WELCOME TO STOCKMANN’S NEW DISTRIBUTION CENTRE

Jussla Site Visit
23 November 2016
AGENDA

Welcome
Nora Malin, Director, Communications

Management presentations

• Targeting a positive EBIT in Stockmann Retail in 2018  
  Lauri Veijalainen, CEO

• Serving customers with multichannel operations  
  Anna Salmi, Chief Customer Officer

• Ensuring an up-to-date selection with efficient buying and logistics  
  Tove Westermarck, Director, Supply Chain

Q&A after each presentation

Tour at the Distribution Centre and the product photo studio

Wrap-up, Q&A

16:30 Bus transport back to Helsinki city centre

Refreshments and time for informal discussions in AKA Oriental Gastro Bar
SPEAKERS

Lauri Veijalainen  
CEO, Stockmann plc  
b. 1968, B.Sc., MBA  
Joined Stockmann in 2010,  
CEO since 12 September 2016  
Previous working experience:  

Anna Salmi  
Chief Customer Officer  
b. 1979, M.Sc.(Econ.)  
Joined Stockmann in 2015,  
at present position since 2016  
Previous working experience:  
Stockmann: Director, Digital Retail 2015-2016; Aurinkomatkat - Suntours: Head of Business 2014-2015, Head of Sales and Marketing 2011-2014; Finnair: Director, Digital Marketing 2010-2011, Director, Internet Sales and Loyalty Marketing 2009-2010

Tove Westermarck  
Director, Supply Chain  
b. 1968, M.Sc.(Econ.)  
Joined Stockmann in 1991,  
at present position since 2016  
Previous working experience:  
Stockmann: Group’s Development Director 2014-2016, Director, Department Store Division’s Distance Retail 2013-2014, Director, department stores in Russia 2008-2013, Sales Director, department stores in Russia 2007-2008, Marketing Director, international operations 2005-2007
TARGETING A POSITIVE EBIT IN STOCKMANN RETAIL IN 2018

LAURI VEIJALAINEN, CEO
TURNAROUND ON TRACK

• Improved result driven by divestments, restructuring and solid performance of Lindex and Real Estate

• Target to reach a slightly positive operating result for the Group in 2016

• Several initiatives to turn Stockmann Retail profitable by 2018

GROUP’S 12 MONTH ROLLING EBIT, ADJUSTED

GROUP’S QUARTERLY EBIT, ADJUSTED
FOCUS ON THE KEY BUSINESSES

Lindex
- A world class fashion chain
- Increasing profitability – all time high EBIT in Q2, 12 month rolling EBIT margin 8.8%
- Potential for growth following a year of consolidation

Real Estate
- A high-quality real estate portfolio
- Focus on efficient use of space and attractive external tenants
- Possible divestment of Nevsky Centre

Stockmann Retail
- Focus on fashion, beauty, home and food
- Several initiatives to improve efficiency
- Actions to secure sales development
- Target to reach a positive EBIT in 2018
ONGOING ACTIONS TO IMPROVE PROFITABILITY

- Operating costs down by over EUR 50 million in 2016, compared to 2015
- Divestment of **Hobby Hall** and closing of **Oulu** department store to reduce revenue in 2017 by approx. EUR 100 million and to improve EBIT by approx. EUR 10 million (net effect)
  - Hobby Hall’s EBIT 1-9/2016 was EUR -6.1 million
  - Despite the closure on 31 January, there will be store & closing costs in Oulu during the entire Q1 2017

- **Efficiency programme** – Group’s savings
  - EUR ~50m by the end of 2016

- **New leaner organization** – savings mostly in Retail
  - EUR ~20m in 2017

- **New distribution center** – savings mostly in Retail
  - EUR ~5.5m in stages from 2017

- **IT outsourcing** – savings mostly in Retail
  - EUR ~4m from 2018

- **Divestment of Hobby Hall**
- **Closing of Oulu department store**
ACTIONS TO SECURE SALES DEVELOPMENT

