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Doing business in Russia

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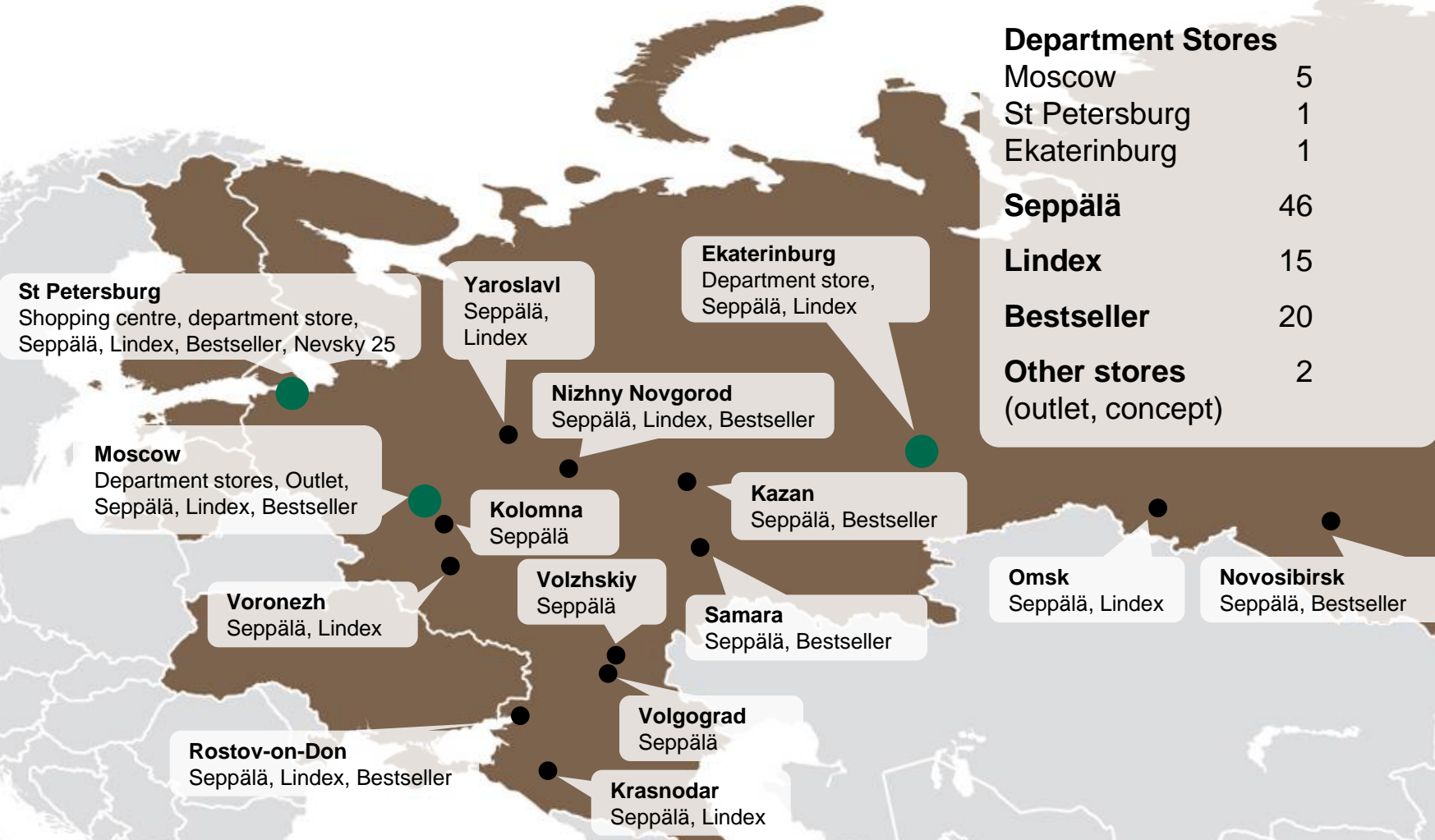
General situation in Russia

- GDP estimates: +4.0% in 2011; +3.5% in 2012
- Inflation estimates for 2011: opinions vary between 8.0%– 9.5%
- RUB currently slightly weaker than anticipated vs. EUR
- Oil price well-above 100 USD/barrel
- Two important elections approaching:
 - Duma elections in December 2011
 - Presidential election in March 2012





Stockmann Group in Russia today: Department stores, Seppälä, Lindex, and Bestseller



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The Group's operating model in Russia

