Retail market in brief

- Finland
  - Extremely difficult market situation: low consumer confidence, declining purchasing power, and drop in demand for non-food products
  - Changing consumer behaviour and competitive environment due to growing, yet unprofitable, online business
  - Fashion market in Finland down 10% in June; decline in January-June 6% (TMA)
  - Tax free trade in Finland down 27% in January-July (Global Blue)
- Russia
  - Continuously weak economy and Russian rouble, with a negative impact on purchasing power
  - Russia’s counter-measures to trade sanctions have serious consequences to the business environment
- Baltic countries
  - Relatively stable market development
- Sweden
  - Fashion market in January-June on a par with 2013 (Stilindex)
Uncertainty will continue in Finland

**Finnish Retail Trade Confidence**
- Confidence indicator fell to -18 points in July 2014; long-term average -1
- Confidence in Finland is weakest among the EU countries

**Consumer Confidence**
- Confidence in own economy in 12 months’ time stood at 6.3 points in July 2014; long-term average 8.5
- Consumers’ general confidence in the economy remained almost unchanged

Source: Confederation of Finnish Industries EK

Source: Statistics Finland

13.8.2014
Omnichannel retail vs. traditional retail

- Share of online sales is growing, but online stores are not yet compensating for the dramatic decline in traditional retail
- Stockmann focuses on developing omnichannel retail i.e. combining the department store network and online business

1. Inspirational department stores
2. Click and collect points in all stores: every fourth order is currently delivered through stores
3. Developing Stockmann.com
   - Revenue growth 29% with almost 3 million visitors in January-June
   - Share of online 8% of revenue in the product categories sold online
   - Expansion into new product areas, e.g. cosmetics during autumn 2014
   - Over 1 300 brands already sold online
   - Digital loyal customer leaflets as from September
   - Online expansion into the Baltic countries in 2015
Stockmann Group in Q2 2014
Stockmann Group’s revenue in Q2 2014

- Revenue down 8.9%, to EUR 495.3 million (EUR 543.6 million), or down 5.1% at comparable exchange rates
- Revenue in Finland down 9.6%
- International operations down 7.2%, or up 0.2% at comparable exchange rates
  - Revenue up in the Baltic countries and Central Europe but down in other market areas
  - The Russian rouble, the Swedish krona and the Norwegian krone were all weaker than in Q2 2013
  - Lindex’s revenue up in local currencies; Department Store Division and Seppälä were below the targets
Quarterly revenue, Stockmann Group

EUR mill.

-8.3%
-7.6%*
-8.9%

* Excluding terminated franchising operations
Stockmann Group’s operating profit in Q2 2014

- Gross margin 48.1% (49.1%)
  - Decline due to price driven campaigns and the weak Russian rouble
- Operating costs EUR 216.7 million (EUR 218.7 million)
  - Cost saving programme continues, but savings from structural changes mainly visible from 2015 onwards
  - In the second quarter of 2013, operating costs were down due to non-recurring cost savings
- Depreciation EUR 18.2 million (EUR 18.3 million)
- Operating profit EUR 3.5 million (EUR 30.1 million)
  - Weak performance in both divisions
- Net financial expenses EUR 7.3 million (EUR 8.5 million)
- Result for the quarter EUR -8.1 million (EUR 19.5 million)
Quarterly operating profit, Stockmann Group

EUR mill.

2012 2013 2014

1-3 4-6 7-9 10-12

-50 -40 -30 -20 -10 0 10 20 30 40 50 60

13.8.2014
## Revenue in July 2014

<table>
<thead>
<tr>
<th>EUR mill., exclusive VAT</th>
<th>7/2014</th>
<th>Change, %</th>
<th>1-7/2014</th>
<th>Change, %*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Store Division, Finland</td>
<td>43.9</td>
<td>-14.3</td>
<td>401.8</td>
<td>-10.1</td>
</tr>
<tr>
<td>Department Store Division, international operations</td>
<td>24.0</td>
<td>-12.3</td>
<td>201.2</td>
<td>-10.0</td>
</tr>
<tr>
<td><strong>Department Store Division, total</strong></td>
<td><strong>67.9</strong></td>
<td><strong>-13.6</strong></td>
<td><strong>603.1</strong></td>
<td><strong>-10.1</strong></td>
</tr>
<tr>
<td>Fashion Chain Division, Finland</td>
<td>14.1</td>
<td>-2.2</td>
<td>77.8</td>
<td>-9.0</td>
</tr>
<tr>
<td>Fashion Chain Division, international operations</td>
<td>51.4</td>
<td>-5.4</td>
<td>343.1</td>
<td>-5.6</td>
</tr>
<tr>
<td><strong>Fashion Chain Division, total</strong></td>
<td><strong>65.5</strong></td>
<td><strong>-4.7</strong></td>
<td><strong>420.9</strong></td>
<td><strong>-6.2</strong></td>
</tr>
<tr>
<td>Unallocated</td>
<td>0.0</td>
<td></td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Operations in Finland, total</td>
<td>58.0</td>
<td>-11.5</td>
<td>479.8</td>
<td>-9.8</td>
</tr>
<tr>
<td>International operations, total</td>
<td>75.4</td>
<td>-7.7</td>
<td>544.3</td>
<td>-7.2</td>
</tr>
<tr>
<td><strong>Stockmann Group, total</strong></td>
<td><strong>133.4</strong></td>
<td><strong>-9.4</strong></td>
<td><strong>1 024.1</strong></td>
<td><strong>-8.5</strong></td>
</tr>
</tbody>
</table>

