FINANCIAL REVIEW 2019

STOCKMANN

CONTENTS

REPORT BY THE BOARD OF DIRECTORS

The Stockmann Group's Consolidated revenue was EUR 960.4 million (1 018.8) in 2019, down 4.5% in comparable currency rates. Gross margin was 56.3% (56.9). Operating result was EUR 13.3 million (-5.0). Adjusted operating result was EUR 29.0 million (28.4, or 10.4 excluding Nevsky Centre). Earnings per share were EUR -0.84 (-0.68). Adjusted earnings per share were EUR -0.63 (-0.22). The Board of Directors will propose that no dividend be paid for the financial year 2019.

STRATEGY

Lindex's aim is to further strengthen international growth and in particular digital transformation. Lindex has a strong market position in the Nordics, with a rapidly growing e-commerce business through its own channels and together with global online partners, well-performing flexible store network, and improving profitability. As stated earlier Stockmann continues to investigate strategic alternatives for Lindex's ownership.

The Stockmann division's two-year rejuvenation process progresses well. The target is to make Stockmann a marketplace for good life that offers the best and most inspiring products in fashion, beauty and home. Focus is strongly on excellent customer service and qualitative customer experiences. The offering is renewed and the range of sustainable brands is increasing to better meet the needs of our customers.

Both Stockmann and Lindex continue to systematically develop digital services and technology solutions to strengthen their multichannel approach. Stockmann is renewing its departments stores in Helsinki and Jumbo and launching a new online store during the summer 2020.

The Stockmann division's rejuvenation programme which includes cost savings and other efficiency measures continues as planned. To turn Stockmann's result into profit, the business requires significant renewal and reduction of costs.

As of 1 July 2019 a new operating model and new structure was introduced, and approximately 150 positions were ended. As of 1 February 2020, the Stockmann division simplified its organisation further and launched a new customer and category based organisation. Savings emerged towards the end of 2019, and will be clearly evident in the 2020 results. Roughly one third of the targeted savings was achieved during 2019.
In 2019 Stockmann renegotiated its contracts with several ICT partners and achieved cost savings. Also a new loyal customer programme was introduced in October, and marketing efforts are targeted in a new focused way.

MARKET ENVIRONMENT

The uncertainties in the global economy, due to Brexit and the trade war between the USA and China, for example, remained during the fourth quarter.

The consumer confidence indicator in the Finnish economy has been negative since January 2019, and it was increasingly negative during the fourth quarter 2019. The fashion market in Finland in January–December was down, at -0.6% (-2.6%, source: Statistics Finland and Fashion and Sport Commerce Association, TMA). The Swedish Krona weakened against euro during 2019.

In Sweden, the general economic situation continued its stable development. The fashion market in Sweden in January–December was down, at -1.8% (-3.0, source: Swedish Trade Federation, Stilindex).

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

REVENUE AND EARNINGS IN CONTINUING OPERATIONS

The Group's 2019 figures include changes due to IFRS 16. Comparison figures for 2018 are not restated. Further information on changes in accounting principles can be found in the notes to the Financial Statements.

The Stockmann Group's revenue for the year was EUR 960.4 million (1 018.8). Revenue was down by 5.7% from the previous year in euros, or down by 4.5% in comparable currency rates.

The revenue in Finland was down by 4.4%, to EUR 369.1 million (386.2). Revenue in other countries was EUR 593.5 million (632.6); down by 6.2% or down by 0.9% in comparable currency rates and excluding the Nevsky Centre.

The gross profit amounted to EUR 540.9 million (580.1) and the gross margin was 56.3 % (56.9). The gross margin was up in Lindex but down in Stockmann.

Operating costs were down by EUR 122.9 million, since rental payments for leased premises are not recognised as a cost due to IFRS 16. Excluding rental payments, operating costs were down by EUR 20.8 million, or by EUR 21.1 million including adjustments related to restructuring and other transformation measures. Operating costs amounted to EUR 388.0 million (510.9).

The Group's adjusted EBITDA was EUR 168.6 million (84.3). Depreciation increased to EUR 139.6 million (55.9) due to the leases being recognised as right-of-use assets in the balance sheet and depreciated over the contract period as an impact of IFRS 16.

The operating result for the year was EUR 13.3 million (-5.0). The adjusted operating result was EUR 29.0 million (28.4, or 10.4 excluding Nevsky Centre). The impact of IFRS 16 on the operating result was EUR 16.1 million.

Net financial expenses were EUR 52.7 million (34.6). The impact of IFRS 16 on the net financial expenses was EUR 26.1 million. Excluding IFRS 16, financial expenses were down due to decreased interest-bearing liabilities. The result before taxes was EUR -39.3 million (-39.6).

Taxes for the year totalled EUR 14.9 million (4.2). Additional taxes of EUR 15.9 million were booked due to a tax reassessment decisions made by the Swedish tax authorities.

The result for the year was EUR -54.3 million (-43.7). Earnings per share for the year were EUR -0.84 (-0.68). Adjusted earnings per share were EUR -0.63 (-0.22). Equity per share was EUR 11.12 (11.71).

ITEMS AFFECTING COMPARABILITY

EUR million	1–12/ 2019	1–12/ 2018
EBITDA	**153.0**	76.0
Adjustments to EBITDA		
Restructuring and transformation measures	**15.2**	3.3
Gain or loss on sale of properties	**0.4**	−6.8
Value adjustment to assets held for sale		11.9
Adjustments total	**15.6**	8.4
Adjusted EBITDA	**168.6**	84.3

EUR million	1–12/ 2019	1–12/ 2018
Operating result (EBIT)	**13.3**	−5.0
Adjustments to EBIT		
Goodwill impairment		25.0
Restructuring and transformation measures	**15.2**	3.3
Gain or loss on sale of properties	**0.4**	−6.8
Value adjustment to assets held for sale		11.9
Adjustments total	**15.6**	33.4
Adjusted operating result (EBIT)	**29.0**	28.4

IMPACT OF IFRS 16

EUR million, YTD	Reported 1–12/ 2019	IFRS 16 items 1–12/ 2019	Excluding IFRS 16 items 1–12/ 2019	Reported 1–12/ 2018
Revenue	**960.4**	**−2.1**	**962.6**	1 018.8
EBITDA	**153.0**	**100.0**	**53.0**	76.0
Adjusted EBITDA	**168.6**	**100.0**	**68.6**	84.3
Depreciation	**139.6**	**83.9**	**55.7**	55.9
Operating result (EBIT)	**13.3**	**16.1**	**−2.8**	−5.0
Adjusted operating result (EBIT)	**29.0**	**16.1**	**12.9**	28.4
Net financial items	**−52.7**	**−26.1**	**−26.6**	−34.6
Net result	**−54.3**	**−7.9**	**−46.4**	−45.2
Assets	**2 103.2**	**505.5**	**1 597.7**	1 827.9
Interest-bearing net debt	**900.2**	**512.8**	**387.4**	543.6
Cash flow from operating activities	**102.3**	**73.9**	**28.4**	82.9

FINANCING AND CAPITAL EMPLOYED

Cash flow from operating activities came to EUR 102.3 million (82.9) in January–December. Due to IFRS 16, lease payments of EUR 73.9 million in January–December are transferred from cash flow from operating activities to cash flow from financial activities.

Total inventories were EUR 145.8 million (141.9) at the end of 2019, down in Stockmann and up on the previous year in Lindex.

Interest-bearing liabilities, excluding IFRS 16 lease liabilities, at the end of December were EUR 412.3 million (587.8), of which long-term debt amounted to EUR 364.5 million (359.9). The debt declined mainly due to the sale of the Nevsky Centre property. The Group has undrawn, long-term committed credit facilities of EUR 128.1 million. The credit facilities include financial covenants related to equity ratio and leverage.

In addition, the Group has undrawn uncommitted overdraft facilities amounting to 2.9 million and an uncommitted Commercial Paper programme of EUR 600.0 million of which EUR 45.4 million is in use. Stockmann also has a EUR 105.8 million hybrid bond which is treated as equity. At the end of December, the interest-bearing liabilities including IFRS 16 lease liabilities amounted to EUR 942.1 million. EUR 235.1 million of lease liabilities are related to Stockmann and EUR 294.7 million to Lindex (1.1.2019: Stockmann 243.5, Lindex 309.1).

Stockmann plc issued hybrid bond capital securities of EUR 21 million by a further issue pursuant to the terms and conditions of its outstanding EUR 85 million hybrid bond. These were offered to certain largest shareholders of Stockmann and were subscribed by Föreningen Konstsamfundet r.f., Kari Niemistö and Svenska litteratursällskapet i Finland rf. (Stock Exchange Release 31 October 2019)

The hybrid bond was issued in January 2016 with an early redemption option at the earliest on 31 January 2020. On 26 November 2019, Stockmann announced that the company had succelssfully completed its consent solicitation from the hybrid bond holders. (Stock Exchange Releases 10 December 2015, 21 October 2019 and 26 November 2019)

Stockmann renegotiated the terms for its long-term credit facilities with banks during the last quarter. The maturity was extended to October 2021.

Cash and cash equivalents totalled EUR 24.9 million (43.4) at the end of December. Assets on the balance sheet were EUR 2 103.2 million (1 827.9) at the end of December, up by EUR 505.5 million due to IFRS 16.

The equity ratio at the end of December was 38.1% (46.2), and net gearing was 112.4% (64.5). IFRS 16 has a significant impact on the equity ratio and net gearing. Excluding IFRS 16, the equity ratio would have been 51.2% and net gearing 48.4%.

The Group's capital employed at the end of December was EUR 1 743.0 million, or EUR 1 213.2 million excluding IFRS 16 (1 431.5).

DISTRIBUTION OF FUNDS

Decisions by the 2019 Annual General Meeting were published in a stock exchange release on 21 March 2019. In accordance with a resolution of the meeting, no dividend was paid for the financial year 2018.

The Board of Directors will propose to the Annual General Meeting, to be held on 18 March 2020, that no distribution of funds is to be made for the 2019 financial year.

CAPITAL EXPENDITURE

Capital expenditure totalled EUR 33.8 million (29.3) in January–December. Most of the capital expenditure was used for both Lindex's and Stockmann's digitalisation, the renovation of Stockmann Delicatessen in Tallinn, and Lindex's store refurbishments.

REVENUE AND EARNINGS BY DIVISION

As of 1 July 2019, the Stockmann Group introduced a simplified organisational structure, where the Stockmann Retail and Real Estate divisions as well as the shared functions were combined into a new Stockmann division. Stockmann Group's reporting segments are Lindex and Stockmann.
The segments are reported excluding IFRS 16, as the management follow-up and analyses were based on the reporting without the IFRS 16 changes in 2019.

The comparison data for the Lindex segment is unchanged. The comparison data for the Stockmann segment includes previously separately reported figures for the Stockmann Retail and Real Estate segments, and Group functions that are not included in unallocated items or the Lindex segment. In the new segment reporting structure unallocated items include Corporate Management, Group Finance Management, Group Treasury and Internal Audit.

LINDEX

	1–12/ 2019	1–12/ 2018
Revenue, EUR mill.	**575.8**	589.9
Gross margin, %	**62.7**	61.7
Operating result, EUR mill.	**32.1**	28.9
Adjusted operating result, EUR mill.	**34.8**	30.4
Capital expenditure, EUR mill.	**20.3**	20.1

Lindex's revenue for the year was down by 2.4%, to EUR 575.8 million (589.9) or down by 0.1% in comparable currency rates. Growth in the online store was 24.3%.

The gross margin for the year was 62.7% (61.7). Also gross profit improved in all markets during the year.

The operating result for the year improved and was EUR 32.1 million (28.9, or adjusted operating result 30.4). Operating costs were down by EUR 5.7 million, and amounted to EUR 309.5 million (315.1). The costs declined mainly due to currency effects.

Store network

In 2019, in total 14 stores were opened and 24 stores were closed. The total number of stores was 464 at the year-end, compared to 474 a year earlier. Lindex opened its first store in Denmark in 2019. The franchise store is located in Denmark's biggest shopping mall Field's in Copenhagen, and the store opening was a record-breaking success with 13 700 visitors during the opening weekend.

Stockmann Group	Total 31.12. 2018	New stores in 2019	Closed stores in 2019	Total 31.12. 2019
Lindex stores	474	14	24	464
of which own stores	433	5	14	424
of which franchising	41	9	10	40
Department stores	8	0	0	8

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	1–12/ 2019	1–12/ 2018
Revenue, EUR mill.	**386.8**	429.0
Gross margin, %	**47.1**	50.5
Operating result, EUR mill.	**−20.4**	−5.4
Adjusted operating result, EUR mill.	**−17.8**	1.5
Capital expenditure, EUR mill.	**13.5**	9.2

The Stockmann division's revenue for the year was EUR 386.8 million (429.0). Revenue was down by 9.8 %, partly due to the sale of the Book House and Nevsky Centre properties, which affected the rental income from tenants.

Revenue in Finland was EUR 300.2 million (316.0). Revenue was down by 5.0% compared with the previous year. Revenue the Baltic department stores was down 6.4%, to EUR 85.2 million (91.0). Growth in the online store was 10.8%.

The gross margin for the year was 47.1% (50.5 or 47.8 excl. real restate business).

Operating costs were EUR 166.2 million (185.7) down by EUR 19.5 million, or down by EUR 8.4 million including adjustments of EUR 2.6 million (13.8) related to restructuring measures and sale of the properties.

The operating result for the year was EUR -20.4 million (-5.4, including value adjustments, gains and losses on sale of properties). Adjusted operating result was EUR -17.8 million (1.5, or -16.5 excluding Nevsky Centre).

Properties

At the end of 2019, the revalued amount of the properties was EUR 667.7 million (681.0). The weighted average market yield requirement used in the fair value calculation increased to 5.1% (4.8), mainly due to increased competition corresponding to new retail space in Helsinki.

The department store properties have a gross leasable area (GLA) of 87 000 m2, of which Stockmann was using 73% at the end of 2019 and the rest was used by external partners. The occupancy rate of the properties remained at a high level, at 97.7% (99.4).

The Nevsky Centre property in St Petersburg was sold to PPF Real Estate in January 2019 with a transaction price of EUR 171.0 million.

Property	Gross leasable area, m2, 31.12. 2019	Occupancy rate, % 31.12. 2019	Usage by Stockmann, % 31.12. 2019
Helsinki flagship building	50 724	98.5	66
Tallinn department store building	21 527	94.2	82
Riga department store building	15 119	100.0	86
Total	**87 370**	**97.7**	**73**

CHANGES IN MANAGEMENT

CEO Lauri Veijalainen resigned from Stockmann and left the company on 31 March 2019. Lauri Ratia, Chairman of the Board of Directors, was acting Executive Chairman until 18 August 2019. Stockmann plc's Board of Directors appointed Jari Latvanen (born 1964), MBA, as Stockmann's new Chief Executive Officer as of 19 August 2019.

Stockmann Group's management team member Tove Westermarck was appointed Stockmann Retail's Chief Operating Officer as of 22 March 2019.

Pekka Vähähyyppä (born 1960), M.Sc (Econ.), EMBA, was appointed as Chief Financial Officer and as a member of the Stockmann Group's Management Team as of 19 August 2019. Kai Laitinen, CFO, left Stockmann in September in order to assume a new position outside the company.

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 2019. 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 154.5 million (140.8) at the end of December.