- 90 locations and stores from St Petersburg to Novosibirsk, 3 time zones
- 4 130 employees
- Support functions, finance, IT and legal are centralised to Moscow for all Russian operations
- 2 legal entities:
 - ZAO Stockmann: Department store operations, fashion chain operations, back office and support functions
 - OOO Nevsky Centre: Real estate and leasing operations in St Petersburg



Stockmann's experiences and reflections

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Background and initial reflections

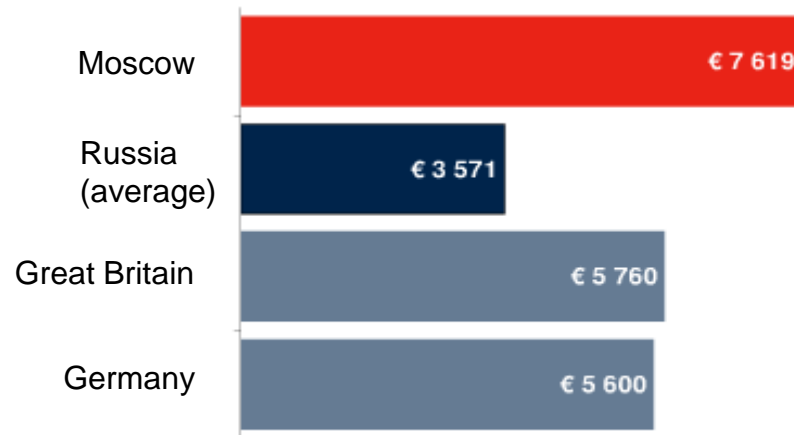
- An extremely wide topic
- A big difference between theory and reality, see e.g. www.doingbusiness.org
- Has Russia moved forward during the past 10 years to be a more attractive place to invest in?
- Legal environment has somewhat improved, tax legislation is more clear
- Tax rates have been generally reduced, with the exception of social taxes
- Bureaucracy and red tape remain heavy
- Investments in the market should be treated as long term
- Big differences inside the country: Moscow is not St Petersburg, regional cities are neither of the above





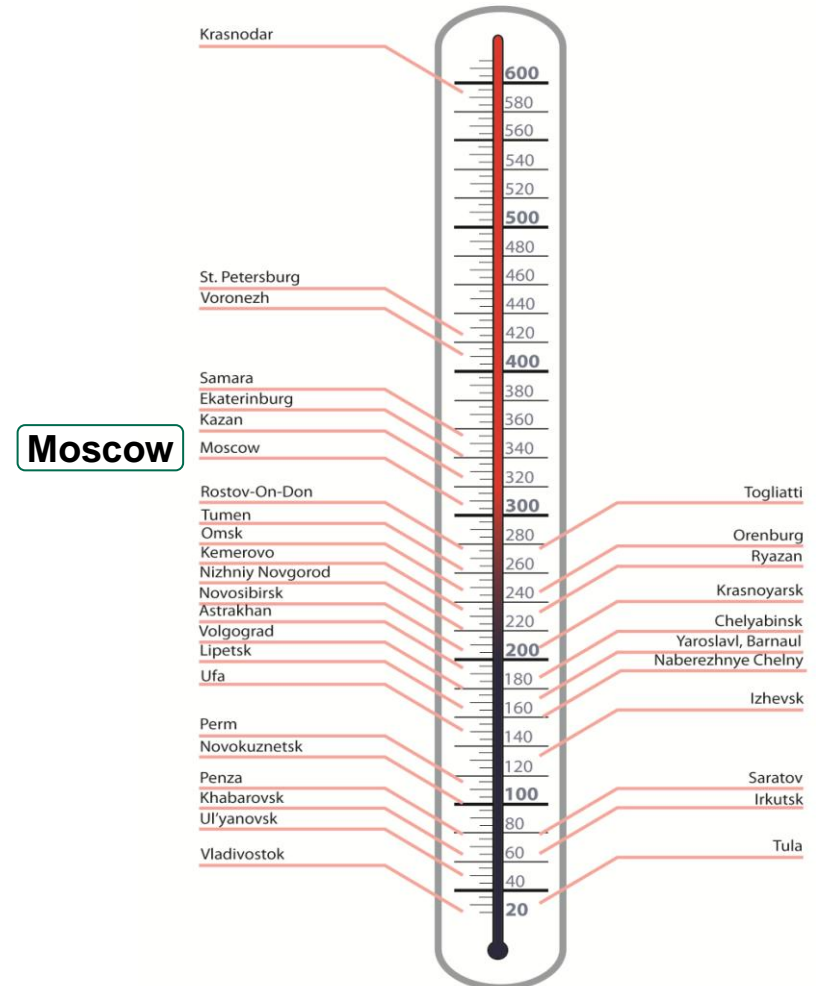
Moscow vs. the regions

Annual volume of consumer spending for goods (per inhabitant)



