes that the net result of the financial year 2018 will be carried further in the retained earnings and that no distribution of funds will take place.

Helsinki, 13 February 2019

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

BOARD OF DIRECTORS

Jukka Hienonen

Kaj-Gustaf Bergh Eva Hamilton Esa Lager Leena Niemistö

Michael Rosenlew Tracy Stone Dag Wallgren

CEO

Lauri Veijalainen

Our auditor's report has been issued today.

Helsinki, 18 February 2019

Henrik Holmbom
Authorised Public Accountant

Marcus Tötterman
Authorised Public Accountant

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

Auditor's Report

To the Annual General Meeting of Stockmann plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stockmann plc (business identity code 0114162-2) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

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

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

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6. to the parent company financial statements.

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

Materiality

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

Key Audit Matters

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

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of goodwill and trademark / parent company investment in Lindex (Refer to notes 1.2, 3.1 and 3.2 to the consolidated financial statements and notes 7 and 11 to the parent company financial statements)	

— The goodwill and the trademark balances carried in the consolidated statement of financial position totalled € 605 million as of 31 December 2018, and is entirely related to the Lindex segment and reflecting also the impairment of € 150 million made in 2017.
— In connection with the 2018 impairment testing an impairment of the remaining goodwill of € 25 million related to Stockmann Retail was recognized in the consolidated income statement. An impairment of € 20 million for the investment in Lindex was recognized in the parent company income statement.
— Impairment testing of the cash-generating units (Lindex and Retail) performed by the management relies on estimates of value in use.
— Determining the key assumptions about the cash flow projections underlying the impairment calculations requires the management to make judgements for example in respect of sales growth, profitability and discount rate. Due to the uncertainty related to the projections used in the testing, and the significance of the carrying amounts involved, the valuation of goodwill and trademark was deemed to be a key audit matter.
	— Our analysis considered valuation of goodwill and the trademark in the Consolidated Financial Statements and the Parent company investment in Lindex. We assessed the impairment recognized in 2018 and the year-end impairment testing.
	— We involved KPMG valuation specialists and our audit procedures included, among others:
	  — We challenged the appropriateness of the key assumptions used in the impairment calculations.
	  — We compared the key assumptions used in the impairment calculations, such as cash flows forecasts, discount rates and growth estimates, to the forecasts determined by the Group, market data derived from external sources and to Stockmann's own historical data from the previous financial years.
	  — We tested the arithmetical accuracy of the impairment calculations.
	  — We considered the disclosures in respect of impairment testing, including an assessment of the appropriateness and the adequacy of the information provided on the key assumptions and the sensitivity analyses.

- The cash-generating units may not perform in line with the expectations and forecasts, and therefore, there is a risk that the carrying amounts of goodwill and the trademark exceed their recoverable amounts. At the year-end 2018 the parent company's market capitalisation was below the carrying amount of the net assets of the Group attributable to shareholders.

Valuation of properties
(Refer to notes 1.2, 2.6, 3.3, 3.4 and 5.1 to the consolidated financial statements)

- In the consolidated financial statements, Stockmann measures both the owner-occupied properties and the investment properties it owns at fair value. Fair values are determined on the basis of valuations by external authorised property valuers. The fair value of the properties in the consolidated statement of financial position totalled € 681 million as of 31 December 2018.
- Revaluing owner-occupied properties and determining fair values of the investment properties involve estimation uncertainty, in respect of forecasting and discounting future cash flows, and the management's subjective estimates.
- The valuation of the property holdings is affected by the assumptions used that involve significant amount of management judgement. The key assumptions relate to, among others:
  - estimates on net rental income
  - future capital expenditures
- Due to the divestment of the Nevsky Centre property completed in January 2019, a negative valuation adjustment of € 12 million were recognised in 2018 related to the net assets of Nevsky Centre, classified as assets held for sale at year end 2017 and 2018.

- We made an overall assessment of the principles and the methodologies used in determining fair values. Given the nature of the calculations we also involved KPMG valuation specialists to assess the appropriateness of the fair values of the properties as determined by Stockmann. Our audit procedures included, among others:
  - We assessed the appropriateness of the valuation models and the key assumptions used, through comparing them to market data derived from external sources, for example.
  - We considered the appropriateness and the adequacy of the information provided in the disclosures on fair value measurement of the properties.
- For the valuation of Nevsky Centre property at year-end 2018 we have assessed the impact of the sales transaction, agreed in 2018 and completed in January 2019.

Monitoring and valuation of inventories
(Refer to notes 1.2 and 2.4 to the consolidated financial statements)

— Stockmann carries out its business through a wide network of department and fashion stores, both in Finland and abroad. This increases the importance of functional IT systems, internal controls and management monitoring to ensure the accuracy of inventory balances and the appropriate valuation of inventories.

— The Group sells fashion goods and other goods being subject to changing consumer demands and fashion trends.

— Valuation of inventories involves management judgement. Such judgements include the management's estimates of future sales of inventory items, among others. Therefore, the write-downs recognised on inventories may subsequently prove insufficient.

Our audit procedures included, among others:

— We assessed the appropriateness of the inventory control process and reports used by the management for monitoring purposes.

— In respect of the Group's inventory-related IT systems, associated system access controls and IT security, we assessed the control environment and the effectiveness of system-based controls.

— We attended physical inventory counts at selected locations and assessed the appropriateness of the stock taking processes in the Group's central warehouses.

— We performed data analysis to test the accuracy of inventory pricing and the reliability of calculations used for inventory valuation purposes.

— We assessed the principles applied for inventory valuation and the adequacy of the write-downs recognised.

Financing
(Refer to notes 1.2, 1.5 and 4.8 to the consolidated financial statements)

— In late 2017 the Group entered into a new loan agreement and issued new senior security notes.

— The interest bearing debt totalled € 588 million as of 31 December 2018 (€ 764 million as of December 2017).

— As disclosed in the notes to the financial statements the new IFRS 16 *Leases* standard, applicable on January 1, 2019, is at the time the standard is initially applied estimated to increase the balance sheet lease liabilities with some € 550 million.

— We have assessed the terms of the financing agreements and the impacts on classification and recognition in relation to the accounting principles and the accounting standards applied in the consolidated financial statements.

— In addition, we have assessed the appropriateness of the disclosures provided on the financing arrangements and interest bearing debt in the consolidated financial statements.

— We have familiarised ourselves with the Group's IFRS 16 transition preparations and the calculations of the estimated lease liability to be recognised.

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

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

Other Information

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

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

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

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

Helsinki, 18 February 2019

HENRIK HOLMBOM
Authorised Public Accountant, KHT

MARCUS TÖTTERMAN
Authorised Public Accountant, KHT