- **Selection**: Over 50 new brands and seasonal pop-ups, complemented by new tenants
- **Service**: Improved customer service in stores, new online store to facilitate omnichannel shopping
- **Scene**: Major refurbishments of store premises completed
  - Helsinki (several areas, ready in 8-11/2016), Turku (Delicatessen, ready in 11/2016), Tallinn (5th floor, ready in 11/2016) and Tapiola (new store in March 2017)
- **Specials**: Targeted marketing to reactivate passive loyal customers and reach new customer groups
- Target is to stabilise comparable sales. Changes in the store network and product mix will continue to negatively affect total sales in 2017.

Leading-edge, seamless, premium shopping experience in fashion, food, beauty and home products
OUR DIRECTION

Stockmann is NO1 SOURCE OF INSPIRATION FOR MODERN, URBAN LIFE

CUSTOMERS

GROUP SALES

Increase visitor traffic

Retain and passon loyal customers

OUR VALUES

We inspire our customers

We encourage each other to achieve top results

OURVISION

Stockmann Retail to reach profitability in 2019

Improve cash flow

SELECTION SERVICE SCENE SPECIALS

LEADING-EDGE SEAMLESS PREMIUM SHOPPING EXPERIENCE through own retail, concession & tenants

EFFICIENCY

REASONS TO VISIT

STOCKMANN

23.11.2016
SERVING CUSTOMERS WITH MULTICHANNEL OPERATIONS

ANNA SALMI, CHIEF CUSTOMER OFFICER
TARGETED MARKETING BASED ON 360° VIEW ON CUSTOMER

- Customer journeys are more digital than before, influence touch points are more fragmented

  **Data will lead the way in Stockmann’s future marketing**: planning, execution, developing
  - New CRM system improves customer profiling and targeted actions (into use in spring 2017)
  - Improving results with the same marketing investment than before and with a smaller marketing headcount
FOCUS ON CONTINUOUS CONTENT MARKETING

- Always-on marketing with digital content and activities in social media and online
- Inspiration for fashion, food, beauty and home
- Brand building: Stockmann as the destination for premium shopping experience
- Less tactical sales boostings
- Key campaigns to remain: Christmas, Crazy Days, Spring
NEW STOCKMANN.COM LAUNCHED

“Window to stores”
• Showing the store availability for goods
• Widening the online selection in stages

Omnichannel shopping
• Responsive design across different devices
• Predictive search eases finding products online
• More reliable performance with scalable capacity

Online as a service
• Click & collect
• Buy online – return in-store
• More delivery options and faster deliveries
• To come: Seek & reserve from the store
ENHANCING DIGITAL IN THE CUSTOMER EXPERIENCE

**Stockmann application**
- Replacing printed Loyal Customer coupons and catalogue
- Information on offers, events and inspirational content
- Using mobile to guide customers in stores (product finding and store availability, navigation)

**In-store digitalisation**
- Sales assistants’ tablet tools
- Digital displays to improve navigation
- Digital fitting rooms
- Other digital services
NEW WAY OF WORKING STARTS
WITH A NEW ORGANISATION & PARTNERS

Marketing & Digitalisation

- Brand & Campaigns
- Continuous marketing
- Digital Channels & Online Sales
- Digital Store & Services
- Customer & Loyalty
- Photo & Product Information
UP-TO-DATE SELECTION WITH EFFICIENT BUYING AND LOGISTICS

TOVE WESTERMARCK, DIRECTOR, SUPPLY CHAIN
TARGETING A COMPETITIVE, UP-TO-DATE SELECTION AND EFFICIENT END-TO-END MERCHANDISING PROCESS

