STOCKMANN GROUP

REMUNERATION REPORT 2023

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STOCKMANN

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INTRODUCTION

The remuneration report describes the remuneration of Stockmann plc's governing bodies in accordance with the requirements of the Finnish Securities Markets Act, the Finnish Limited Liability Companies Act and the Finnish Corporate Governance Code 2020 (the "Code") published by the Securities Market Association.

The report presents information on the remuneration of the CEO and the members of the Board of Directors for the financial year 2023. It also describes the trend in average salary of employees and the company's performance over the past five years compared to the remuneration of the CEO and members of the Board of Directors.

Stockmann's Board of Directors has approved the remuneration report and Stockmann's external auditor Ernst & Young has confirmed that this report contains the information required by the Decree of the Ministry of Finance (608/2019).

LETTER FROM THE CHAIR OF THE PEOPLE AND REMUNERATION COMMITTEE

In year 2023 Stockmann Group continued to execute its strategies both in Lindex and Stockmann Divisions in a challenging external environment. Despite the challenges, our committed teams in both divisions continued, with dedication, persistence and quality, to focus on executing our strategic and operational priorities with good progress. Furthermore during 2023, the Group reviewed the strategies of both divisions and shared the updated strategies and new financial targets for the mid/long term for its divisions in Capital Markets Day held in November.

During 2023 the People and Remuneration Committee has been closely supporting the management and following up the execution of the people strategy and priorities. Furthermore, the committee has continued to ensure compliance with and the execution of the company's remuneration policy.

At Stockmann Group we share a common people view – empowered people having an impact. We are powered by people who do everything for our customer. We want to be the place where our people can grow and have an impact together, for a sustainable future. We want everyone to be empowered and fulfil their potential.

In order to attract and retain motivated employees with the right competences, Stockmann aims to offer its employees competitive total rewarding, consisting of a performance-based rewarding system aligned with Stockmann's short-term targets and long-term financial success. The aim for the remuneration is to contribute to achieving sustainable short- and long-term results, the fulfilment of Stockmann's strategy, values and long-term interests of the shareholders through motivated and result-oriented employees. The remuneration is based on market level alignment, performance, competence, experience and scope/complexity of the role.

During year 2023, the Board of Directors of Stockmann plc continued to execute the share-based long-term incentive scheme targeted to the management and selected key personnel of Stockmann and its subsidiaries. The objectives of the performance share plan are to support the implementation of Stockmann's strategy, to align the interests of the key personnel with those of Stockmann's shareholders and to retain management and key personnel. The performance targets based on which the potential share reward under PSP 2023–2025 will be paid are total shareholder return, revenue, EBIT and reduction of climate emission. Regarding the Group's target, the aim is to reduce absolute climate emissions by 42 per cent by 2030 covering emissions from the entire value chain, i.e. scope 1, 2 and 3 emissions under the GHG Protocol. The baseline is 2022, when emissions were around 296 ktCO_2e. The Board of Directors of Stockmann decides on the performance criteria, persons authorized to participate in the performance share plan and the amount of the threshold, target and maximum reward separately for each performance period.

During the year 2023, according to its annual clock, Stockmann's People and Remuneration Committee focused also on supporting and following up management's plans and actions related to people and capability reviews, succession planning, status and actions regarding fostering diversity, equality and inclusiveness, annual compensation reviews as well as the results and actions related to developing employee engagement based on regular employee engagement surveys.

I want to express my deepest gratitude to all Stockmann Group team members for the results and developments we have achieved together in 2023 despite the challenges in the operating environment.

With our committed people we will continue focusing on execution.

Stefan Björkman
Chair of the People & Remuneration Committee

REMUNERATION 2023 IN BRIEF

The CEO's remuneration includes base salary, employee benefits, supplementary pension contributions and short-term (STI) and long-term (PSP) incentive plans.

Susanne Ehnbåge has acted as the CEO of Stockmann plc as of 12 May 2023. The company's previous CEO, Jari Latvanen, left his position on 12 May 2023.

In the short-term incentive scheme (STI), the CEO and the Management Team focused on the Group's financial and business targets. The terms and conditions of the plan 2023 were partially fulfilled and the incentive bonus will be paid in 2024. The terms and conditions of the 2022 short-term incentive plan were partially fulfilled, and the incentive was paid in 2023.