*Change compared with the revenue excluding the Zara franchising operations which were terminated on 1 March 2013 in Finland.
Outlook for 2014

- Russian rouble has weakened considerably and economic growth in Russia is estimated to stay at a low level in 2014
- The crisis in Ukraine, sanctions against Russia and their counter-measures continue to affect the Russian economy → very weak visibility in the Russian retail market
- Uncertainty will continue in the retail market in Finland: weak demand for non-food products and low purchasing power
- The affordable fashion market in Sweden is expected to improve slightly in 2014
- The retail market in the Baltic countries is expected to remain relatively stable
- Stockmann’s cost saving programme is continuing in 2014, focusing on long-term structural changes in order to adjust the cost structure to the weak market and to improve performance
- Target in Stockmann’s on-going strategy process is to improve the Group’s long-term competitiveness and profitability
- Capital expenditure estimated to amount to approximately EUR 60 million
- **Revised guidance** (12 June 2014): Stockmann estimates that the Group’s euro-denominated revenue in 2014 will decline on 2013. The Group’s operating profit in 2014 is expected to be significantly weaker than in 2013
Department Store Division
New sales organisation focusing on customer service in Finnish department stores

• New model into use as of 1 September 2014
• Sales staff will focus on customer service
• Store administration and support services centralised
• Less managers and supervisors
• New centralised staff planning system to match working hours to the busiest trading days and hours
• One modern customer service centre for digital channels and phone calls

• Department stores have almost 3 000 people in sales and customer service in Finland and in total the Department Store Division employs 8 500 people
• New model leads to a reduction of approx. 180 people
Customer expert programme

- “Asiakastuntija” customer expert programme launched by Stockmann in August to interact with customers in Finland
- Over 17,000 customers have given their comments on e.g. customer service, selection and online store through Facebook, Stockmann.com or a questionnaire
  - Posts on Stockmann Facebook page have reached over 100,000 people
- Stockmann provides customer service daily to 75,000 customers on average in Finland and receives annually over 10,000 customer feedbacks
Revenue in Q2 2014

- Revenue down 9.7%, to EUR 293.7 million (EUR 325.1 million)
  - Crazy Days performed relatively well, but sales of spring/summer merchandise fell in weak market conditions
- Revenue in Finland down 10.1%, to EUR 195.7 million
  - Biggest product area, fashion, followed the weak market trend
  - Strong growth, 27%, for Stockmann.com
  - Decline in tourist trade affected in particular Helsinki
- International operations down 8.9%, to EUR 97.9 million, or up 1.2% in local currencies
  - Russian rouble 16% weaker than in Q2 2013, consumer demand not growing in the difficult market situation
  - Nevsky Centre in St Petersburg continued good performance with leased premises in full use – such as opening of the first Hamleys toy store in St Petersburg
  - Both Baltic stores performed well
Quarterly revenue, Department Store Division

**EUR mill.**

- **1-3**: -10.5%
- **4-6**: -9.5%*
- **7-9**: -9.7%
- **10-12**:

*Excluding terminated franchising operations*
Operating profit in Q2 2014

- Gross margin 38.1% (39.4%)
  - Decline due to continuous campaigning and weak rouble
  - Sale campaign started early in Russia and in the Baltics; Finland following the traditional schedule
- Operating costs up by EUR 1.5 million
  - Most cost items, including personnel costs, declined, but IT and supply chain costs were up
  - In Q2 2013, costs down due to non-recurring cost savings
- Operating result EUR -6.9 million, compared to EUR 11.6 million in 2013
- Stock level at end of June clearly down on 2013
Quarterly operating profit, Department Store Division

EUR mill.