<table>
<thead>
<tr>
<th>Supply Chain (non-food)</th>
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<tbody>
<tr>
<td><strong>Buying</strong></td>
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<tr>
<td>- Fashion</td>
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<tr>
<td>- Cosmetics &amp; Accessories</td>
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<td>- Home &amp; sport</td>
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<td>- Children &amp; Own brands</td>
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<td><strong>Planning</strong></td>
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<td>- Home, Sport, Children &amp; Own brands</td>
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<td><strong>Commercial process</strong></td>
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<td>- Content coordination</td>
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<td><strong>New Business Models</strong></td>
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<td>- Concession</td>
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<td>- Consignment</td>
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<td><strong>Supply Chain Development</strong></td>
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<td>- Merchandise support</td>
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<td>- Supplier management &amp; compliance</td>
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<td><strong>Logistics</strong></td>
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<td>- Distribution Centre + Riga</td>
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<td>- In-store logistics</td>
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<td>- Export</td>
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<td>- Import &amp; transportation</td>
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Separate supply chain organisation for Food
To become the leading local destination for food experiences, premium fresh food and convenient shopping.

To become the number one destination for premium quality fashion offering a well curated mix of established brands and the stars of tomorrow.

To become the number one Beauty destination, from skincare and wellbeing to make-up, and personal service.

To become the number one home decoration destination for contemporary Finnish & Scandinavian Design.

Right mix of brands is #1 reason to visit
FASHION – THE CURATOR

Women’s, Men’s, Sport and Children’s fashion

• Latest trends and upcoming designers

• International contemporary and attractive fast fashion brands

• International luxury statement brands as well presenting the latest up and coming Nordic designers/brands

• Strong presence of own medium-priced brands

• Fresh and inviting store milieu, interior & furniture and visual merchandising focusing on styling and trend

• Increase of impactful brand shop-in-shops

• Personalized and omnichannel shopping services

• Loyalty rewards focusing on exclusivity and personalized offers
BEAUTY – THE GUIDE

• First in market with key brands

• Outstanding width and depth of brands: semi-selective – niche – premium selective beauty

• Further expand selection in wellness and nutrition

• Beauty services

• Different destinations for different customers/needs, e.g. male grooming, premium selective beauty, wellness, make-over and beauty bazaar for younger customers

• Increased beauty service offering with the best tenants/local beauty experts/saloons
HOME – THE INSPIRER

• Home decoration and gift destination
• Focus on Finnish and Scandinavian design
• Unique design & art collaborations
• Seasonal pop-ups and decoration items
• Create world class, inspiring visual merchandising and sub-destinations
• Add on digital selection offer – store as showroom - and offer digital concession
• Unique café in flagship store
• Focus merchandising and marketing calendar around holidays and occasions
• Cross-sell and cross-advertise with Food
OVER 50 NEW BRANDS AND POP-UPS IN FALL 2016

BUSNEL  Theory  KENZO  IRO
ALEXANDER WANG

HESTRA  JIM RICKEY  KENDALL + KYLIE

SAMSOE & SAMSOE  MALA ALISHA®

HELmut LANG  OPUS

VICTORIA BECKHAM

NYX  RIMMEL LONDON

HUNKYDORY STOCKHOLM  CAROLL PARIS

MAX&Co  3.1 PHILLIP LIM

HIMMEE

American Vintage  kate spade

NEW YORK

kate spade

Pajar CANADA

HAMAKI-HO

PERIGOT

FLOres

PERSONA

SNURK

HORIzONTAL LIVING

AMERICAN VINTAGE

FLOres

HORIzONTAL LIVING

JOFAMA

arela

FORMAL FRIDAY

whistles

FRAMA

stockmann

REUZEL

Urban Decay

APOrt PHARMACy

Umbrella

23.11.2016

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SUPPLY CHAIN INITIATIVES

• **New tools**
  → Improved demand forecasting, inventory accuracy and product availability with expanded use of Relex supply chain planning solution from 01/2017
  → Improved item- and order creation process with Buyers workbook from 01/2017

• **Process enhancements**
  → Improved supplier compliance by streamlining instructions in several areas including delivery instructions, return policy, payment terms etc.
  → Increased EDI-cooperation with suppliers for automated orders, invoices and product data