The price of a Series A share was EUR 2.26 at the end of 2019, compared with EUR 2.00 at the end of 2018, while the price of a Series B share was EUR 2.06, compared with EUR 1.92 at the end of 2018.

A total of 1.3 million (3.9) Series A shares and 13.1 million (14.0) Series B shares were traded on Nasdaq Helsinki during 2019. This corresponds to 4.2% (12.7) of the average number of Series A shares and 31.6% (33.6) 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.

At the end of December, Stockmann had 43 394 shareholders, compared with 44 396 a year earlier.

Stockmann was notified on 3 December 2019 that the holdings of HC Holding Oy Ab's (business identity code 2279939-4) holding in Stockmann plc's shares has decreased below 10 per cent in connection with a sale of shares on 3 December 2019.

DISCLOSURE OF NON-FINANCIAL INFORMATION

Stockmann is a Finnish listed company engaged in the retail trade that offers a comprehensive selection of high quality and responsible products of fashion, beauty and home products in department stores, fashion stores, and online. In its business operations, Stockmann is committed to responsible operations. The daily operations are guided by the Group's strategy and values, Stockmann's Code of Conduct and the corporate responsibility strategies of its business units.

According to its CSR promise, Stockmann inspires and supports its customers in making responsible choices and works for a more sustainable future. The Group's ongoing CSR development work is guided by Stockmann's CSR strategy as well Lindex's sustainability promise, with its focus areas, targets and indicators all integrated as part of business, and whose development is regularly monitored. The business units' respective focus areas have been identified through materiality analysis and stakeholder dialogue.

Stockmann communicates openly about its responsibility work and reports annually on its CSR focus areas, objectives and developments in the Group's CSR Review, prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. The CSR Review will be published in the week starting 24 February 2020 at year2019.stockmanngroup.com

Key commitments, codes of conduct and policies
Stockmann operations comply with international and national laws and regulations valid at any time in the countries in which it operates. The Group's operations are also guided by international treaties and recommendations, such as the UN's Universal Declaration of Human Rights and Convention on the Rights of the Child, the ILO's Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights. In addition, Stockmann is committed to the UN's Global Compact initiative, and in accordance with this promotes human rights, labour rights, environmental protection and anti-corruption measures.

The Stockmann Group's Code of Conduct (CoC) and other Group policies define ways of working for all personnel. The Group's Code of Conduct and related clarifications have been included in the Group's Collaboration Agreements, and Stockmann requires all its suppliers and partners to commit to and comply with the Code of Conduct, or show the demonstration of their commitment to other equivalent policies. As part of responsibility management, the effort is put into communicating the principles to both internal and external stakeholders. The Code of Conduct covers compliance with legislation and ethical operations, free competition and consumer rights, employees and working conditions, environment, and corruption and conflicts of interest.

At the end of 2019, 70% (59) of Stockmann's personnel in Finland and 71% of personnel in Latvia had completed the Code of Conduct training. Of the members in the Stockmann support function and department store management teams, 75% (94) had completed the training. The long-term target is for 100% of the Group's personnel to have completed the training.

Respecting human rights
Stockmann respects and promotes all human rights in accordance with its Code of Conduct and human rights policy. Stockmann is committed to ensuring that fundamental rights are respected and that people are treated with dignity and respect. We carry out further human rights due diligence as required in the UNs Guiding Principles on Business and Human Rights, in order to identify, prevent and mitigate adverse human rights impacts resulting from or caused by our business activities.

Stockmann has identified the most significant human rights risks of its business to be found in the own brand product supply chains, related to working conditions. Around 90% (90) of Stockmann's own brand garments are produced in areas classified as risk countries by amfori BSCI, such as China and Bangladesh. Stockmann Group has been a member of amfori BSCI since 2005 and with this committed to improving the working conditions in the production facilities. In addition, since 2013, Stockmann is committed to improving fire and building safety in Bangladesh through the Accord on Fire and Building Safety.

Product safety and responsible supply chain
Stockmann offers a wide selection of safe and lasting quality products and focuses on the responsibility, transparency and traceability of its supply chains.

In the Stockmann department stores, the major part of the 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, the majority of the selection is own brand products.

The Stockmann Group is responsible for the safety of the products it sells, ensuring that they do not pose a risk to customers' health or property. Product safety is insured in collaboration with suppliers. Product testing and quality checks are made to ensure that the products fulfil all quality and safety requirements set by legislation and the possible stricter requirements set by the company. During the reporting year, Lindex had two public product recalls, one concerning a nail polish remover non-compliant with Norwegian chemical legislation, and another concerning a bracelet, non-compliant with the Group's safety requirements.

As part of responsible supply chain management, Stockmann's own brand suppliers and producers are required to comply with Stockmann's supplier Code of Conduct, which is based on the amfori BSCI Code of Conduct. All suppliers producing Stockmann's own brand products have signed the Stockmann Supplier Code of Conduct, the amfori BSCI Code of Conduct or other similar commitment. The Group has purchase offices with local personnel in six main production locations to oversee production quality and compliance with the Code of Conduct, and producers in risk countries are also subject to third party sustainability audits. The long term target is that 100% of own brand producers in risk countries to have undergone an amfori BSCI audit or similar audit.

For transparency and traceability, both Stockmann and Lindex publish comprehensive lists of own brands' suppliers and factories on the companies' websites.

Anti-corruption and anti-bribery
Stockmann's policies relating to anti-corruption and anti-competitive behaviour are included in the Stockmann Code of Conduct and further specified in the Stockmann anti-corruption policy. Stockmann takes a zero-tolerance approach to all forms of bribery and corruption. Stockmann employees and management are expected, at all times, to perform their duties honestly and with integrity, in the best interest of the company, avoiding any conflicts of interest and in accordance with local laws.

Stockmann has a whistleblowing channel giving the opportunity to report, either nominally or anonymously, any violation of Stockmann's Code of Conduct or other Group Guidelines.
In 2019, no cases of corruption or bribery related to Stockmann's business were reported through the channel. During the reporting year, Stockmann was not informed of any corruption-related lawsuits against the Group. There were no legal cases, legal actions or decisions for anti-competitive behaviour, anti-trust, or monopoly practices in 2019.

Personnel
Motivated and engaged retail experts are the backbone of our business. Stockmann treats its employees fairly and equally in accordance with its HR policy and equality plan. The Stockmann Group's Human Resources (HR) policies are based on the company's values, strategy and Code of Conduct. Ensuring a safe working environment, promoting equality and diversity, and supporting the professional growth and well-being of our employees is an essential part of responsible HR practices.
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.

The Group's average number of personnel in continuing operations was 7 002 (7 241) in 2019. In terms of full-time equivalents, the average number of employees was 4 891 (5 299). At the end of the year, the Group had 6 914 employees (7 129), of whom 1 894 (2 142) were working in Finland. The number of employees working outside Finland was 5 020 (4 984), which represented 72.6% (69.9) of the total. Among the Stockmann Group's employees, women represented 91% (91) and men 9% (9).

The Group's wages and salaries amounted to EUR 163.3 million in 2019, compared with EUR 172.3 million in the previous year. The total employee benefits expenses were EUR 211.1 million (222.0), which is equivalent to 22.0% (21.8) of revenue.

The year was a demanding one for our personnel, as the company introduced a new operating structure and the codetermination negotiations in the summer concerned about 1 600 people in Finland, bringing changes to terms of employment and resulted in ending approximately 150 positions, most of them through lay-offs.

In 2019, Stockmann revised its personnel survey model and introduced the Stockmannstaff barometer, which enables the effective utilization of the results of the personnel experience measurement and process development, as well as deeper and more active employee consultation.

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. Stockmann engages actively in social media and other feedback channels, to better understand customer needs and expectations.

In 2019, the NPS at department stores in Finland was 51 (51), while the long-term target level is 70. 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. As part of measuring customer experience, Stockmann measures responsibility in customer experience. In 2019, department stores in Finland achieved a score of 3.3 for responsibility, and Latvia 4.2, while the target is set at 4, on a scale from 1 to 5.

Stockmann complies with valid competition and privacy legislation in its operations and promotes free competition in its sector. In 2019, there was one limited incident concerning customers' personal data in Estonia. Stockmann filed a notification to the

Estonian data protection authority regarding the incident, which decided that no official procedure was required. At Lindex, there where three limited incidents concerning customers' personal data. For one of the incidents Lindex filed a notification to the regulatory authority, which decided that no official procedure was required. Stockmann's annual target is zero incidents of breaches of customer privacy.

Environment
Stockmann's objective is to reduce and prevent the environmental impact of its business operations 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 system and progress towards set environmental goals and objectives.

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. The Stockmann Group's waste recycling rate was 73% (73). The Group's GHG emissions in 2019 were 39 700 tCO2e (45 130). The highest share of emissions, around 70%, came from the generation of purchased energy, especially electricity. Stockmann's goal has been to improve the energy efficiency of its department store operations by 4% from 2016 to 2020. The target was achieved and energy efficiency was increased by over 10%. A further goal has been set to improve energy efficiency in Finland by 7.5% from 2018 to 2025. At Lindex, approximately 60% of the electricity is from renewable sources. Stockmann reports on its CO2 emissions annually in the Group's CSR Review and in the international Climate Change Disclosure (CDP) survey. Water consumption in Stockmann's own operations is minimal and these operations take place in areas where there is currently no scarcity of water.

Stockmann aims to reduce the environmental impact of its products and to increase the use of more sustainable materials in its own brand garments. Lindex's target has been that by the end of 2020, 80% of Lindex's garments will be made from more sustainable materials, with more sustainable processes and more sustainable production facilities. In 2019, 65% (55) of the Lindex assortment was made from more sustainable materials and approximately 98% (96) of all Lindex cotton was more sustainable, such as organic and Better Cotton. 46% (30) of Stockmann's own brand garments in 2019 were made of more sustainable materials, and 73% (65) of own brand jersey garments were made of more sustainable cotton. Stockmann aims that by 2021 50% of its own brand garments are made with more sustainable materials and the share of more sustainable cotton in own brand jersey garments is 80%. During the reporting year, Stockmann joined the Better Cotton Initiative and promotes more sustainable cotton production as part of the initiative.

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 the merchandise is made up of international and domestic brand products. Suppliers of these products are expected to follow the Stockmann Code of Conduct 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 amfori BSCI. In its own brand supply chains, the Group is exposed to risks related to the traceability and transparency, the realization of human and labour rights, and the environmental impacts of production and raw materials.

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, which is based on the amfori BSCI Code of Conduct that sets out 11 core labour rights, or another similar commitment. The Group has purchase offices with local personnel in six main production locations to oversee production quality and compliance with the Code of Conduct, and producers in risk countries are also subject to third party sustainability 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 measures.

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 2020.

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.

Stockmann's business is affected by seasonal fluctuations within a year. The first quarter is typically low in revenue and the fourth quarter typically higher in revenue. 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 sustainable use of natural resources are important for the Group's brands in order to retain customer confidence in Stockmann.

Risks related to production may arise from unusual situations such as the outbreak of an epidemic, strikes, political uncertainties or conflicts which may stop or cause delays in production or supply of merchandise, which in turn may affect business negatively.

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 and the US dollar 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.

OUTLOOK FOR 2020

We expect that the uncertainties in the global economy will remain during 2020. In 2020, the GDP in Stockmann's main markets is expected to show moderate growth. We expect the retail market to remain challenging due changes in consumer behavior and increasing competition, and moderate consumer confidence indicator.

The rejuvenation programme in Stockmann will continue throughout 2020. Lindex will continue to drive efficiencies and explore new growth opportunities.

Capital investment projects will be reviewed and decided throughout the year, the total planned capital expenditure amounts to approximately EUR 45 million.

GUIDANCE FOR 2020

Stockmann expects the Group's operating profit to clearly improve in 2020 (2019: EUR 13.3 million).

CORPORATE GOVERNANCE STATEMENT

Stockmann will publish a separate Corporate Governance Statement for 2019 in line with the recommendation by the Finnish Corporate Governance Code. The statement will be published during the week starting on 24 February 2020 (week 9).

Helsinki, Finland, 12 February 2020

STOCKMANN plc
Board of Directors

Key figures

		2019	2018	2017	2016	2015
Revenue *)	EUR mill.	960,4	1 018,8	1 055,9	1 175,7	1 434,8
Gross profit *)	EUR mill.	540,9	580,1	588,8	655,4	725,4
Gross margin *)	%	56,3	56,9	55,8	55,7	50,6
EBITDA *)	EUR mill.	153,0	76,0	67,6	85,6	19,3
Adjustments to EBITDA *)	EUR mill.	-15,6	-8,4	-5,6	-2,6	-24,0
Adjusted EBITDA *)	EUR mill.	168,6	84,3	73,2	88,2	43,4
Operating result *)	EUR mill.	13,3	-5,0	-148,4	28,3	-52,5
Share of revenue *)	%	1,4	-0,5	-14,1	2,4	-3,7
Adjustments to operating result *)	EUR mill.	-15,6	-33,4	-160,6	-2,6	-24,0
Adjusted operating result *)	EUR mill.	29,0	28,4	12,3	30,9	-28,5
Result for the period	EUR mill.	-54,3	-45,2	-209,4	-3,2	-175,0
Share capital	EUR mill.	144,1	144,1	144,1	144,1	144,1
A share	EUR mill.	61,1	61,1	61,1	61,1	61,2
B share	EUR mill.	83,0	83,0	83,0	83,0	82,9
Return on equity	%	-6,6	-5,2	-21,3	-0,3	-19,4
Return on capital employed	%	0,9	-0,4	-9,1	1,8	-7,6
Capital employed	EUR mill.	1 587,2	1 540,1	1 745,4	1 836,1	1 740,4
Capital turnover rate		0,6	0,7	0,7	0,6	0,9
Inventories rate		2,9	3,1	3,4	3,4	4,8
Equity ratio	%	38,1	46,2	43,0	48,3	46,1
Net gearing	%	112,4	64,5	83,8	68,3	72,1
Capital expenditure	EUR mill.	33,8	29,3	34,7	44,2	53,4
Share of revenue *)	%	3,5	2,9	3,3	3,8	3,7
Interest-bearing net debt	EUR mill.	900,2	543,3	739,4	736,4	753,6
Net debt / EBITDA	EUR mill.	5,9	7,2	10,9	8,6	39,0
Total assets	EUR mill.	2 103,2	1 827,9	2 061,4	2 241,2	2 273,9
Staff expenses *)	EUR mill.	211,1	222,0	236,2	270,4	321,5
Personnel, average *)	persons	7 002	7 241	7 360	8 164	10 762
Average number of employees, converted to full-time equivalents *)	persons	4 891	5 299	5 426	5 960	7 643
Revenue per person *)	EUR thousands	137,2	140,7	143,5	144,0	133,3

IFRS 16 had a significant impact on the comparability of certain key figures

*) 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

		2019	2018	2017	2016	2015
Earnings per share, continuing operations	EUR	-0,84	-0,68	-2,82	-0,18	-1,24
Earnings per share, discontinued operations	EUR		-0,02	-0,16	0,06	-1,20
Earnings per share (undiluted and diluted)	EUR	-0,84	-0,70	-2,98	-0,12	-2,43
Cash flow from operating activities per share	EUR	1,42	1,15	0,26	0,58	0,24
Equity per share	EUR	11,12	11,71	12,29	14,99	14,53
Dividend per share *	EUR					
Dividend per earnings *	%					
P/E ratio of shares						
A share		-2,7	-2,9	-1,5	-60,4	-2,6
B share		-2,4	-2,7	-1,5	-60,2	-2,6
Share quotation at 31.12.	EUR					
A share		2,26	2,00	4,60	7,09	6,22
B share		2,06	1,92	4,35	7,06	6,25
Highest price during the period	EUR					
A share		3,16	5,64	8,20	7,55	8,00
B share		2,74	5,13	8,00	7,31	8,41
Lowest price during the period	EUR					
A share		1,90	1,84	4,22	5,26	5,94
B share		1,78	1,65	4,05	5,06	5,98
Average price during the period	EUR					
A share		2,41	2,53	5,29	5,97	6,86
B share		2,12	3,31	6,19	6,33	7,10
Share turnover	thousands					
A share		1 281	3 875	1 996	2 791	2 188
B share		13 127	13 952	13 664	12 231	14 615
Share turnover	%					
A share		4,2	12,7	6,5	9,1	7,2
B share		31,6	33,6	32,9	29,5	35,2
Market capitalisation at 31.12.	EUR mill.	154,5	140,8	321,0	509,6	449,4
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	30 531	30 553
B share		41 518	41 518	41 518	41 518	41 495
Weighted average number of shares	thousands	72 049	72 049	72 049	72 049	72 049
A share		30 531	30 531	30 531	30 533	30 590
B share		41 518	41 518	41 518	41 515	41 459
Total number of shareholders at 31.12.		43 394	44 396	46 672	49 813	52 415

* 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.