Source: CW Research

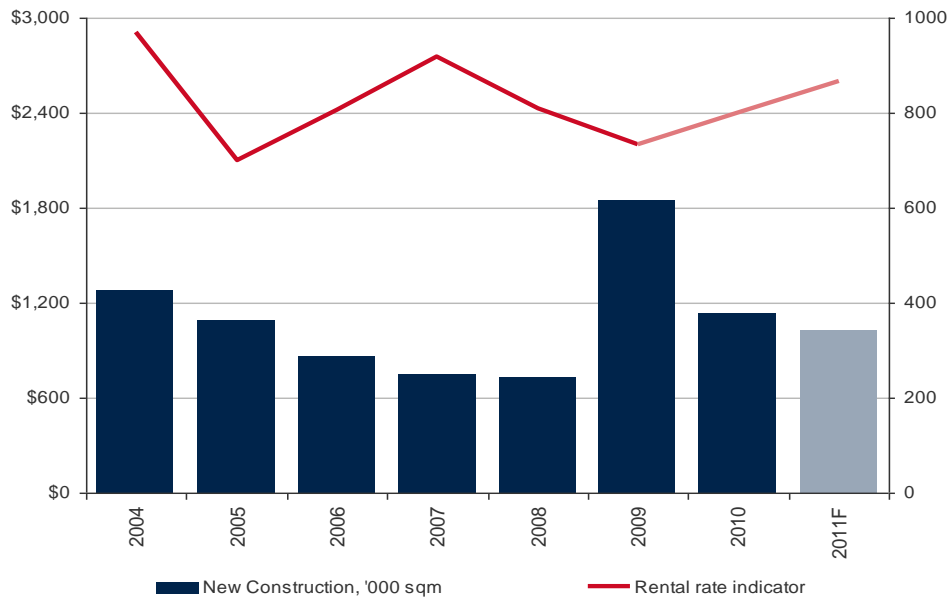
Russia retail stock (sqm / 1 000 inhabitants)



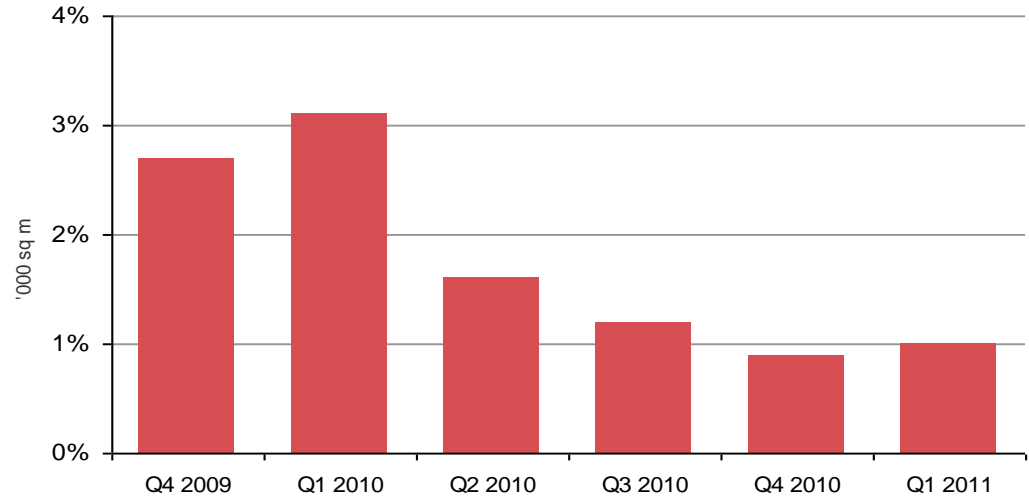


Evolution of the Moscow retail market

New construction and rental rates 2004–2011



Vacancy rate in shopping centres Q4 2009–Q1 2011



Source: CW Research



Some more reflections

- Inflation, CPI and generally the cost development are a challenge
- Overheated HR market, salary development and staff rotation – fight for the best people is again escalating
- Administrative burden and back office resources bigger than in other countries
- Competition is getting tougher as new players are entering the market
- Changes in the key administration impact the business environment:
Moscow: Luzhkov out, Sobyenin in
St Petersburg: Matvijenko out, Poltavchenko in