2012 2013 2014

1-3 4-6 7-9 10-12
Structural changes and cost efficiency

• Marketing
  – New operating model generates annual cost savings EUR 4 million, to be achieved partially in 2014 and fully in 2015

• Store operations in Finland
  – Comparable annual cost savings EUR 10 million, from 2015 onwards

• Support functions
  – Changes planned to achieve additional annual savings of EUR 7 million, from 2015 onwards

• Logistics and new distribution centre
  – Targeting an annual cost saving of approx. EUR 6.5 million, excluding depreciation, from 2018 onwards

• In 2013, temporary layoffs made a cost saving of EUR 5 million and other cost savings were over EUR 10 million
On-going projects

• Several omnichannel projects under way
  - Cosmetics into online store in Q4 2014
• Oracle ERP system has replaced all old systems; project finalisation by 2015
• Tampere store renewal and enlargement to be completed in Q4 2014
• Tapiola store scheduled to open in 2017, as the city plans were finally approved
  - Completely new store concept with less commercial space than today
• First part of the renewed ladies’ shoe department in Helsinki opened in May
• Building works of the new distribution centre for Finland and Baltics started; target to take the centre in use in 2016
Fashion Chain Division
Revenue in Q2 2014

- Fashion Chain Division’s revenue down 7.8%
- Lindex’s revenue down 4.4%, to EUR 178.0 million (EUR 186.2 million)
  - In local currencies revenue up 1.1%
  - Comparable revenue down 0.6%
  - Increase in lingerie and kids’ wear; successful Bra-volution campaign
  - Sweden, Norway and Central Europe improved their comparable sales
- Seppälä’s revenue down 27.4%, to EUR 23.6 million (EUR 32.5 million)
  - Comparable revenue down 19.8%
  - 23 stores closed during the past 12 months, 39% less stores in Russia
  - Revenue in Finland EUR 16.5 million, other countries EUR 7.1 million
- The market in Finland, Baltics and Russia remained challenging for both fashion chains
Quarterly revenue, Fashion Chain Division

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3</td>
<td></td>
<td></td>
<td>-4.7%</td>
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<tr>
<td>4-6</td>
<td></td>
<td>-7.8%</td>
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<td>7-9</td>
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<td></td>
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</tr>
<tr>
<td>10-12</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

EUR mill.
Operating profit in Q2 2014

- Fashion Chain Division’s operating profit EUR 13.2 million (EUR 22.3 million)
- Lindex’s operating profit EUR 18.7 million (EUR 22.9 million)
  - Gross margin 63.0% (64.1%), decline due to markdowns
  - Costs declined due to currency effect
- Seppälä’s operating profit EUR -5.5 million (EUR -0.6 million)
  - Gross margin 59.6% (61.4%), decline due to price-driven campaigns
  - Costs below the previous year due to a fewer number of stores and tight cost control – well-executed store closings have not created major one-time costs
- Stock level at the end of June down on 2013 in both fashion chains; new ERP helps Seppälä to optimise purchases better
Quarterly operating profit, Fashion Chain Division
International expansion

- Lindex: 9 stores opened and 2 stores closed in Q2
- Seppälä: 10 stores closed in Q2, seven of them in Russia
  - Store Experience makeover done in 36 stores in Finland
- Store network at 30 June 2014:
  - Lindex 486 stores in 16 countries, of which 34 franchising stores
  - Seppälä 190 stores in 5 countries
- Lindex targets to open over 20 stores (net), including franchising, in 2014
- Seppälä aims to close over 20 stores in Russia in 2014
- Lindex targets to expand its store network into UK in spring 2015
  - Local online store already taken into use
Preview on Autumn 2014

• Lindex focus areas: China, Omnichannel, Underwear, Express Lindex
• Lindex “60 years in fashion” celebration – values/brand
• Design collaboration with Jean Paul Gaultier
• Lindex has had a good sales start in autumn fashion

• Seppälä puts all efforts to good autumn campaigns and strong year-end
• Seppälä’s Back to school campaign started in co-operation with Plan (www.seppala.fi/plan)
Strategy process
Stockmann Group’s new strategy

• Process of reviewing and revising Stockmann’s strategy started
  – Aim is to approve the new Group strategy by the end of 2014
  – Target to improve long-term competitiveness and profitability

• New reporting structure to be introduced as of 1 January 2015
  – **Stockmann Retail** (Stockmann department stores, Hobby Hall, Academic Bookstore and their online stores)
  – **Real Estate** (own properties in Helsinki, St Petersburg, Tallinn, Riga)
  – **Fashion Chains** (Lindex, Seppälä)

• Reflects better the different business logics in retail and real estate
• Increases transparency
• Enables Stockmann Retail organisation to focus on its core business
• Real Estate aims to utilise the full potential of own properties – more efficient use of floor space in order to improve customer experience
Leadership

• CEO Hannu Penttilä to retire on 31 December 2014
  - Process of appointing a new CEO is linked to the outcome of strategy work
• Fashion Chains
  - Ingvar Larsson appointed CEO of Lindex and Director of Fashion Chain Division as of 6 June 2014
• Stockmann Retail and Real Estate
  - Maisa Romanainen, Director of the Department Store Division, has resigned and will leave the company in autumn 2014
  - Directors for the new divisions (Stockmann Retail, Real Estate) to be appointed in line with the strategy work
• Board member Kjell Sundström appointed Chief Strategy Officer
  - Fixed term contract of 12 months to head the strategy process
CELEBRATING SIXTY YEARS IN FASHION