	2019	2018	2017	2016	2015
EUR million					
Adjusted EBITDA	168,6	84,3	73,2	88,2	43,4
Adjustments to EBITDA					
Restructuring arrangements	-15,2	-3,3	-9,6	-2,6	-1,1
Fair value gains and losses on investment properties			4,0		
Gain on sale of properties	-0,4	6,8			
Loss on sale of businesses					-22,9
Value adjustment to assets held for sale		-11,9			
Adjustments total	-15,6	-8,4	-5,6	-2,6	-24,0
EBITDA	153,0	76,0	67,6	85,6	19,3
Adjusted operating result (EBIT)	29,0	28,4	12,3	30,9	-28,5
Adjustments to EBIT					
Goodwill impairment		-25,0	-150,0		
Restructuring arrangements	-15,2	-3,3	-14,6	-2,6	-1,1
Fair value gains and losses on investment properties			4,0		
Gain on sale of properties	-0,4	6,8			
Loss on sale of businesses					-22,9
Value adjustment to assets held for sale	0,0	-11,9			
Adjustments total	-15,6	-33,4	-160,6	-2,6	-24,0
Operating result (EBIT)	13,3	-5,0	-148,4	28,3	-52,5

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 share capital

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

The company's shares are in the book-entry system and they are listed on Nasdaq Helsinki. The trading code for the Series A share is STCAS and for the Series B share STCBV. The number of registered shareholders at 31 December 2019 was 43 394 (44 396 shareholders at 31 December 2018).

The company's market capitalisation at 31 December 2019 was EUR 154.5 million (EUR 140.8 million at 31 December 2018).

Number of shares, 31 December 2019

	Number	Shareholders %	Percentage of shares %	Percentage of votes %
1-100	28 587	65,9	1,5	0,6
101-1000	11 979	27,6	5,8	4,3
1001-10000	2 565	5,9	9,6	6,0
10001-100000	221	0,5	7,6	4,0
100001-1000000	31	0,1	14,0	13,7
1000001-	11		61,5	71,4
Total	43 394	100,0	100,0	100,0

Ownership structure, 31 December 2019

	Number	Shareholders %	Percentage of shares %	Percentage of votes %
Households	42 255	97,4	25,0	21,7
Private and public corporations	714	1,6	19,4	20,5
Foundations and associations	220	0,5	45,3	55,2
Nominee registrations (incl. foreign shareholders)	180	0,4	8,2	2,1
Financial and insurance companies	25	0,1	2,0	0,5
Unregistered shares			0,1	
Total	43 394	100,0	100,0	100,0

Major shareholders, 31 December 2019

	Percentage of shares %	Percentage of votes %
1 Föreningen Konstsamfundet Grouping	13,6	21,8
2 Varma Mutual Pension Insurance Company	9,8	5,6
3 HC Holding Oy Ab	8,5	10,0
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	2,2	2,7
9 Jenny and Antti Wihuri Foundation	1,9	2,1
10 Ilmarinen Mutual Pension Insurance Company	1,7	0,8
11 Folkhälsan i Svenska Finland rf Inez och Julius Polins Fond	1,5	0,8
12 Wilhelm och Else Stockmanns Stiftelse	1,0	2,2
13 Säästöpankki Small Cap Mutual Fund	0,8	0,2
14 Säästöpankki Itämeri Mutual Fund	0,8	0,2
15 Helene och Walter Grönqvists Stiftelse	0,7	1,5
16 VISIO Allocator Fund	0,7	0,2
17 William Thuring's Foundation	0,4	0,7
18 Taaleritehdas Arvo Markka Osake Fund	0,4	0,1
19 Turun Kaupunki	0,4	0,1
20 Turun Kaupungin Vahinkorahasto	0,4	0,1
Other	35,2	19,4
Total	100,0	100,0

CONSOLIDATED INCOME STATEMENT

EUR mill.	Note	**1.1.–31.12.2019**	1.1.–31.12.2018
Continuing operations			
REVENUE	2.2	**960.4**	1 018.8
Other operating income	2.2	**0.0**	7.0
Fair value changes on investment properties	2.2, 3.4		−0.3
Materials and consumables	2.3	**−419.5**	−438.7
Wages, salaries and employee benefit expenses	2.5, 5.5	**−211.1**	−222.0
Depreciation, amortisation and impairment losses	3	**−139.6**	−80.9
Other operating expenses	2.6	**−176.9**	−288.9
Total expenses		**−947.1**	−1 030.5
OPERATING PROFIT/LOSS		**13.3**	−5.0
Financial income	2.1	**1.1**	0.6
Financial expenses	4.1	**−53.7**	−35.3
Total financial income and expenses	4.1	**−52.7**	−34.6
PROFIT/LOSS BEFORE TAX		**−39.3**	−39.6
Income taxes	2.7	**−14.9**	−4.2
PROFIT/LOSS FROM CONTINUING OPERATIONS		**−54.3**	−43.7
Profit/loss from discontinued operations	5.1		−1.4
NET PROFIT/LOSS FOR THE PERIOD		**−54.3**	−45.2
Profit/loss for the period attributable to:			
Equity holders of the parent company		**−54.3**	−45.2
Earnings per share, EUR:	4.13		
From continuing operations (undiluted and diluted)		**−0.84**	−0.68
From discontinued operations (undiluted and diluted)			−0.02
From the period result (undiluted and diluted)		**−0.84**	−0.70

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR mill.	Note	**1.1.–31.12.2019**	1.1.–31.12.2018
PROFIT/LOSS FOR THE PERIOD		**−54.3**	−45.2
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Changes in revaluation surplus (IAS 16), before tax		**5.1**	8.7
Changes in revaluation surplus (IAS 16), tax	2.7, 4.12	**−1.0**	−1.7
Changes in revaluation surplus (IAS 16), net of tax		**4.1**	6.9
Items that may be subsequently reclassified to profit and loss			
Exchange differences on translating foreign operations, before tax		**−5.8**	2.8
Exchange differences on translating foreign operations, net of tax	2.7, 4.12	**−5.8**	2.8
Cash flow hedges, before tax		**−1.7**	0.6
Cash flow hedges, tax			−0.1
Cash flow hedges, net of tax	2.7, 4.12	**−1.7**	0.5
Other comprehensive income for the period, net of tax		**−3.5**	10.3
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**−57.7**	−34.9
Total comprehensive income attributable to:			
Equity holders of the parent company, continuing operations		**−57.7**	−33.5
Equity holders of the parent company, discontinued operations			−1.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR mill.	Note	**31.12.2019**	31.12.2018
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill		**506.6**	516.1
Trademark		**87.0**	88.7
Intangible rights		**39.0**	39.6
Other intangible assets		**1.8**	2.3
Advance payments and construction in progress		**2.6**	0.9
Intangible assets, total	3.2	**637.0**	647.5
Property, plant and equipment			
Land and water		**100.6**	102.5
Buildings and constructions		**567.1**	578.5
Machinery and equipment		**55.4**	64.1
Modification and renovation expenses for leased premises		**4.9**	5.1
Right-of-use assets		**485.7**	
Advance payments and construction in progress		**5.6**	0.8
Property, plant and equipment, total	3.3	**1 219.3**	751.1
Investment properties	3.4	**0.5**	0.5
Non-current receivables	4.10, 4.11	**0.4**	0.6
Non-current lease receivables	4.10	**15.7**	
Other investments	4.10	**0.3**	0.3
Deferred tax assets	2.8	**16.3**	14.7
NON-CURRENT ASSETS, TOTAL		**1 889.4**	1 414.7
CURRENT ASSETS			
Inventories	2.4	**145.8**	141.9
Current receivables			
Interest-bearing receivables		**0.1**	0.8
Lease receivables		**1.3**	
Income tax receivables		**4.6**	7.8
Non-interest-bearing receivables		**37.1**	43.7
Current receivables, total	4.3	**43.0**	52.2
Cash and cash equivalents	4.4	**24.9**	43.4
CURRENT ASSETS, TOTAL		**213.7**	237.6
ASSETS CLASSIFIED AS HELD FOR SALE	5.1		175.7
ASSETS, TOTAL		**2 103.2**	1 827.9

EUR mill.	Note	**31.12.2019**	31.12.2018
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**144.1**	144.1
Share premium fund		**186.1**	186.1
Revaluation surplus		**329.0**	358.2
Invested unrestricted equity fund		**250.4**	250.4
Other funds		**42.5**	44.2
Translation reserve		**−17.5**	−11.6
Retained earnings		**−239.6**	−212.1
Hybrid bond		**105.8**	84.3
Equity attributable to equity holders of the parent company	4.12	**800.9**	843.7
EQUITY, TOTAL		**800.9**	843.7
NON-CURRENT LIABILITIES			
Deferred tax liabilities	2.8	**125.4**	128.3
Non-current interest-bearing financing liabilities	4.5	**364.5**	359.9
Non-current lease liabilities	4.5	**438.6**	
Non-current non-interest-bearing liabilities and provisions	4.9, 4.10, 5.3	**1.6**	17.5
NON-CURRENT LIABILITIES, TOTAL		**930.0**	505.7
CURRENT LIABILITIES			
Current interest-bearing financing liabilities	4.6	**47.8**	227.9
Current lease liabilities	4.6	**91.2**	
Current non-interest-bearing liabilities			
Trade payables and other current liabilities	4.6, 4.9	**194.6**	190.1
Income tax liabilities	4.6	**37.4**	20.9
Current provisions	5.3	**1.1**	5.0
Current non-interest-bearing liabilities, total		**233.2**	215.9
CURRENT LIABILITIES, TOTAL		**372.2**	443.8
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	5.1		34.7
LIABILITIES, TOTAL		**1 302.3**	984.3
EQUITY AND LIABILITIES, TOTAL		**2 103.2**	1 827.9

CONSOLIDATED CASH FLOW STATEMENT

EUR mill.	Note	**1.1.–31.12.2019**	1.1.–31.12.2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/loss for the period		**−54.3**	−45.2
Adjustments for:			
Depreciation, amortisation and impairment losses		**139.6**	80.9
Gains (-) and losses (+) of disposals of fixed assets and other non-current assets		**0.7**	5.6
Interest and other financial expenses		**53.7**	35.3
Interest income		**−1.1**	−0.6
Income taxes		**14.9**	4.2
Other adjustments		**−1.2**	−3.0
Working capital changes:			
Increase (-) /decrease (+) in inventories		**−5.3**	16.3
Increase (-) / decrease (+) in trade and other current receivables		**8.0**	11.9
Increase (+) / decrease (-) in current liabilities		**−0.2**	10.5
Interest expenses paid		**−52.1**	−24.4
Interest received from operating activities		**1.1**	0.6
Other financing items from operating activities		**−1.4**	
Income taxes paid from operating activities		**−0.3**	−9.2
Net cash from operating activities		**102.3**	82.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible and intangible assets		**−33.9**	−28.1
Proceeds from sale of tangible and intangible assets		**139.7**	122.5
Exchange rate gain on the hedge of a net investment and internal loan*)		**11.1**	31.6
Net cash used in investing activities		**116.8**	126.0
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of hybrid bond		**21.5**	
Proceeds from current liabilities		**45.4**	79.9
Repayment of current liabilities		**−226.9**	−249.1
Proceeds from non-current liabilities		**166.7**	215.0
Repayment of non-current liabilities		**−165.1**	−213.8
Payment of lease liabilities		**−73.9**	
Interest on hybrid bond		**−6.6**	−6.6
Net cash used in financing activities		**−238.8**	−174.6
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**−19.8**	34.3
Cash and cash equivalents at the beginning of the period		**43.4**	21.0
Cheque account with overdraft facility		**−0.4**	−12.2
Cash and cash equivalents at the beginning of the period		**43.0**	8.8
Net increase/decrease in cash and cash equivalents		**−19.8**	34.3
Effects of exchange rate fluctuations on cash held		**−0.6**	−0.1
Cash and cash equivalents at the end of the period		**24.9**	43.4
Cheque account with overdraft facility		**−2.3**	−0.4
Cash and cash equivalents at the end of the period	4.4	**22.7**	43.0

*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	Total	Hybrid bond	**Total**
EQUITY 1.1.2018	144.1	186.1	418.6	−0.1	250.4	43.8	−14.5	−227.6	800.8	84.3	**885.1**
Profit/loss for the period								−45.2	−45.2		**−45.2**
Changes in revaluation surplus (IAS 16)			6.9						6.9		**6.9**
Exchange differences on translating foreign operations 2)							2.8		2.8		**2.8**
Cash flow hedges 2)				0.5					0.5		**0.5**
Total comprehensive income for the period, net of tax			6.9	0.5			2.8	−45.2	−34.9		**−34.9**
Disposal of revalued assets			−58.4					58.4			
Interest paid on hybrid bond								−6.6	−6.6		**−6.6**
Other changes 1)			−8.9					8.9			
Other changes in equity total			−67.3					60.7	−6.6		**−6.6**
EQUITY 31.12.2018	144.1	186.1	358.2	0.4	250.4	43.8	−11.6	−212.1	759.4	84.3	**843.7**

EUR mill.	Share capital	Share premum fund	Revaluation surplus	Hedging reserve	Reserve for un-restricted equity	Other reserves	Translation differences	Retained earnings	Total	Hybrid bond	**Total**
EQUITY 1.1.2019	144.1	186.1	358.2	0.4	250.4	43.8	−11.6	−212.1	759.4	84.3	**843.7**
Profit/loss for the period								−54.3	−54.3		**−54.3**
Changes in revaluation surplus (IAS 16)			4.1						4.1		**4.1**
Exchange differences on translating foreign operations 2)							−5.8		−5.8		**−5.8**
Cash flow hedges 2)				−1.7					−1.7		**−1.7**
Total comprehensive income for the period, net of tax			4.1	−1.7			−5.8	−54.3	−57.7		**−57.7**
Proceeds from hybrid bond										22.2	**22.2**
Hybrid bond expenses										−0.7	**−0.7**
Disposal of revalued assets			−24.7					24.7	0.0		**0.0**
Interest paid on hybrid bond								−6.6	−6.6		**−6.6**
Other changes 1)			−8.6					8.6	0.0		**0.0**
Other changes in equity total			−33.3					26.7	−6.6	21.5	**15.0**
EQUITY 31.12.2019	144.1	186.1	329.0	−1.3	250.4	43.8	−17.5	−239.6	695.0	105.8	**800.9**

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

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 2019. 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 2019, the Stockmann Group has applied the following new and revised standards and interpretations:

IFRS 16 Leases, which replaced 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. The Stockmann Group applied the standard using the modified retrospective approach, which means that the comparative figures for the year preceding adoption are not restated. Stockmann used on transition 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. In addition initial direct costs are excluded from the measurement of the right-of-use asset. At the date of initial application the value of the right-of-use asset is adjusted with the provision for onerous contracts. The lease term is determined as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain to exercise that option. In the Stockmann Group Lindex uses a scoring system based on the operating profit to determine if prolongation of original rental period is included in the lease term. Operating profit is measured as a percentage compared to turnover and the higher the percentage the more likely the option to extend will be exercised. Lessor accounting will remain substantially unchanged from the current IAS 17.