• **New business models**
  → Increased share of business models (e.g. consignment, concession) where inventory risk is shared with suppliers, in order to achieve better use of capital, lower inventory levels and faster stock turn
STOCKMANN’S LOGISTICS SET-UP

• Stockmann is centralising its logistics into the one distribution centre in Jussla, Tuusula
  - Pitäjänmäki, Pakkala and Tammisto (Finland): entire operation moved to the new DC
  - Viinikkala (Finland): stockmann.com operations moved to the new DC; Hobby Hall’s logistics outsourced to Posti as of 1 May 2016
  - Vantaanrasti (Finland): warehouse transferred to Bonnier Book as part of divestment of Academic Bookstore in 2015
  - Riga (Latvia): will move to the new DC in 2017
  - Food logistics continue as before (Tuko and direct deliveries to stores)
  - Lindex logistics continue as before (DCs in Gothenburg and Prague)

• 05/2016: New DC start-up, all Finnish volumes moved in the summer
• 09/2016: Start of Stockmann.com operations in DC
• Fall 2017: Integrating the Baltic operations to DC
• Crazy Days operations to be gradually integrated to DC
DISTRIBUTION CENTRE PROJECT LASTED 5 YEARS

- 2011  Project start, reference visits, making specs and definitions

- 2012 04 Invitation to tender for 4 MHE suppliers
- 2012 12 Shortlist of 2 suppliers
- 2013 01 Supplier selection
- 2014 03 Building work start
- 2014 06 Signing the contract with Schäfer

- 2015 03 MHE installation starts
- 2015 10 MHE testing starts
- 2016 05 Go-live and start of moving
- 2016 09 Moving is completed and DC is running

1,5 years of benchmarking and planning

2 years from tender to contract

1,5 years from start of the MHE installation to proper operation
INCREASED EFFICIENCY WITH THE NEW DC

• Automated picking process is 10 times more efficient than in a manual process
  – Quicker handling and delivery times
  – More accuracy, less manual errors

• Considerably less personnel than before
  – Around 100 FTE vs. earlier over 200 FTE
  – Temporary staff supports in peak seasons

• Slightly lower real estate and site expenses
  – Leased premises from Ilmarinen, constructor SRV
  – Total rented space smaller than in old warehouses
  – Overlapping rental costs in 2016 approx. EUR 2 million

• Stockmann’s total investment (mainly MHE system) approx. EUR 30 million
  – Fully paid, in capital expenditure 2014-2016
  – Depreciation up by EUR 2 million annually

• Annual cost savings of approx. EUR 5.5 million
  – Compared to 2014, realising in stages from 2017
  – Reduced personnel, transportation and real estate expenses
TOUR AT THE DISTRIBUTION CENTRE AND THE PHOTO STUDIO

ELINA LAINÉ, LOGISTICS MANAGER
BJÖRN HÖGLUND, HEAD OF SUPPLY CHAIN DEVELOPMENT
JARI REINIKAINEN, DC OPERATIVE MANAGER
OLGA SAXEN, PRODUCTION MANAGER, PHOTO STUDIO
DETAILS ON THE NEW DISTRIBUTION CENTRE

• Automated put-away and goods-to-man picking for 90% of the SKU’s and pieces

• Manual handling for
  – Large items, 7 800 pallet locations
  – Flammable items
  – Goods on hangers, 13 000 meters of hanging racking bar

• Floor space 29 150 m² and volume 369 200 m³
  – Building height is 10 meters in general and 20 meters for the automated warehouse part

• The automated storage consist of
  – 9 picking stations
  – 27 receiving stations
  – 22 Stockmann.com packing stations
  – 45 elevators
  – 72 shuttles

• 3 350 meters of bin conveyors
THANK YOU
FURTHER INFORMATION:
www.stockmannkgroup.com
investor.relations@stockmann.com