The measures of the share-based long-term incentive plan (PSP) are total shareholder return, operating profit, and revenue as well as reduction of climate emissions The first long-term incentive plan was introduced in 2022 (PSP 2022–2024) and the second in 2023 (PSP 2023–2025), potential incentives will be paid from these plans in 2025 and 2026 respectively.

The approved remuneration of the members of the Board of Directors for 2023 increased compared to 2022 by decision of the Annual General Meeting.

The actual remuneration paid in 2023 and reported here to the members of the Board of Directors and CEO complies with the remuneration policy approved by the Annual General Meeting held on 22 March 2023, however prior to her appointment as the CEO, Susanne Ehnbåge was granted a retention bonus in March 2023, which will be paid out during 2024. This was assessed by the Board of Director's and the temporary deviation was considered to be in the company's interest.

REMUNERATION POLICY IN BRIEF

The remuneration principles defined in Stockmann's remuneration policy apply in all countries to all employees of the company. These principles guide remuneration and the development of related practices, including for the CEO.

The objective of remuneration is to promote short- and long-term financial success, shareholder value and performance culture at Stockmann and to improve Stockmann's competitiveness in attracting, recruiting, and retaining the necessary talent.

The Board of Directors decides on the CEO's salary and other benefits based on the proposals of the People and Remuneration Committee. The short-term incentive is limited to a maximum amount corresponding to the annual base salary, and the long-term incentive opportunity is a maximum of twice the annual salary at the time of granting for each performance period. The CEO may be part of statutory and defined contribution supplementary pension plans.

The remuneration of the members of Stockmann's Board of Directors is organised separately from the remuneration schemes applied to the CEO, the Management Team, or the personnel. To guarantee the independence of the members of the Board of Directors, they do not participate in incentive plans for Stockmann's employees.

The remuneration of the Board of Directors is determined by the Annual General Meeting. Proposals to the Annual General Meeting concerning the remuneration of the members of the Board of Directors are prepared by the Shareholders' Nomination Board, which consists of representatives of the largest shareholders and the chair of the Board of Directors as an expert member. The Annual General Meeting decides on the remuneration paid to the members of the Board of Directors based on the proposal of the Nomination Board for one term at a time until the next Annual General Meeting. The representatives of the Board of Directors who are members of the Shareholders' Nomination Board do not participate in the decision-making concerning the remuneration of the Board of Directors or committees.

The full remuneration policy can be found at www.stockmanngroup.com

REMUNERATION AND PERFORMANCE OF THE COMPANY OVER FIVE YEARS

This section describes the development of the average salary of employees and the company's performance over the past five years compared to the remuneration of the CEO and members of the Board of Directors.

The objective of the short-term incentive plan (STI) is to encourage the implementation of the short-term business plan and reward accordingly. In recent years, the short-term incentive scheme has been based on the company's profitability and other relevant financial and performance targets.

The objective of the long-term incentive plan is to promote the achievement of strategic and financial targets and to align the interests of the participants with those of Stockmann's shareholders. The Board of Directors approves long-term incentive plans (PSPs), based on which a share-based incentive plan with a performance period of three years is launched annually. The long-term incentive plans for 2022 and 2023 were based on total shareholder return, revenue, operating profit and reduction of climate emissions.

The information on the average salary of employees is based on the personnel costs of the entire Stockmann Group, i.e. the data of all employees. The remuneration of employees is not as variable as that of the CEO, as a smaller part of their total remuneration is based on variable pay elements. However, as all short-term incentive schemes are to varying degrees linked to the same key figures, the company's performance also affects employee remuneration. The average salary of employees in 2023 was mainly affected by salary reviews aligning our compensation with external market development as well as structural changes in the organization.

The Stockmann Division, today operating as a premium multi-brand retailer in three markets, Finland, Estonia and Latvia – focusing on fashion, home, beauty and food as strategic merchandise areas. During past 5 years Stockmann has focused on executing its customer centric strategy for sustainable profitable growth through focused initiatives elevating the offering, growing and leveraging the loyal customer base, ensuring seamless omnichannel experience as well as continuous operational efficiency development.