IFRS 16 has a significant impact on the Group's assets and liabilities. The right-of-use asset and lease liability in the Group is 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. The average weighted discounting rate at the time the standard initially applied was 5.2 per cent in the Stockmann Group. The amount of lease liability is 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 are derecognised and presented as a net investment in a sublease in the balance sheet. At the time the standard is initially applied on 1 January 2019 the lease liability in the Group was amount to EUR 552.7 million.

The reporting of leases in accordance with the IFRS 16 has also a significant impact on the consolidated income statement. The lessee doesn't recognise any lease payment as a cost, but instead depreciation or a possible impairment loss for the period is recognised through profit or loss. The interest on lease liability, which is calculated using the discount rate at the lease commencement date, is recognised as a financial expense; and variable lease payments that are not included in the lease liability are recgnised as lease expenses. Lease income from a sublease classified as a finance lease is not included in the profit or loss, instead the interest income from a net investment in a sublease is included in financial items. Stockmann Group's EBITDA increased EUR 100.0 million, the operating result increased EUR 16.1 million and financial expenses increased EUR 26.1 million whereas the net result for the financial period 2019 decreased EUR 7.9 million as a result of adopting of the standard.

The adoption of IFRS 16 has also impact on the presentation of net cash flows from operating and financing activities, as the lease payments, earlier affecting operating activities only, are under the new standard presented as the amortisation of lease liabilities in cash flows from financing activities and as interest expenses in operating activities. The Group's net cash flows from operating activities increased by EUR 73.9 million and the cash flows from financing activities decreased accordingly in the financial period 2019 as a result of adopting of the standard. The IFRS 16 has also a significant impact on certain key figures: with the standard the Group's equity ratio at 31 December 2018 would have been 35.4 per cent (reported 46.2%) and the net gearing 129.9 per cent (reported 64.5%).

The segment information presented by the Stockmann Group is based on the management's internal reporting, whereby the highest level of operational decision-making and the other Group's management examine the profitability of the operating segments. The impact of the IFRS 16 is not allocated to the operating segments in the management's internal reporting and thus in the Group's segment reporting the IFRS 16 impact is presented as a reconciling item in a Group level.

The lease liability as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

EUR million	
Operating lease commitment at 31 December 2018 as disclosed in the Group's financial statements	**583.6**
Discounting using the incremental borrowing rate	-105.9
Extension options reasonably certain to be exercised	151.9
Other fixed costs	-29.4
Leases not yet commenced to which the Group is commited	-22.1
Short-term leases	-12.6
Variable lease payments	-6.1
Other differences	-6.7
Lease liability recognised at 1 January 2019	**552.7**

IFRIC 23 Uncertainty over Income Tax Treatments. 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 had no effect on the consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation. The amendments allow certain financial instruments with symmetric prepayment options to be measured at amortised cost. The amendment to the standard has had no effect on the consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures. 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 had no effect on the consolidated financial statements.

Amendments to IAS 19 Employee Benefits. The amendments concern an amendment, curtailment or settlement in a defined benefit pension plan. The amendments have had no effect on the consolidated financial statements.

Annual Improvements to IFRSs 2015–2017 Cycle. 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 have had no 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 and leasing 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 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, value of right-of-use asset and lease liabilities, 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 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.

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.

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 are not expected to have effect on the consolidated financial statements.

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 are not expected to have effect on the consolidated financial statements.

Other upcoming published new or revised standards are not expected to have a significant impact on Stockmann's consolidated financial statements.

2 Key numbers

2.1 Segment information

Accounting policies

The Stockmann Group's reportable segments are Lindex which engages in the fashion trade and Stockmann which engages in the department store trade. Stockmann Retail and the Real Estate segment which were earlier reported separately combined into a new Stockmann division as of 1 July 2019. 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 impact of the IFRS 16 is not allocated to the operating segments in the management's internal reporting and thus in the Group's segment reporting the IFRS 16 impact is presented as a reconciling item in a Group level. 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 464 stores in 19 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

Stockmann's eight department stores in three countries and the Stockmann online store in Finland offer an extensive and high-quality product range of fashion, cosmetics and home brands and an excellent customer service expertise in a premium and international shopping environment.

Operating segments, EUR mill.

Revenue	2019	2018
Lindex	575,8	589,9
Stockmann*	386,8	429,0
IFRS 16 impact	-2,1	
Group total	960,4	1 018,8

Operating profit/loss	2019	2018
Lindex	32,1	28,9
Stockmann*	-20,4	-5,4
Unallocated**	-14,4	-3,5
Goodwill impairment		-25,0
IFRS 16 impact	16,1	
Group total	13,3	-5,0
Financial income excluding IFRS 16 interest income	0,2	0,6
Interest income from IFRS 16 contracts	0,9	
Financial expenses excluding IFRS 16 interest expenses	-26,7	-35,3
Interest expenses from IFRS 16 contracts	-27,0	
Consolidated profit/loss before taxes	-39,3	-39,6

* Revenue and operating profit for 2018 include Nevsky Centre

**Year 2019 includes expenses affecting comparability

Depreciation, amortisation and impairment losses	2019	2018
Lindex	19,2	19,7
Stockmann	36,5	36,2
Goodwill impairment		25,0
IFRS 16 impact	83,9	
Group total	139,6	80,9

Capital expenditure	2019	2018
Lindex	20,3	20,1
Stockmann	13,5	9,2
IFRS 16 additions	58,4	
Group, total	92,1	29,3

Assets	2019	2018
Lindex	788,5	802,6
Stockmann	808,6	849,1
Unallocated	0,6	0,6
Assets classified as held for sale		175,7
IFRS 16 impact	505,5	
Group, total	2 103,2	1 827,9

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	2019	2018
Finland	369,1	386,2
Sweden* and Norway	437,8	449,1
Baltic countries, Russia and other countries**	155,7	183,5
Market areas total	962,6	1 018,8
IFRS 16 impact	-2,1	
Group total	960,4	1 018,8
Finland, %	38,3	37,9
International operations, %	61,7	62,1

Operating profit/loss	2019	2018
Finland	-34,6	-27,0
Sweden* and Norway	29,6	26,1
Baltic countries, Russia and other countries**	2,2	20,9
Market areas total	-2,8	20,0
Goodwill impairment		-25,0
IFRS 16 impact	16,1	
Group total	13,3	-5,0

Non-current assets	2019	2018
Finland	621,7	642,9
Sweden and Norway	634,8	642,5
Baltic countries, Russia and other countries**	118,1	287,3
Market areas total	1 374,5	1 572,8
IFRS 16 impact	501,4	
Group total	1 876,0	1 572,8
Finland, %	45,2	40,9
International operations, %	54,8	59,1

* Includes the sales of goods and services to the franchising partners in Central Europe and Middle East
** The year 2018 includes Nevsky Center

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.

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.	2019	2018
Sales of goods	914,0	944,7
Rental income and service charges	46,4	74,2
Total	960,4	1 018,8
Investment property rentals and service charges	1,4	22,0

Investment property rentals income and service charges relate to Nevsky Centre in Russia and is included in the amount EUR 46.4 million (EUR 74.2 million). More information on the investment properties is given in note 3.4.

2.2.1.2 Disaggregated revenue information

1.1.–31.12.2019, EUR mill.	Lindex	Stockmann	Total
Revenue streams:			
Sales of goods	574,4	339,6	914,0
Rental income and service charges	1,4	43,6	45,0
Investment property rentals and service charges		1,4	1,4
Total	575,8	384,7	960,4
Market areas:			
Finland	68,9	300,2	369,1
Sweden and Norway	437,8		437,8
Baltic countries, Russia and other countries	69,1	84,4	153,5
Total	575,8	384,7	960,4

1.1.–31.12.2018, EUR mill.	Lindex	Stockmann	Total
Revenue streams:			
Sales of goods	588,0	356,7	944,7
Rental income and service charges	1,9	50,3	52,2
Investment property rentals and service charges		22,0	22,0
Total	589,9	429,0	1 018,8
Market areas:			
Finland	70,2	316,0	386,2
Sweden and Norway	449,1		449,1
Baltic countries, Russia and other countries	70,6	113,0	183,5
Total	589,9	429,0	1 018,8

2.2.1.3 Contract balances

EUR mill.	2019	2018
Receivables that are included in assets held for sale		0,5
Contract assets	0,3	0,4
Contract liabilities	5,6	5,9

No information is provided about remaining performance obligations on contract assets at 31 December 2019 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.	2019	2018
Gain on sale of property, plant and equipment	0,0	7,0
Total	0,0	7,0

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

2.2.3 Fair value changes

EUR mill.	2019	2018
Fair value loss on investment property		–0,3
Fair value changes on investment properties, total		–0,3

Information on the investment properties is given in note 3.4.

2.3 Gross margin

EUR mill.	2019	2018
Revenue	960,4	1 018,8
Raw material and consumables used	419,5	438,7
Gross profit	540,9	580,1
Gross margin, % of revenue	56.3%	56.9%

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 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.	2019	2018
Raw material and consumables	145,8	141,9
Total	145,8	141,9

The value of inventories has been written off by EUR 5.1 million for obsolete assets (EUR 6.5 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 2019 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.	2019	2018
Wages and salaries	163,3	172,3
Pension expenses, defined contribution plans	15,6	16,2
Other employee benefits expenses	32,2	33,4
Total	211,1	222,0

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 expense relating to short-term leases, the expense relating to leases of low-value assets and the expense relating to variable lease payments not included in the measurement of lease liabilities and 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.	2019	2018
Site expenses	66,3	168,2
Marketing expenses	34,9	38,1
Goods handling expenses	17,9	16,6
Credit losses	-0,1	0,7
Voluntary social security expenses	3,6	3,0
Direct maintenance expenses of investment property	0,2	2,4
Value adjustment to assets held for sale		11,9
Other expenses	54,1	48,0
Total	176,9	288,9

Fees to the auditors

EUR mill.	2019	2018
Auditing	0,3	0,4
Certificates and statements	0,0	0,0
Tax advisory	0,4	0,2
Other services	0,3	0,1
Total	1,1	0,7

Parent company's auditors KPMG Oy Ab has been paid for other than auditing services EUR 0.4 million (EUR 0.1 million).

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 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.	2019	2018
Income taxes for the financial period	-10,2	-4,7
Income taxes from previous financial periods	-9,8	-4,8
Change in deferred tax liability/assets	5,1	5,3
Total	-14,9	-4,2

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.	2019	2018
Profit before taxes	-39,3	-39,6
Income taxes at current tax rate	7,9	7,9
Income taxes from previous financial periods	-9,8	-4,8
Tax-exempt income	0,0	0,3
Differing tax rates of foreign subsidiaries	0,9	2,3
Non-deductible expenses	-10,4	12,4
Change in deferred tax related to revaluation of Nevsky Centre property		4,6
Unrecognised deferred tax assets from losses in taxation	-0,7	-9,9
Effect of change in the tax base to deferred taxes		1,0
Reverse of deferred tax relating to previous financial periods	-2,7	-18,1
Income taxes in the income statement	-14,9	-4,2

The Stockmann Group has received tax reassessment decisions from the Swedish tax authorities for years 2013, 2014, 2015, 2016 and 2017. According to decisions, a Group company Stockmann Sverige AB is requested to pay EUR 25.6 million in additional taxes, including related interest. Stockmann considers the decisions unfounded and has appealed against them. In addition Group has recognised corresponding additional tax for years 2018 and 2019. The total additional tax for years 2013-2019 is EUR 36.5 million, of which EUR 15.9 million was recognised to the income statement 2019.

2.8 Deferred tax assets and deferred tax liabilities

Changes in deferred tax assets 2019

EUR mill.	1.1.2019	Recognised in income statement	Recognised in equity	Translation difference	31.12.2019
Confirmed losses	12,4	-2,7		0,0	9,7
Difference between carrying amounts and tax bases of property, plant and equipment	1,5			0,0	1,5
Lease liability		2,8		0,0	2,8
Other temporary differences	0,8	1,5		0,0	2,2
Total	14,7	1,6		0,0	16,3

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
Difference between carrying amounts and tax bases of property, plant and equipment	1,5			0,0	1,5
Lease liability	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 liabilities 2019

EUR mill.	1.1.2019	Recognised in income statement	Recognised in equity	Translation difference	Liabitilies related to assets classified as held for sale	31.12.2019
Cumulative depreciation differences	23,7	-2,8		-0,1		20,9
Difference between carrying amount and tax bases of prop., plant and equip.	6,0	2,6		0,0		8,5
Measurement at fair value of intangible and tangible assets	97,5	-2,2	1,0	-0,3		96,1
Lease receivables		0,7				0,7
Other temporary differences	1,1	-1,7		0,0		-0,7
Total	128,3	-3,4	1,0	-0,4		125,4

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
Measurement at fair value of intangible and tangible assets	115,8	–23,9	1,7	–0,7	4,6	97,5
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

Losses in taxation on which deferred tax assets have not been recognised in financial year amount to EUR 45.2 million (EUR 44.7 million). In accordance with IAS 12 paragraph 52 A, deferred tax liabilities have not been recorded on the accumulated distributable earnings, EUR 39.1 million (EUR 37.7 million), of the Estonian and Latvian subsidiaries.

3 Intangible and tangible assets and leasing arrangements

3.1 Depreciation, amortisation and impairment losses

EUR mill.	2019	2018
Intangible assets	14,9	11,9
Buildings and constructions	21,1	21,3
Machinery and equipment	19,0	22,0
Modification and renovation costs for leased premises	0,7	0,7
Right of use assets	83,9	
Depreciation and amortisation, total	139,6	55,9
Goodwill		25,0
Impairment losses, total		25,0
Depreciation, amortisation and impairment losses, total	139,6	80,9

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.	2019	2018
Acquisition cost 1.1.	685,2	713,8
Translation difference +/–	–12,6	–28,6
Acquisition cost 31.12.	672,6	685,2
Impairment losses 1.1.	–169,1	–150,0
Translation difference +/–	3,1	5,9
Impairment losses for the financial period		–25,0
Accumulated impairment losses 31.12.	–166,1	–169,1
Carrying amount 1.1.	516,1	563,8
Carrying amount 31.12.	506,6	516,1

Trademark

EUR mill.	2019	2018
Acquisition cost 1.1.	88,9	92,7
Translation difference +/–	–1,6	–3,7
Acquisition cost 31.12.	87,3	88,9
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.	88,7	92,4
Carrying amount 31.12.	87,0	88,7

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 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. As a result of the impairment test on 31 December 2018, an impairment loss of the remaining goodwill EUR 25 million allocated to the Stockmann segment was recognised. On 31 December 2019 goodwill EUR 506.6 million is allocated to the Lindex segment.