Retailer expansion

Partner Retailers



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BANANA REPUBLIC

PANDORA
UNFORGETTABLE MOMENTS



Direct Retailers



CHANEL



REISS

RAMSEY

MIU MIU



KOTON

LANCEL

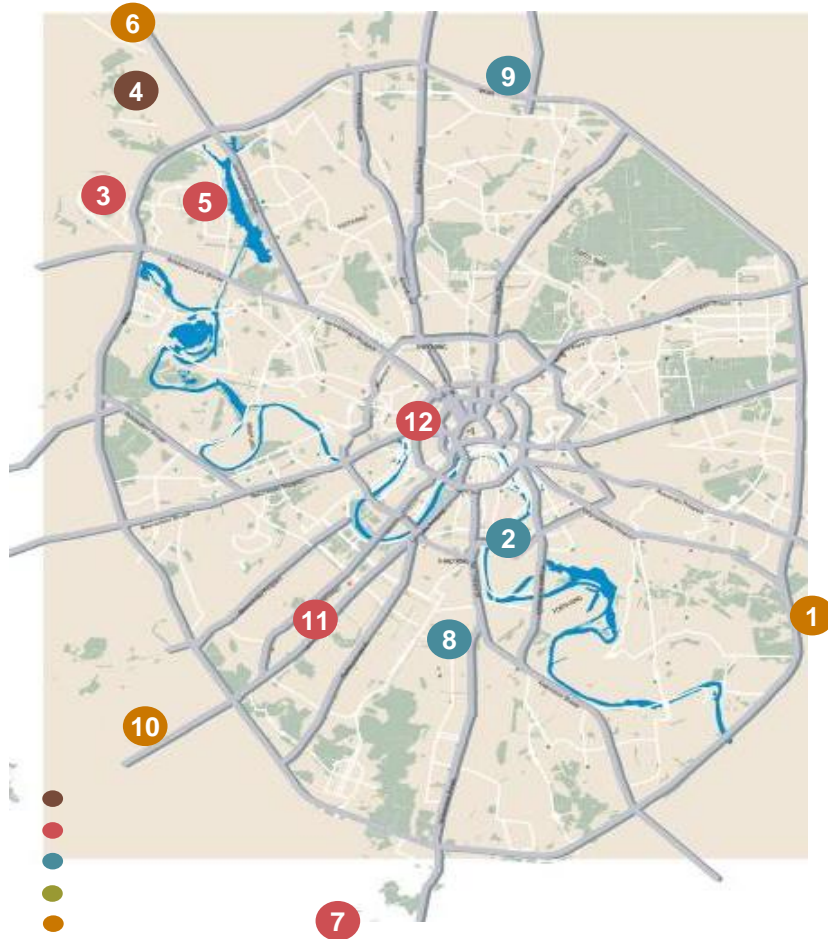


Strong and continued interest in both Partner and Direct market entry

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Moscow shopping centres under construction



Moscow project pipeline

	Name	Expected year	GLA, sq m
1	Outlet Village at Belaya Dacha	2011	38,000
2	River Mall	2011	85,000
3	Otrada	2011	70,000
4	Parus	2011	17,150
5	Kaleidoskop	2011-2012	35,000
6	Fashion House Outlet Centre	2012	26,765
7	Favorit Centre	2012	24,000
8	GoodZone	2012	70,000
9	Vesna	2012	56,000
10	Vnukovo Outlet Village	2012	26,000
11	RIO	2012	30,000
12	Smolensky Passazh phase II	2012	25,000

Source: Jones Lang LaSalle



Observations – what has changed since 1998

- Authorities are more approachable and sensible. It is more efficient and easier to discuss issues with them than 13 years ago
- Authorities and administrations are more competent and reasonable, having a more constructive attitude with a possibility for a dialogue
- A new Russian generation has taken key positions in tax offices and other key functions, Soviet-mentality is diminishing
- Importance of documentation is still there, but Form over substance - approach has slightly decreased. Documentation plays still an important factor in all operations, regardless of business area
- Foreign companies are treated equal with Russian entities. Foreign companies have become more Russian based and more experienced with the environment – no more Rep. Office structures or similar set ups from abroad
- What has remained the same:
 1. Market potential is still there
 2. Slow is often faster