The Lindex trademark of EUR 87.0 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.

In addition the Stockmann Group has assessed on 31 December 2019 whether there is any indication that the carrying amount of the depreciated tangible and intangible assets would have been impaired. Based on the assessment Group has evaluated that there is no indication of impairment and thus no impairment testing has been carried out for the Stockmann segment on 31 December 2019.

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

In the impairment testing, the cash flow forecasts for Lindex 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.

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

1. Volume growth, which is based on an estimate of the sales growth at existing stores and online store.
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.
   - lease liabilities have been taken into account in the calculation of the discount rate for 2019 and correspondingly the right-of-use asset is included in the value of asset.

   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 8.2 per cent (8.6% in 2018).

Sensitivity in the determining of the recoverable amount

In the impairment testing the recoverable amount of Lindex is approximately 10 percent larger than the carrying amount of the non-current assets and the working capital in the balance sheet. 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. A change in an assumption that would cause the recoverable amount to equal the carrying amount is presented in the table below.

Change, percentage point	2019	2018
Discount rate increase	0,5	1,0
Decline in sales growth	1,4	1,4

Based on the impairment testing carried out, there is no need for impairment entries.

Intangible rights

EUR mill.	2019	2018
Acquisition cost 1.1.	89,1	88,4
Translation difference +/-	-0,8	-1,4
Increases 1.1.-31.12.	8,5	9,4
Decreases 1.1.-31.12.	-5,8	-10,9
Transfers between items 1.1.-31.12.	5,8	3,7
Acquisition cost 31.12.	96,8	89,1
Accumulated amortisation and impairment losses 1.1.	-49,5	-49,9
Translation difference +/-	0,4	0,9
Amortisation on disposals	5,8	10,9
Amortisation for the financial period	-14,5	-11,5
Accumulated amortisation and impairment losses 31.12.	-57,8	-49,5
Carrying amount 1.1.	39,6	38,5
Carrying amount 31.12.	39,0	39,6

Other intangible assets

EUR mill.	2019	2018
Acquisition cost 1.1.	7,3	7,8
Translation difference +/–	–0,2	–0,5
Increases 1.1.–31.12.	0,0	
Decreases 1.1.–31.12.	0,0	
Acquisition cost 31.12.	7,1	7,3
Accumulated amortisation 1.1.	–6,6	–7,0
Translation difference +/–	0,2	0,5
Amortisation on disposals	0,0	
Amortisation for the financial period	–0,2	–0,1
Accumulated amortisation 31.12.	–6,7	–6,6
Carrying amount 1.1.	0,6	0,8
Carrying amount 31.12.	0,5	0,6

Other intangible assets, finance lease

EUR mill.	2019	2018
Acquisition cost 1.1.	3,2	3,2
Acquisition cost 31.12.	3,2	3,2
Accumulated amortisation 1.1.	–1,6	–1,3
Amortisation for the financial period	–0,3	–0,3
Accumulated amortisation 31.12.	–1,9	–1,6
Carrying amount 1.1.	1,6	1,9
Carrying amount 31.12.	1,3	1,6

Advance payments and construction in progress

EUR mill.	2019	2018
Acquisition cost 1.1.	0,9	0,6
Increases 1.1.–31.12.	7,5	4,0
Decreases 1.1.–31.12.	0,0	0,0
Transfers between items 1.1.–31.12.	–5,8	–3,7
Acquisition cost 31.12.	2,6	0,9
Carrying amount 1.1.	0,9	0,6
Carrying amount 31.12.	2,6	0,9

EUR mill.	2019	2018
Intangible assets, total	637,0	647,5

In 2019 and 2018 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's real estate function 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.	2019	2018
Acquisition cost including revaluations 1.1.	102,5	103,9
Revaluations to fair value of the real estates 31.12.	-1,9	-1,4
Acquisition cost 31.12.	100,6	102,5
Carrying amount 1.1.	102,5	103,9
Carrying amount 31.12.	100,6	102,5

Share of the fair value valuation was EUR 83.2 million (EUR 85.0 million).

Buildings and constructions

EUR mill.	2019	2018
Acquisition cost including revaluations 1.1.	753,3	741,4
Revaluations to fair value of the real estates 31.12.	7,0	10,1
Increases 1.1.–31.12.	0,2	0,1
Decreases 1.1.–31.12.	–0,9	–0,3
Transfers between items 1.1.–31.12.	2,5	2,0
Acquisition cost 31.12.	762,1	753,3
Accumulated depreciation 1.1.	-174,8	-153,9
Depreciation on disposals	0,9	0,3
Depreciation for the financial period	-21,1	-21,3
Accumulated depreciation 31.12.	-195,0	-174,8
Carrying amount 1.1.	578,5	587,6
Carrying amount 31.12.	567,1	578,5

Share of the fair value valuation was EUR 382.1 million (EUR 375.1 million).

The weighted average market yield requirement used in the fair value calculation of three department store properties was 5.1 per cent (4.8 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

Properties are mainly in Stockmann's own use.

Property	Gross leasable area, m^2, 31.12.2019	Occupancy rate, % 31.12.2019	Usage by Stockmann, % 31.12.2019
Helsinki flagship building	50 724	98.5	66
Tallinn department store building	21 527	94.2	82
Riga department store building	15 119	100.0	86
Total	87 370	97.7	73

Sensitivity to change in the properties' fair value, or the risk associated with fair value, can be tested by altering the key parameters. The sensitivity analysis uses as the starting value properties' fair value of EUR 667.7 million defined by the external appraiser at 31 December 2019. The sensitivity analysis has tested the sensitivity of the fair value to changes in discount rate used and in expected long-term growth. The long-term growth used in the valuation calculations is 0.8%-2.0% and the discount rate is 6.3%-8.0%. As the long-term growth increases 0.6 percentage points increases the fair value of the properties by approximately 10%. Correspondingly, a 0.6 percentage points decrease in the long-term growth results in an approximately 7% decrease in the fair value. As discount rate decreases one percentage point increases the fair value of the properties by approximately 27%. Correspondingly, one percentage point increase in discount rate results in an approximately 17% decrease in the fair value. In sensitivity analyses one parameter is changed at a time. In reality, changes in different parameters often occur simultaneously.

Machinery and equipment

EUR mill.	2019	2018
Acquisition cost 1.1.	260,4	262,9
Translation difference +/–	–3,7	–4,3
Increases 1.1.–31.12.	7,7	12,1
Decreases 1.1.–31.12.	–6,7	–10,4
Transfers between items 1.1.–31.12.	2,0	0,2
Transfers to non–current assets classified as held for sale		0,0
Acquisition cost 31.12.	259,8	260,4
Accumulated depreciation 1.1.	–196,3	–186,7
Translation difference +/–	4,4	3,8
Depreciation on disposals	6,7	8,7
Accumulated depreciation on transfers to non–current assets classified as held for sale		0,0
Depreciation for the financial period	–19,2	–22,0
Accumulated depreciation 31.12.	–204,4	–196,3
Carrying amount 1.1.	64,1	76,2
Carrying amount 31.12.	55,4	64,1

Modification and renovation costs of leased premises

EUR mill.	2019	2018
Acquisition cost 1.1.	37,4	36,0
Translation difference +/–	0,0	0,0
Increases 1.1.–31.12.	0,1	0,1
Decreases 1.1.–31.12.	–0,9	0,0
Transfers between items 1.1.–31.12.	0,5	1,4
Acquisition cost 31.12.	37,0	37,4
Accumulated depreciation 1.1.	–32,3	–31,6
Translation difference +/–	0,0	0,0
Depreciation on disposals	0,9	0,0
Depreciation for the financial period	–0,7	–0,7
Accumulated depreciation 31.12.	–32,1	–32,3
Carrying amount 1.1.	5,1	4,4
Carrying amount 31.12.	4,9	5,1

Right-of-use assets

EUR mill.	2019	2018
Acquisition cost 1.1.	517,5	
Translation difference +/–	–5,7	
Increases 1.1.–31.12.	58,4	
Decreases 1.1.–31.12.	–0,1	
Acquisition cost 31.12.	570,1	
Translation difference +/–	–0,5	
Depreciation on disposals	0,0	
Depreciation for the financial period	–83,9	
Accumulated depreciation 31.12.	–84,4	
Carrying amount 1.1.	517,5	
Carrying amount 31.12.	485,7	

Advance payments and construction in progress

EUR mill.	2019	2018
Acquisition cost 1.1.	0,8	1,2
Translation difference +/-	0,0	
Increases 1.1.-31.12.	9,8	3,7
Decreases 1.1.-31.12.	0,0	-0,2
Transfers between items 1.1.-31.12.	-5,0	-3,9
Transfers to non-current assets classified as held for sale		0,0
Acquisition cost 31.12.	5,6	0,8
Carrying amount 1.1.	0,8	1,2
Carrying amount 31.12.	5,6	0,8

EUR mill.	2019	2018
Property, plant and equipment, total	1 219,3	751,1

In 2019 and 2018 advance payments for plant, property and equipment and construction in progress included mainly store furniture as well as modification and renovation costs for business 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.

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.

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 2019.

EUR mill.	2019	2018
Fair value at 1.1.	0,5	100,5
Decreases 1.1.-31.12.		-100,0
Fair value valuation		-0,3
Transfers to non-current assets held for sale		0,3
Fair value at 31.12.	0,5	0,5

3.5 Leases

Group as lessee

Accounting policies
A right-of-use asset and a lease liability is recognised at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset in the Stockmann Group is composed of leased business premises, warehouses, cars, and other machinery and equipment.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option the right-of-use asset will be depreciated over the useful life of the underlying asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for the amount of the remeasurement of the lease liability.

At the commencement date the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate is used. The incremental borrowing rate is the average rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
Lease payments included in the measurement of the lease liability comprise the following:
- fixed lease payments
- variable lease payments that depend on an index, initially measured using the index as at the commencement date
- amounts expected to be payable under residual value guarantees
- the exercise price of a purchase option if it is reasonably certain that the option will be exercised
- payments of penalties for terminating the lease, if is reasonably certain that that option will be exercised

The lease liability is later measured at amortised cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or if there is a change in the estimate of the amount expected to be payable under a residual value guarantee or if the assessment of whether purchase, extension or termination option will be exercised. When the lease liability is remeasured a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease term is determined as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain to exercise that option. In the Stockmann Group Lindex uses a scoring system based on the operating profit to determine if prolongation of original rental period is included in the lease term. Operating profit is measured as a percentage compared to turnover and the higher the percentage the more likely the option to extend will be exercised.

The Group presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities in liabilities in the statement of financial position. When right-of-use assets are transferred to the lessee under a sublease agreement and are classified as a finance lease the right-of-use assets are derecognised and presented as a lease receivable in the balance sheet.

Based on the exemption provided by IFRS 16 the Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, including IT-systems and office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Right-of-use assets

2019, EUR mill.	Buildings	Machinery and equipment	Total
Right-of-use assets 1.1.	515,8	1,8	517,5
Translation difference +/-	-5,7	0,0	-5,7
Increases during the period	57,7	0,7	58,4
Decreases during the period		-0,1	-0,1
Acquisition cost at the end of the period	567,8	2,3	570,1
Accumulated depreciation and impairment losses at the beginning of the period			
Translation difference +/-	-0,5		-0,5
Depreciation on reductions during the period		0,0	0,0
Depreciation, amortisation and impairment losses during the period	-83,2	-0,7	-83,9
Accumulated depreciation and impairment losses at the end of the period	-83,7	-0,7	-84,4
Carrying amount at the beginning of the period			
Carrying amount at the end of the period	484,1	1,6	485,7

Leases recognised in profit and loss

EUR mill.	2019
Interest expenses on lease liabilities	-27,0
Interest income from sub-leasing right-of-use assets	0,9
Expenses relating to leases of low-value assets	-0,9
Expenses relating to short-term leases	-6,1
Expense relating to variable lease payments not included in lease liabilities	-2,7
Total	-35,7

Total cash outflow for leases in 2019 was EUR 100.9 million.

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

EUR mill.	2019	2018
Within one year	15,8	122,7
Within 1-5 years		316,2
In five years or more		142,5
Total	15,8	581,4

Lease payments

EUR mill.	2019	2018
Within one year	0,2	0,7
Within 1-5 years	0,3	1,2
In five years or more	0,2	0,3
Total	0,7	2,2

The maturity analysis of lease liability is presented in the note 4.8 Financial risk management.

Group as lessor

Accounting policies
When the Group acts as a lessor, each lease is it determined at lease inception whether a finance lease or an operating lease. The lease is a finance lease if substantially all of the risks and rewards incidental to ownership of the underlying asset are transferred to lessee, if not, then it is an operating lease. All leases in which Stockmann Group acts as a lessor on 31 December 2019 are operating leases. The Group recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of revenue.

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 87 370 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 and the remaining area is used by external tenants. In note 3.3 Buildings and constructions more information is provided on the occupancy rate and Stockmann's own usage of properties.

4 Capital structure

4.1 Financial income and expenses

Financial income

EUR mill.	2019	2018
Interest income on bank deposits, other investments and currency derivatives	0,2	0,6
Interest income from lease contracts	0,9	
Change in fair value of financial assets at fair value through profit or loss		0,0
Foreign exchange differences	0,0	
Total	1,1	0,6

Financial expenses

EUR mill.	2019	2018
Interest expenses on financial liabilities measured at amortised cost derivatives	-24,9	-33,0
Interest expenses from lease contracts	-27,0	0,0
Impairment loss on loans and receivables		-1,7
Change in fair value of financial assets at fair value through profit or loss	-0,1	
Other financial expenses	-1,4	-0,2
Foreign exchange differences	-0,3	-0,4
Total	-53,7	-35,3

EUR mill.	2019	2018
Financial income and expenses, total	-52,7	-34,6

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 which 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, customer contract assets and lease receivables. 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 less any impairment loss, 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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Interest-bearing trade receivables	0,1	0,1	0,8	0,8
Non-interest-bearing trade receivables	11,7	11,7	10,8	10,8
Lease receivables	1,3	1,3		
Receivables based on derivative contracts	0,4	0,4	1,4	1,4
Other receivables	0,8	0,8	1,8	1,8
Prepayments and accrued income	24,1	24,1	29,7	29,7
Income tax receivables	4,6	4,6	7,8	7,8
Current receivables, total	43,0	43,0	52,2	52,2

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 0.1 million consist of one-time credits on distance retail sales in 2019 (EUR 0.8 million). Interest income on these receivables is included in the selling price and recognised in revenue instead of interest income.

Prepayments and accrued income

EUR mill.	2019	2018
Prepaid rents	15,6	16,4
Receivable from credit card co-operation	2,5	2,7
Receivable from trademark co-operation	1,0	0,8
Periodised ICT expenses	0,9	1,5
Periodised indirect employee expenses	0,4	2,3
Others	3,8	6,0
Total	24,1	29,7

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.	2019	2018
Cash and cash equivalents	24,9	43,4
Overdraft facilities	-2,3	-0,4
Total	22,7	43,0

4.5 Non-current liabilities, interest-bearing

EUR mill.	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Bond issues	248,5	246,6	247,8	226,5
Loans from financial institutions	116,0	116,4	112,2	112,5
Lease liabilities	438,6	438,6		
Total	803,1	801,6	359,9	339,0

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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Loans from financial institutions			147,0	147,2
Current account with overdraft facility	2,3	2,3	0,4	0,4
Lease liabilities	91,2	91,2		
Other interest-bearing liabilities	45,6	45,6	80,4	80,5
Trade payables	70,4	70,4	78,6	78,6
Other current liabilities	40,9	40,9	39,7	39,7
Accruals and prepaid income	75,2	75,2	73,6	73,6
Derivative contract liabilities	9,3	9,3	3,1	3,1
Income tax liability	37,4	37,4	20,9	20,9
Total	372,2	372,3	443,8	444,0
of which interest-bearing	139,0	139,1	227,9	228,1

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.	2019	2018
Personnel expenses	38,7	41,9
Periodised purchases	9,1	11,3
Interest and other financial expenses	6,2	6,4
Customer bonus schemes/Loyalty program MORE	5,7	5,1
Reserve for returns	1,6	1,4
Accrued site expenses	1,1	1,1
Others	12,8	6,4
Total	75,2	73,6

4.7 Reconciliation of liabilities arising from financing activities

EUR mill.	1.1.2019	Cash flows from loans	Non-cash changes from loans		Non-cash changes from loan arrangement expenses	31.12.2019
			Acquisition Leases	The effect of changes in foreign exchange rates		
Non-current liabilities, interest-bearing	359,9	1,6		0,0	2,9	364,5
Current liabilities, interest-bearing	227,4	-181,5		0,0	0,8	46,7
Lease liabilities	552,7	-75,8	58,4	-5,5		529,8
Cheque account with overdraft facility	0,4	0,7			0,0	1,1
Total liabilities from financing activities	1140,5	-255,0	58,4	-5,5	3,7	942,1

EUR mill.	1.1.2018	Cash flows from loans	Non-cash changes from loans	Non-cash changes from loan arrangement expenses	31.12.2018
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

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 2019 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 2019, non-EUR sales accounted for 52 per cent of the Group's entire sales (2018: 49 per cent). Purchases with a transaction risk made up 50 per cent of the Group's purchases (2018: 45 per cent). In addition the Group has purchases in foreign currency without a transaction risk, mainly local purchases in Sweden. In 2019 these purchases accounted for 3 per cent of the Group's total purchases (2018: 4 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 2020. 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 2019.

Foreign exchange derivatives hedging cash flows

EUR mill.	2019	2018
USD	53,7	56,8
SEK	–35,3	–32,9
NOK	–10,1	–12,7
EUR	–9,5	–10,4

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

2019, EUR mill.	USD	SEK	NOK
Change + 10 %	–3,8	–0,7	0,7
Change - 10 %	4,7	0,8	–0,9

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

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 71 % 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

2019, EUR mill.	SEK	GBP	NOK	CZK	USD	PLN
Receivables	133,3	0,2	0,0		3,6	
Loans from financial institutions		0,0				
Trade payables and other current liabilities	–167,1	–2,8	–8,0	–3,8	–18,8	–0,3
Foreign currency exposure in the balance sheet	–33,9	–2,7	–8,0	–3,8	–15,1	–0,3
Foreign exchange derivatives hedging balance sheet items	33,2	0,7	11,7	3,0	16,6	
Foreign currency loans hedging the net investment						
Net position in the balance sheet	–0,7	–1,9	3,7	–0,7	1,5	–0,3

2018, EUR mill.	SEK	GBP	NOK	CZK	USD	PLN
Receivables	112,1	0,1	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	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	1,2	–1,6	0,2	–0,3

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

2019, EUR mill.	SEK	GBP	NOK	CZK	USD	PLN
Change + 10 %	0,0	0,1	–0,3	0,1	–0,1	0,0
Change – 10 %	–0,1	–0,2	0,3	–0,1	0,1	0,0

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

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 2019 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 reduce 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 3 613 million, and the hedging instruments amounted to SEK 3 613 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 2019.

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

2019 EUR mill.	SEK	RUB*
Change + 10 %	–31,8	0,0
Change – 10 %	38,8	0,0

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

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

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 2019, Stockmann's interest-bearing loans and bank receivables had a duration of 13.7 months. Interest rate derivatives were not in use.

Interest terms of the Group's interest bearing liabilities and bank receivables at 31 December 2019:

Interest rate adjustment, period, EUR mill.	< 1 month	1–12 months	1–3 years	3–5 years	Total
Bond Issues			248,5		248,5
Loans from financial institutions		116,0			116,0
Other interest bearing liabilities	20,7	27,1			47,8
Total	20,7	143,1	248,5		412,3
Cash and bank receivables	–24,9				–24,9
Total	–4,2	143,1	248,5		387,4

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

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 -1.2 million (2018: EUR -2.1 million) at the balance sheet date, 31 December 2019. 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 at or below zero per cent 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 2019, 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, breaking the terms of the financing facilities 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 498 million, including the bond issued in December 2017, of which EUR 366 million was utilized for financing and EUR 1.9 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 45.4 million was in use and uncommitted overdraft facilities amounting to EUR 3.4 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 has a hybrid bond, which is treated as equity in the company's consolidated financial statements. The terms of bank credit facilities include financial covenants related to equity ratio and leverage.

In November 2019, Stockmann prolonged its long-term committed credit facilities and agreed new levels for the financial covenants. The levels of financial covenants were adjusted already earlier during year 2019. The committed credit facility is a secured syndicated facility, split between term loans and revolving credit facilities. The facilities originally amounted to EUR 609 million. EUR 112 million of the facility has been repaid during 2018, EUR 147 million has been repaid in January 2019 after the sale of the Nevsky Centre property in St Petersburg, EUR 21 million has been repaid in November 2019 and the revolving credit facilities have been reduced with EUR 80 million in November 2019. Current committed credit facility amountsto EUR 249 million, and it will mature in October 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 committed credit facility as well as the notes, are secured by property mortgage and a pledge over certain shares. The conditions in the financial covenants have been met during 2019.

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. The coupon rate of the bond was 7.75% per annum. In November 2019 some amendments to the terms of the hybrid were approved by the bond holders. The first reset date was postponed by 18 months and is now 30 July 2021 and the interest rate was changed to 10.75% per annum with effect from January 31 2020. A new clause regarding redemption due to possible divestment of Lindex was included. The bond may also be redeemed in full with replacing equity issuances. In November 2019 Stockmann also issued further capital securities in an aggregate nominal amount of EUR 21 million under the current hybrid bond. The terms are the same as the amended terms and it was offered for subscription to certain largest shareholders of Stockmann in a private placement procedure. 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.

Cash and bank receivables as well as unused committed credit facilities

EUR mill.	2019	2018
Cash and bank receivables	24,9	43,4
Credit facility, due in 2019		
Credit facility, due in 2020		
Credit facility, due in 2021	128,1	232,8
Overdraft facilities		2,9
Total	153,0	279,1

Cash flows based on agreements in financial liabilities, including financing costs, at 31 December 2019

EUR mill.	Carrying amount	2020	2021	2022	2023	2024+	Total
Bonds	248,5	-11,9	-11,9	-255,9			-279,7
Loans from financial institutions	116,0	-4,2	-119,1				-123,3
Other interest-bearing liabilities	47,8	-47,9					-47,9
Trade payables and other current liabilities	243,7	-243,7					-243,7
Lease liability	529,8	-108,1	-98,3	-90,8	-79,3	-98,7	-475,0
Total	1 185,8	-415,8	-229,2	-346,7	-79,3	-98,7	-1 169,7
Derivatives							
FX Derivatives	9,3						
Assets		416,3					416,3
Liabilities		-425,7					-425,7
Electricity Derivatives							
Net cash flow							
Total	9,3	-9,4					-9,4

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

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 2019, 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 and lease receivables

31 December 2019

EUR mill.	Gross carrying amount	Loss allowance
Trade receivables not due	9,4	0,0
Trade receivables fallen due in 1–30 days	0,7	0,0
Trade receivables fallen due in 31–60 days	0,8	0,0
Trade receivables fallen due in 61–90 days	0,4	0,0
Trade receivables fallen due in 91–120 days	0,2	0,0
Trade receivables fallen due in over 120 days	0,4	0,1
Total	11,9	0,1

Lease receivables according to IFRS 16 EUR 17.0 million (as of 31 December 2019) are not due. Their credit risk is considered low and no loss allowance is recognised.

31 December 2018

EUR mill.	Gross carrying amount	Loss allowance
Trade receivables not due	9,5	0,0
Trade receivables fallen due in 1–30 days	1,4	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	0,3	0,1
Total	12,0	0,2

Stockmann Group recognises impairment provisions based on lifetime expected credit losses from trade and lease receivables in accordance with IFRS 9. Stockmann applies a simplified credit loss matrix for trade and lease 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.	2019	2018
Cash flow hedges, currency forwards	54,9	56,0
Hedges of net investments, currency swaps	337,6	351,2
Total	392,5	407,2

Derivative contracts, hedge accounting not applied

EUR mill.	2019	2018
Currency swaps	67,5	62,9
Electricity forwards	1,7	1,4
Total	69,2	64,3

Fair value of derivative contracts 2019

Derivative contracts, hedge accounting applied

EUR mill.	Positive	Negative	Net
Cash flow hedges, currency forwards		−1,3	−1,3
Hedges of net investments, currency swaps	0,0	−8,0	−8,0
Electricity forwards			
Total	0,0	−9,3	−9,3

Derivative contracts, hedge accounting not applied

EUR mill.	Positive	Negative	Net
Currency swaps	0,3	0,0	0,3
Currency forwards			
Electricity forwards	0,1		0,1
Total	0,4	0,0	0,4

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
Electricity forwards			
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
Currency forwards			
Electricity forwards	0,6		0,6
Total	0,8	0,0	0,8

All the derivatives that are open on the balance sheet date, 31 December 2019, 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 2019. 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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Derivative contracts, hedge accounting applied	2	0,0	0,0	0,6	0,6
Financial assets at fair value through profit or loss					
Derivative contracts, hedge accounting not applied					
Currency derivatives	2	0,3	0,3	0,2	0,2
Electricity derivatives	1	0,1	0,1	0,6	0,6
Financial assets at amortised cost					
Non-current receivables		0,4	0,4	0,6	0,6
Non-current lease receivables	2	15,7	15,7		
Current receivables, interest-bearing		0,1	0,1	0,8	0,8
Current lease receivables	2	1,3	1,3		
Current receivables, non-interest-bearing		36,7	36,7	42,3	42,3
Cash and cash equivalents		24,9	24,9	43,4	43,4
Other investments	3	0,3	0,3	0,3	0,3
Financial assets, total		79,6	79,6	88,8	88,8

Financial liabilities, EUR mill.	Level	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Derivative contracts, hedge accounting applied	2	9,3	9,3	3,0	3,0
Financial assets at fair value through profit or loss					
Derivative contracts, hedge accounting not applied					
Currency derivatives	2	0,0	0,0	0,0	0,0
Electricity derivatives	1				
Financial liabilities at amortised cost					
Non-current interest-bearing liabilities	2	364,5	363,0	359,9	339,0
Non-current lease liabilities	2	438,6	438,6		
Current liabilities, interest-bearing	2	47,8	47,9	227,9	228,1
Current lease liabilities	2	91,2	91,2		
Current liabilities, non-interest-bearing		185,3	185,3	187,0	187,0
Financial liabilities, total		1 136,7	1 135,3	777,9	757,2

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.	2019	2018
Carrying amount 1.1.	0,3	0,3
Translation difference +/-	0,0	0,0
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.

31 December 2019

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

Financial liabilities, EUR mill.			
Currency derivatives, hedge accounting applied	−9,3	0,0	−9,3
Currency derivatives, hedge accounting not applied		0,0	0,0
Electricity derivatives, hedge accounting not applied			
Financial liabilities, total	−9,3	0,0	−9,3

31 December 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	0,0
Electricity derivatives, hedge accounting not applied			
Financial liabilities, total	−3,0	0,1	−2,9

4.12 Shareholders’ equity

EUR mill.	Number of shares	Share capital	Share premium fund	Invested unrestricted equity fund	Total
31 Dec 2017	72 048 683	144,1	186,1	250,4	580,6
–					
31 Dec 2018	72 048 683	144,1	186,1	250,4	580,6
–					
31 Dec 2019	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 2019

pcs.	2019	2018
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.	2019	2018
Reserve fund	0,1	0,1
Hedging reserve	-1,3	0,4
Other funds	43,7	43,7
Total	42,5	44,2

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 105.8 million hybrid bond. A hybrid bond in an aggregate nominal amount of EUR 85 million was issued in December 2015 and further capital securities in an aggregate nominal amount of EUR 21 million was issued in November 2019. 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 had the right to redeem it earliest on 31 January 2020. In November 2019 some terms of the hybrid were amended. The first reset date was postponed to 30 July 2021 , a new clause regarding redemption due to possible divestment of Lindex was included and the interest rate was changed to 10.75 % per annum with effect from 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 7.5 million at 31 December 2019 (2018: EUR 6.0 million). The accrued interest of EUR 8.2 million was paid out in January 2020.

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 12 February 2020 that no distribution of funds will take place for 2019.

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. As of December 31, 2019, there were no options outstanding that would have had a diluting effect. The fair value of the share is based on the average price of the shares during the period.

EUR	2019	2018
Profit/loss for the period attributable to the equity holders of the parent company	-54 254 788	-45 153 113
Accrued interest on the hybrid bond	-8 081 233	-6 587 500
Tax effect	1 616 247	1 317 500
Net effect	-6 464 986	-5 270 000
	-60 719 774	-50 423 113
Share issue-adjusted number of outstanding shares, weighted average, thousands	72 048 683	72 048 683
From continuing operations (undiluted and diluted)	-0,84	-0,68
From discontinued operations (undiluted and diluted)		-0,02
From the period result (undiluted and diluted)	-0,84	-0,70

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, excluding IFRS 16. The ratio of equity to total capital at 31 December 2019 was 50.8 per cent, excluding IFRS 16 (at 31 December 2018 46.2 per cent).

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 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 2018.

At the balance sheet date on 31 December 2019, the Group did not have discontinued operations or non-current assets held for sale.

Assets held for sale and discontinued operations

EUR mill.	2019	2018
Discontinued operations		
Profit/loss for the financial period from discontinued operations		
Income		0,0
Expenses		-1,5
Profit/loss before and after taxes		-1,4
Cash flows from discontinued operations		
Cash flow from investments		14,3
Cash flow total		14,3
Other assets classified as held for sale and the relating liabilities		
Intangible assets and property, plant and equipment		172,8
Other receivables		0,5
Cash and cash equivalents		2,4
Other liabilities including deferred tax liability		34,6
Net assets		141,1

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.	2019	2018
Non-current assets excluding fair value valuations	14,2	14,7
Current assets	1,8	0,8
Non-current liabilities		0,5
Current liabilities	0,1	0,6

Fair valued real estates totalled EUR 48.4 million (EUR 46.2 million).

Income and expenses of joint operations

EUR mill.	2019	2018
Income	3,2	3,2
Expenses	1,7	1,8

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.	2019	2018
Non-current provisions		
Provision for onerous contracts		
Provision for onerous contracts 1.1.	14,6	17,1
Used provisions		-1,8
Reversal of unused provisions		-0,4
Change due to reassessment of discount rate		-0,3
IFRS 16 Transfer against right-of-use assets	-14,6	
Carrying amount 31.12.		14,6
Other provisions		
Carrying amount 1.1.	0,1	0,2
Used provisions	-0,1	-0,1
Carrying amount 31.12.	0,0	0,1
Non-current provisions total	0,0	14,7

EUR mill.	2019	2018
Current provisions		
Restructuring provision		
Carrying amount 1.1.	1,1	2,6
Translation difference +/-	0,0	-0,1
Increase in provisions	1,1	0,3
Used provisions	-1,1	-1,7
Carrying amount 31.12.	1,1	1,1
Provision for onerous contracts		
Carrying amount 1.1.	2,9	3,0
Increase in provisions		0,2
Used provisions	-0,1	
Change due to reassessment of discount rate		-0,4
IFRS 16 Transfer against right-of-use assets	-2,7	
Carrying amount 31.12.	0,0	2,9
Other provisions		
Carrying amount 1.1.	1,0	0,0
Increase in provisions		1,0
Used provisions	-0,1	0,0
Reversal of unused provisions	-0,8	
Carrying amount 31.12.	0,1	1,0
Current provisions total	1,1	5,0

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

EUR mill.	2019 Debt at the year end	Collaterals	Fair value of the assets	2018 Debt at the year end	Collaterals	Fair value of the assets
Loans from credit institutions	367,7	1 670,0		511,0	1670,0	
Other commitments	0,0	1,7		0,0	1,7	
Total	367,7	1 671,7	668,3	511,0	1 671,7	852,5

Other collaterals given for own liabilities

EUR mill.	2019	2018
Guarantees	1,7	1,9
Electricity commitments	1,2	1,3
Liabilities of adjustments of VAT deductions made on investments to immovable property	4,0	5,7
Total	6,9	9,0

Contingent liabilities, total

EUR mill.	2019	2018
Mortgages	1 671,7	1 671,7
Guarantees	1,7	1,9
Electricity commitments	1,2	1,3
Liabilities of adjustments of VAT deductions made on investments to immovable property	4,0	5,7
Total	1 678,6	1 680,6

Electricity commitments relate to agreements to buy electricity for certain price in years 2020-2022.

Interest on the hybrid bond

On 17 December 2015, Stockmann issued a hybrid bond of EUR 85 million and further capital securities in amount of EUR 21 million in November 2019. The accrued non-recognised interest on the bond was EUR 7,5 million at 31 December 2019 (EUR 6.0 million in 2018). 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 2010–2019 if the VAT-liable use of the real estate decreases during the adjustment period. The last adjustment year is 2029, and the maximum liability is EUR 4.0 million (EUR 5.7 million in 2018).

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 2019:

- Jukka Hienonen, Chairman of the Board of Directors until 21 March 2019
- Lauri Ratia, Chairman of the Board of Directors as of 21 March 2019, executive CEO as of 1 April 2019 until 18 August 2019
- Kaj-Gustaf Bergh, Member of the Board of Directors until 21 March 2019
- Stefan Björkman, Member of the Board of Directors as of 21 March 2019
- Eva Hamilton, Member of the Board of Directors
- Esa Lager, 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 until 21 March 2019
- Tracy Stone, Member of the Board of Directors
- Peter Therman, , Member of the Board of Directors as of 21 March 2019
- Dag Wallgren, Member of the Board of Directors
- Lauri Veijalainen, CEO until 31 March 2019
- Jari Latvanen, CEO as of 19 August 2019
- Susanne Ehnbåge, CEO, Lindex
- Mikko Huttunen, , Director, Human Resources until 30 June 2019
- Kai Laitinen, CFO until 18 August 2019
- Nora Malin, Director, Corporate Development until 30 June 2019
- Jukka Naulapää, Director, Legal affairs
- Maiju Niskanen, Director, Store Operations until 30 June 2019
- Outi Nylund, Chief Customer Officer as of 1 May 2019 until 30 June 2019
- Anna Salmi, , Chief Digital Officer until 30 June 2019
- Elena Stenholm, Director, Real Estate until 30 June 2019
- Tove Westermarck, Chief Operating Officer as of 22 March 2019
- Pekka Vähähyyppä, CFO as of 19 August 2019

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

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

The following transactions were carried out with related parties:
Management's employee benefits
Emoluments

Employee benefits of the Chief Executive Officer and other members of the Management Committee, EUR 2019	Chief Executive Officer	Other members of the Management Committee	Total
Short-term employee benefits	862 817	1 760 949	2 623 766
Other long-term employee benefits		85 972	85 972
Employee benefits total	862 817	1 846 921	2 709 738

Remunerations to the Board of Directors, EUR 2019	Fixed annual remuneration *	Remuneration based on participation	Total
Ratia Lauri	80 000	14 300	94 300
Bergh Kaj-Gustaf **		600	600
Björkman Stefan	40 000	7 800	47 800
Hamilton Eva	40 000	7 800	47 800
Hienonen Jukka **		1 100	1 100
Lager Esa	40 000	15 000	55 000
Niemistö Leena	50 000	8 400	58 400
Rosenlew Michael **		1 400	1 400
Stone Tracy	40 000	7 200	47 200
Therman Peter	40 000	11 800	51 800
Wallgren Dag	40 000	12 000	52 000
Remunerations to the Board of Directors total	370 000	87 400	457 400

Fees and remunerations to key personnel total, EUR	3 167 138

* paid in 66 416 company shares and cash
** resigned from the Board of Directors on 21 March 2019

Employee benefits of the Chief Executive Officer and other members of the Management Committee, 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, EUR	3 181 863

* paid in 36 586 company shares and cash
** resigned from the Board of Directors on 22 March 2018

Management's pension commitments

The CEO Jari Latvanen’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. A separate voluntary pension is not paid.

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 2019 one of the Management Team members had voluntary defined contribution pension insurance taken by the company. The costs of the insurances in 2019 amounted to EUR 85 972 (EUR 56 556 in 2018).

Other related party transactions

In 2019 the Board members were paid no other compensations (EUR 21 933 in 2018).

5.6 Events after the reporting period

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

Stockmann plc

Income Statement, FAS

	Note	1.1.–31.12.2019 EUR	% of Rev.	1.1.–31.12.2018 EUR	% of Rev.
REVENUE		304 985 802.50	100.0	320 790 101.55	100.0
Other operating income	2	7 237 225.69	2.4	96 418 953.27	30.1
Materials and services					
Materials and consumables:					
Purchases during the financial year		–145 801 784.42		–149 738 974.81	
Change in inventories, increase (+), decrease (–)		–5 807 585.54		–5 950 178.63	
Materials and services, total		–151 609 369.96	49.7	–155 689 153.44	48.5
Wages, salaries and employee benefits	3	–57 311 858.12	18.8	–63 590 521.65	19.8
Depreciation, amortisation and impairment losses	4	–23 693 871.68	7.8	–23 660 214.58	7.4
Other operating expenses	5	–102 740 141.56	33.7	–99 972 425.15	31.2
		–335 355 241.32	110.0	–342 912 314.82	106.9
OPERATING PROFIT (LOSS)		–23 132 213.13	–7.6	74 296 740.00	23.2
Financial income and expenses	6	–12 752 638.90	–4.2	–21 158 648.64	–6.6
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		–35 884 852.03	–11.8	53 138 091.36	16.6
Appropriations	7	35 596 776.49	11.7	17 751 333.26	5.5
Income taxes, total		0.00	0.0	0.00	0.0
PROFIT (LOSS) FOR THE PERIOD		–288 075.54	–0.1	70 889 424.62	22.1

Stockmann plc

Balance sheet, FAS

ASSETS	Note	31.12.2019	31.12.2018
		EUR	EUR
NON-CURRENT ASSETS			
Intangible assets	8		
Intangible rights		19 998 618.43	23 153 574.89
Other intangible assets		282 614.64	353 191.56
Advance payments and construction in progress		2 553 117.35	812 960.08
Intangible assets, total		22 834 350.42	24 319 726.53
Property, plant, equipment	9		
Land and water		12 232 609.70	12 232 609.70
Buildings and constructions		247 313 359.28	253 686 523.36
Machinery and equipment		25 962 548.33	30 395 667.10
Modification and renovation expenses for leased premises		3 664 047.38	4 295 837.28
Other tangible assets		54 601.65	54 601.65
Advance payments and construction in progress		988 861.16	742 388.24
Property, plant, equipment, total		290 216 027.50	301 407 627.33
Investments	10		
Shares in Group companies		292 533 477.95	254 205 718.11
Other shares and participations		760 443.74	760 443.74
Investments, total		293 293 921.69	254 966 161.85
NON-CURRENT ASSETS, TOTAL		606 344 299.61	580 693 515.71
CURRENT ASSETS			
Inventories			
Materials and consumables		42 836 834.53	48 644 420.07
Inventories, total		42 836 834.53	48 644 420.07
Non-current receivables			
Loan receivables from Group companies		755 775 071.55	743 759 379.83
Non-current receivables, total		755 775 071.55	743 759 379.83
Current receivables	11		
Trade receivables		2 285 180.11	4 356 907.93
Receivables from Group companies		24 466 768.88	32 198 329.46
Other receivables		10 270.07	1 925.20
Prepayments and accrued income		8 057 906.77	14 454 320.97
Current receivables, total		34 820 125.83	51 011 483.56
Cash in hand and at banks	12	6 460 561.98	15 776 843.70
CURRENT ASSETS, TOTAL		839 892 593.89	859 192 127.16
ASSETS, TOTAL		1 446 236 893.50	1 439 885 642.87

Stockmann plc
Balance sheet, FAS

EQUITY AND LIABILITIES	Note	31.12.2019	31.12.2018
		EUR	EUR
EQUITY	13–14		
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		-229 492 937.74	-300 382 362.36
Net profit (loss) for the financial year		-288 075.54	70 889 424.62
EQUITY, TOTAL		400 127 508.89	400 415 584.43
ACCUMULATED APPROPRIATIONS	15	73 962 926.49	87 409 702.98
PROVISIONS	16	15 664 402.24	18 424 698.81
LIABILITIES			
Non-current liabilities			
Hybrid bond		106 000 000.00	85 000 000.00
Bonds		250 000 000.00	250 000 000.00
Loans from credit institutions		116 000 000.00	114 000 000.00
Accrued expenses and prepaid income	17	1 315 954.00	2 770 516.00
Liabilities to Group companies		0.00	170 289 977.60
Non-current liabilities, total		473 315 954.00	622 060 493.60
Current liabilities	18		
Loans from credit institutions		1 142 730.78	147 032 109.11
Advances received		961 755.64	607 915.52
Trade payables		25 391 126.98	25 785 256.16
Liabilities to Group companies		352 911 886.10	7 211 634.47
Other payables		58 825 286.48	96 412 760.80
Accrued expenses and prepaid income	19	43 933 315.90	34 525 486.99
Current liabilities, total		483 166 101.88	311 575 163.05
LIABILITIES, TOTAL		956 482 055.88	933 635 656.65
EQUITY AND LIABILITIES, TOTAL		1 446 236 893.50	1 439 885 642.87

Stockmann plc
Cash flow statement

	2019 EUR	2018 EUR
CASH FLOW FROM OPERATING ACTIVITIES		
Profit (loss) for the financial year	-288 075.54	70 889 424.62
Adjustments for:		
Depreciation and amortisation according to plan	23 693 871.68	23 660 214.58
Other non-cash income and expenses	-4 185 577.14	-89 999 009.73
Financial income and expenses	10 476 808.72	21 158 649.12
Appropriations	-35 596 776.49	-17 751 333.26
Changes in working capital:		
Increase (-) / decrease (+) of current receivables	8 062 076.34	9 369 896.61
Increase (-) / decrease (+) of inventories	5 807 585.54	5 950 178.63
Increase (+) / decrease (-) of current non-interest bearing liabilities	1 691 778.78	-7 973 015.72
Interest and other financial expenses paid from operating activities	-30 851 781.77	-30 309 453.00
Interest received from operating activities	139 681.36	593 709.05
CASH FLOW FROM OPERATING ACTIVITIES	-21 050 408.52	-14 410 739.10
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-11 150 501.18	-7 594 257.46
Proceeds from disposal of tangible and intangible assets		122 530 957.50
Increase (-)/decrease (+) of loan receivables	38 327 759.84	58 519 457.72
Additions to holdings in Group companies	-38 327 759.84	-58 519 457.72
Realised exchange rate difference on the hedge of a net investment *	11 055 342.00	31 644 682.42
NET CASH FROM INVESTING ACTIVITIES	-95 159.18	146 581 382.46
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (-)/decrease (+) of loan receivables	8 064 074.87	7 708 802.11
Proceeds from (+)/ repayments of (-) short-term loans	-145 607 916.43	-172 108 863.43
Proceeds from long-term loans	529 101 322.62	311 475 315.14
Repayments of long-term loans	-379 728 195.08	-271 681 713.26
NET CASH FROM FINANCING ACTIVITIES	11 829 285.98	-124 606 459.44
Change in cash in hand and at banks, increase (+) / decrease (-)	-9 316 281.72	7 564 183.92
Cash in hand and at banks in the beginning of the financial year	15 776 843.70	8 212 659.78
Cash in hand and at banks at the end of the financial year	6 460 561.98	15 776 843.70

*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. Other operating income

EUR	2019	2018
Compensation for services to Group companies	7 234 490.30	7 080 160.51
Other capital gains	3 600.00	89 336 389.77
Other operating income	-864.61	2 402.99
Total	7 237 225.69	96 418 953.27

3. Wages, salaries and employee benefits expenses

EUR	2019	2018
Salaries and remuneration paid to the CEO and his deputy	862 817.00	556 278.00
Salaries and remuneration paid to the Board of Directors	457 400.00	448 600.00
Other wages and salaries	45 901 425.31	50 965 129.05
Wages during sick leave	1 440 772.87	1 533 807.72
Pension expenses	7 397 165.55	8 007 349.32
Other employee benefits expenses	1 252 277.39	2 079 357.56
Total	57 311 858.12	63 590 521.65

Personnel, average	1 422	1 608

Management pension liabilities

CEO Jari Latvanen'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. A separate voluntary pension is not paid. 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 2019 one of the Management Team members had voluntary defined contribution pension insurance taken by the company. The costs of the insurances in 2019 amounted to EUR 85 972 (EUR 56 556 in 2018).

4. Depreciation, amortisation and impairment losses

EUR	2019	2018
Intangible rights	8 999 205.33	7 145 776.53
Buildings and constructions	9 063 106.77	9 262 048.31
Machinery and equipment	4 926 723.89	6 581 564.80
Modification and renovation expenses for leased premises	704 835.69	670 824.94
Total	23 693 871.68	23 660 214.58

5. Other operating expenses

EUR	2019	2018
Site expenses	49 734 615.18	49 985 063.87
Marketing expenses	13 626 701.93	15 746 848.29
Professional services expenses	12 645 425.00	1 834 854.34
ICT expenses	10 977 123.72	11 743 280.93
Staff leasing expenses	4 113 665.47	5 055 056.40
Goods handling expenses	4 183 684.02	4 293 689.40
Rental expenses	2 259 873.96	2 584 263.80
Voluntary indirect employee expenses	1 219 051.07	837 114.51
Credit losses	29 281.43	504 150.20
Other expenses	3 950 719.78	7 388 103.41
Total	102 740 141.56	99 972 425.15

Auditors' fees

EUR	2019	2018
Auditing	141 000.00	130 000.00
Tax advisory	107 785.00	115 000.00
Other services	251 900.00	22 000.00
Total	500 685.00	267 000.00

6. Financial income and expenses

EUR	2019	2018
Interest income from Group companies	41 515 104.45	39 367 391.52
Interest income from parties outside the Group	139 667.83	473 493.97
Interest expenses to Group companies	-14 589 517.67	–8 035 788.48
Interest and other financial expenses to parties outside the Group	-32 473 252.05	–38 764 443.58
Impairment of loan receivables and investments		–21 667 362.43
Foreign exchange gains and losses (net)	-7 344 641.46	7 468 060.36
Total	–12 752 638.90	–21 158 648.64

7. Appropriations

EUR	2019	2018
Difference between depreciation according to plan and depreciation in taxation	13 446 776.49	–8 258 666.74
Received Group contributions	22 150 000.00	30 250 000.00
Given Group contributions		–4 240 000.00
Total	35 596 776.49	17 751 333.26

Non-current assets

8. Intangible assets

Intangible rights

EUR	2019	2018
Acquisition cost 1 January	46 244 759.07	52 931 636.43
Increases	45 635.00	576 945.28
Transfers between items	5 798 613.87	3 679 593.60
Decreases	-5 636 536.26	–10 943 416.24
Acquisition cost 31 December	46 452 471.68	46 244 759.07
Accumulated amortisation 1 January	23 091 184.18	26 888 823.89
Accumulated amortisation on decreases	-5 636 536.26	–10 943 416.24
Amortisation for the financial year	8 999 205.33	7 145 776.53
Accumulated amortisation 31 December	26 453 853.25	23 091 184.18
Book value 31 December	19 998 618.43	23 153 574.89

Other intangible assets

EUR	2019	2018
Acquisition cost 1 January	705 768.85	705 768.85
Acquisition cost 31 December	705 768.85	705 768.85
Accumulated amortisation 1 January	352 577.29	282 000.42
Amortisation for the financial year	70 576.92	70 576.87
Accumulated amortisation 31 December	423 154.21	352 577.29
Book value 31 December	282 614.64	353 191.56

Advance payments and construction in progress

EUR	2019	2018
Acquisition cost 1 January	812 960.08	502 033.23
Increases	7 538 771.14	3 990 520.45
Transfers between items	-5 798 613.87	–3 679 593.60
Acquisition cost 31 December	2 553 117.35	812 960.08
Book value 31 December	2 553 117.35	812 960.08

Intangible assets, total	22 834 350.42	24 319 726.53

9. Tangible assets

Land and water

EUR	2019	2018
Acquisition cost 1 January	6 334 259.12	7 536 683.01
Decreases		–1 202 423.89
Acquisition cost 31 December	6 334 259.12	6 334 259.12
Revaluations 1 January and 31 December	5 898 350.58	5 898 350.58
Book value 31 December	12 232 609.70	12 232 609.70

Buildings and constructions

EUR	2019	2018
Acquisition cost 1 January	336 056 368.11	358 913 176.31
Increases	181 378.71	59 022.84
Transfers between items	2 508 563.98	2 039 601.10
Decreases	-891 868.06	–24 955 432.14
Acquisition cost 31 December	337 854 442.74	336 056 368.11
Accumulated depreciation 1 January	107 218 675.09	106 475 056.93
Accumulated depreciation on decreases	-891 868.06	–8 518 430.15
Depreciation for the financial year	9 063 106.77	9 262 048.31
Accumulated depreciation 31 December	115 389 913.80	107 218 675.09
Revaluations 1 January	24 848 830.34	26 530 709.60
Decrease in revaluations on sales of Non-current assets		–1 681 879.26
Revaluations 31 December	24 848 830.34	24 848 830.34
Book value 31 December	247 313 359.28	253 686 523.36

Machinery and equipment

EUR	2019	2018
Acquisition cost 1 January	44 635 547.34	53 329 946.41
Increases	101 615.00	696 888.09
Transfers between items	391 990.12	74 460.00
Decreases	-3 446 051.40	–9 465 747.16
Acquisition cost 31 December	41 683 101.06	44 635 547.34
Accumulated depreciation 1 January	14 239 880.24	16 244 014.22
Accumulated depreciation on decreases	-3 446 051.40	–8 585 698.78
Depreciation for the financial year	4 926 723.89	6 581 564.80
Accumulated depreciation 31 December	15 720 552.73	14 239 880.24
Book value 31 December	25 962 548.33	30 395 667.10

Modification and renovation expenses for leased premises

EUR	2019	2018
Acquisition cost 1 January	6 411 019.82	4 996 849.18
Increases	1 519.77	53 562.43
Transfers between items	949.10	1 360 921.11
Decreases	-178 163.47	–312.90
Acquisition cost 31 December	6 235 325.22	6 411 019.82
Accumulated depreciation 1 January	2 115 182.54	1 515 247.39
Accumulated depreciation on decreases	-178 163.47	–312.90
Depreciation for the financial year	634 258.77	600 248.05
Accumulated depreciation 31 December	2 571 277.84	2 115 182.54
Book value 31 December	3 664 047.38	4 295 837.28

Other tangible assets

EUR	2019	2018
Acquisition cost 1 January	54 601.65	54 601.65
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	2019	2018
Acquisition cost 1 January	**742 388.24**	964 432.87
Increases	**3 147 976.12**	3 259 721.85
Transfers between items	**-2 901 503.20**	–3 474 982.21
Decreases		–6 784.27
Acquisition cost 31 December	**988 861.16**	742 388.24
Book value 31 December	**988 861.16**	742 388.24

Tangible assets, total	**290 216 027.50**	301 407 627.33

Revaluations included in balance sheet values

EUR	2019	2018
Land and water	**5 898 350.58**	5 898 350.58
Buildings	**24 848 830.34**	24 848 830.34
Total	**30 747 180.92**	30 747 180.92

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.

10. Investments

Investments in Group companies

EUR	2019	2018
Acquisition cost 1 January	**254 205 718.11**	215 686 260.39
Increases	**38 327 759.84**	58 519 457.72
Impairments*		–20 000 000.00
Book value 31 December	**292 533 477.95**	254 205 718.11

* Impairment of Lindex business operations

Other shares and participations

EUR	2019	2018
Acquisition cost 1 January	**760 443.74**	760 443.74
Book value 31 December	**760 443.74**	760 443.74

Investments, total	**293 293 921.69**	254 966 161.85

11. Current receivables

Trade receivables

EUR	2019	2018
Interest-bearing trade receivables	**67 273.30**	750 254.30
Non-interest bearing trade receivables	**2 217 906.81**	3 606 653.63
Total	**2 285 180.11**	4 356 907.93

Receivables from Group companies

EUR	2019	2018
Group contribution receivables	**22 150 000.00**	30 250 000.00
Trade receivables	**2 308 130.88**	1 939 691.47
Prepayments and accrued income	**8 638.00**	8 637.99
Total	**24 466 768.88**	32 198 329.46

Other receivables

EUR	2019	2018
Other receivables	**10 270.07**	1 925.20
Total	**10 270.07**	1 925.20

Prepayments and accrued income

EUR	2019	2018
Receivable from credit card co-operation	2 489 306.60	2 680 357.98
Periodised loan arrangement expenses	2 184 665.72	4 265 315.26
Receivable from trademark co-operation	1 000 000.00	750 000.00
Periodised ICT expenses	933 678.61	1 528 732.45
Receivables from suppliers	475 139.39	400 126.13
Periodised indirect employee expenses	353 138.04	2 270 983.95
Derivative receivables	263 736.96	218 758.34
Taxes and customs duties receivable	200 000.00	200 000.00
Periodised rental and leasing expenses	32 483.00	190 985.84
Other prepayments and accrued income	125 758.45	1 949 061.02
Total	8 057 906.77	14 454 320.97

12. Cash in hand and at banks

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

13. Changes in equity

Share capital

EUR	2019	2018
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	-229 492 937.74	-298 700 483.10
Decrease in revaluation on sales of Non-current assets		-1 681 879.26
Retained earnings 31 December	-229 492 937.74	-300 382 362.36
Net profit (loss) for the financial year	-288 075.54	70 889 424.62
Equity, total	400 127 508.89	400 415 584.43

Breakdown of distributable funds 31 December

EUR	2019	2018
Funds	299 464 710.45	299 464 710.45
Retained earnings	-229 492 937.74	-300 382 362.36
Net profit (loss) for the financial year	-288 075.54	70 889 424.62
Total	69 683 697.17	69 971 772.71

14. 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

15. Accumulated appropriations

The accumulated appropriations comprise accumulated depreciation difference.

16. Provisions

Other provisions

EUR	2019	2018
Business restructuring cost	15 664 402.74	18 424 698.81
Total	15 664 402.74	18 424 698.81

17. Accruals and prepaid income, non-current

EUR	2019	2018
Accrued site expenses	1 065 900.00	1 770 300.00
Accrued it expenses	250 054.00	1 000 216.00
Total	1 315 954.00	2 770 516.00

18. Current liabilities

EUR	2019	2018
Interest-bearing liabilities	398 871 099.55	229 336 216.65
Non-interest-bearing liabilities	84 295 002.33	82 238 946.40
Total	483 166 101.88	311 575 163.05

Liabilities to Group companies

EUR	2019	2018
Trade payables	407 341.61	367 652.37
Other liabilities, interest-bearing*	352 161 929.10	2 263 370.59
Other liabilities, non-interest-bearing	339 776.56	339 776.56
Accrued liabilities	2 838.83	4 240 834.95
Total	352 911 886.10	7 211 634.47

*Other liabilities to group companies represented as current liabilities will be renegotiated during year 2020.

19. Accruals and prepaid income, current

EUR	2019	2018
Accrued interest and other financial expenses	13 702 843.99	12 400 669.30
Accrued personnel expenses	11 364 315.99	11 499 571.82
Derivative payables	8 017 283.77	3 076 722.36
Accrued professional expenses	4 078 970.80	196 632.00
Periodised purchases of stock items	2 935 613.92	4 493 819.96
Accrued site expenses	1 136 382.09	1 101 670.82
Reserve for returns	707 900.00	660 000.00
Other accrued expenses and prepaid income	1 990 005.34	1 096 400.73
Total	43 933 315.90	34 525 486.99

20. Contingent liabilities

Mortgages given as collateral for liabilities and commitments

EUR	2019	2018
Loans from credit institutions	367 142 730.78	511 032 109.11
Mortgages given	1 671 681 800.00	1 671 681 800.00
Book value of the assets	367 220 938.93	373 594 103.01
Guarantees	150 000.00	210 000.00
Security pledged on behalf of the company, total	1 671 831 800.00	1 671 891 800.00

Security pledged on behalf of Group companies

EUR	2019	2018
Rent guarantees	5 564 051.92	6 984 036.70
Other guarantees	32 199 271.58	33 016 815.40
Total	37 763 323.50	40 000 852.10

Security pledged, total

EUR	2019	2018
Mortgages	1 671 681 800.00	1 671 681 800.00
Guarantees	37 913 323.50	40 210 852.10
Total	1 709 595 123.50	1 711 892 652.10

21. Liability engagements and other commitments

EUR	2019	2018
Rental commitments	306 834 710.00	321 492 815.94
Electricity commitments	1 205 734.00	1 323 047.00
Leasing commitments	1 158 467.92	1 252 768.39
Total	309 198 911.92	324 068 631.33

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 2010-2019, if the VAT-liable use of the real estate decreases during the adjustment period. The last adjustment year is 2029, and the maximum liability is 3 998 482 EUR . In 2018 the maximum liability was EUR 5 741 298.

Pension liabilities

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

22. 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
Lindex Commercial (Shanghai) Co.Ltd., Shanghai	100	100
Closely AB, Göteborg	75	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 2019 were EUR 69.7 million.

According to the parent company's balance sheet at 31 December 2019, 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	-229 492 937.74
profit for the financial year	-288 075.54
	69 683 697.17

The Board of Directors proposes that the net result of the financial year 2019 will be carried further in the retained earnings and that no distribution of funds will take place.

Helsinki, 12 February 2020

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

BOARD OF DIRECTORS

Lauri Ratia

Stefan Björkman Eva Hamilton Esa Lager Leena Niemistö

Tracy Stone Peter Therman Dag Wallgren

CEO

Jari Latvanen

Our auditor's report has been issued today.

Helsinki, 17 February 2020

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, 2019. 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 2.6 to the consolidated financial statements.

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

Materiality

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

Key Audit Matters

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

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

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

Valuation of goodwill and trademark / parent company investment in Lindex
(Refer to notes 1.2 and 3.2 to the consolidated financial statements and notes 10 to the parent company financial statements)

- The goodwill and the trademark balances carried in the consolidated statement of financial position totalled € 594 million as of December 31, 2019, and is entirely related to the Lindex segment.
- Impairment testing of the Lindex cash-generating unit performed by management relies on estimates of value in use.
- Determining the key assumptions about the cash flow projections underlying the impairment calculation requires 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.
- The cash-generating unit 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 2019 the parent company's market capitalisation was less than the carrying amount of Group and parent company net assets attributable to shareholders.

- Our analysis of the year-end impairment testing considered valuation of goodwill and the trademark in the Consolidated Financial Statements and the Parent company investment in Lindex.
- 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.

Valuation of properties
(Refer to notes 1.2 and 3.3 to the consolidated financial statements)

- In the consolidated financial statements, Stockmann measures its owner-occupied properties to fair value. Fair values are determined on the basis of valuations

- 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 calculated by external authorised property valuers. The fair value of the properties in the consolidated statement of financial position totalled € 668 million as of 31 December 2019.

- Revaluing owner-occupied properties to fair value 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 of net rental income applied, used discount rates and future capital expenditures.

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, for example through comparing them to market data derived from external sources.
  - We considered the appropriateness and the adequacy of the information provided in the disclosures on fair value measurement of the properties.

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

- Stockmann carries out its business through a wide network of department-, fashion- and on line 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 1.1, 1.2, 3.5 and 4.8 to the consolidated financial statements)

- In November 2019 the Group re-negotiated the terms related to financial covenants and repayment for its bank loans.
- The interest bearing financial debt totalled € 412 million as of 31 December 2019 (€ 588 million as of December 2018).
- IFRS 16 *Leases* standard has been applied since January 1, 2019, and at the balance sheet date December, 31 2019 lease liabilities of € 530 million were recognised in consolidated statement of financial position, reflecting the present value of forthcoming rent payments for committed lease agreements. Correspondingly, the assets of the consolidated statement of financial position include Right of use assets of € 486 million and lease receivables of € 17 million.
- Determining key assumptions affecting the recognised lease liabilities and the Right of use assets requires management to make judgements for example in respect of the length of the lease periods, depreciation periods and discount rates used.

- We have assessed the terms of the financing agreements and the impacts on classification and recognition in relation to the basis of preparation, accounting principles and 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 financial debt in the consolidated financial statements.
- In regards the adoption of IFRS 16 we have:
  - Evaluated the principles and calculations in determining the lease liabilities.
  - Assessed the assumptions applied in the calculations in regard to lease periods, discount rates and depreciation periods for Right of use assets.
  - Compared on a sample basis the terms of certain significant lease agreements to the parameters used in the calculations.
  - Assessed the appropriateness and the adequacy of the disclosures for leasing arrangements.

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 the 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 skepticism 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 five 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 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, 17 February 2020

HENRIK HOLMBOM
Authorised Public Accountant, KHT

MARCUS TÖTTERMAN
Authorised Public Accountant, KHT