In 2019, Stockmann sold the Nevsky Centre shopping centre located in St Petersburg, Russia. In 2020, the coronavirus pandemic had a significant impact on the Group's result. The growth of e-commerce was robust but nevertheless insufficient to compensate for the decline in store sales. As a result, the Group's parent company Stockmann plc applied for corporate restructuring in spring 2020. The District Court of Helsinki confirmed its restructuring programme in February 2021.

The restructuring programme is based on the continuation of Stockmann's department store operations, the sale and lease-back of the department store properties located in Helsinki, Tallinn and Riga and the continuation of Lindex's business operations as a fixed part of the Stockmann Group. In 2021, Stockmann sold its department store property in Tallinn, and in 2022 the department store properties in Riga and Helsinki city centre were sold. According to the restructuring programme, the proceeds were used to repay debts.

The restructuring programme is proceeding according to plan, which means that all of the department store properties have been sold and all interest-bearing debt has been paid except for a bond of EUR 71.9 million. Other measures and undertakings, as specified in Stockmann plc's restructuring programme, were already completed during 2021. There are still disputed claims regarding the termination of lease agreements that must be settled before the restructuring process can end.

At the beginning of 2022, the group's results were still significantly affected by the spread of the Omicron variant. Depending on the country, the restrictions and confinement imposed by the authorities also affected operations, the presence of employees and thus remuneration.

The Lindex division has continued its transformation in which the fashion company is growing in new ways and where the transition to circular business models, digitalisation and investing in femtech are important parts of the growth strategy. Lindex has big ambitions on its journey as a global, brand-led and sustainable fashion company with high set goals to grow both in a sustainable and profitable way. In 2022, the division started its investments in a new highly automated omnichannel warehouse to increase the delivery capacity and ensure an efficient distribution and stock management. The construction is in full progress and will according to plan be taken into operation during 2024. The Lindex brand has strengthened, and the company has built a significant loyalty customer base in its main markets. Lindex has a strong store network with 439 stores in 18 markets and global presence online. With its updated strategy, Lindex aims to accelerate growth, transform to a sustainable business, and decouple cost from growth.

In 2023 the Stockmann Group succeeded in improving profitability regardless of the challenging market environment, which was characterised by continued high inflation and interest rates as well as uncertainties related to the geopolitical tensions. The keys to the Group's enhanced performance were focus on the strategy, prioritising key initiatives and the team's dedication towards our goals.

As a result, the Group's adjusted operating result was EUR 80.0 million and the Lindex division reached its all-time record of adjusted operating result, while the Stockmann division fell slightly behind the comparison year.

In September 2023, it was announced that the Stockmann Group was commencing a strategic assessment to crystallise shareholder value by refocusing the Group's business on Lindex. As part of the strategic assessment, a name change to Lindex Group is being evaluated and strategic alternatives for the Stockmann department stores business are being assessed. The assessment is expected it to be finalised in 2024.

The remuneration of Stockmann's Board members is separate from the remuneration systems applied to the CEO, the Management team and personnel. The Board members do not participate in Stockmann's incentive or share option schemes directed to key personnel in order to safeguard the Board members' independence in the performance of their duties. The Board of Directors' remuneration is determined by the Annual General Meeting. In 2023, the Annual General Meeting approved an increase in the remuneration of Board members. The previous time the remuneration was increased in 2017.

The Board of Directors decides on the CEO's salary and other benefits based on the proposals by the People and Remuneration Committee. The remuneration of the CEO consists of a fixed salary which includes fringe benefits, as well as performance-based incentives which may include short-term and long-term targets. The remuneration criteria for the CEO in 2023 have been reviewed by the People and Remuneration Committee. The People and Remuneration Committee, appointed by the Board in 2023, reviewed the remuneration of the CEO in comparison with companies of the same size and structure. The remuneration level of the CEO has changed over the five-year period as the CEO has changed.

The 2023 short term performance pay to the CEO reflects the results against the set financial and other business targets for the Group and respective Stockmann and Lindex divisions.

EXCEPTIONS AND CLAWBACKS

The remuneration policy allows for a temporary deviation if the Board of Directors conclude after thorough consideration that the policy does not suit the changed circumstances anymore. This applies to the remuneration of the CEO.

The company's long-term interests depend on various factors. These include the long-term financial performance and profitability, competitiveness, business continuity and strategy execution, and the growth of its financial goals and/or shareholder value.

The company also did not exercise its rights to recover or cancel paid or unpaid incentives in 2023.

The remuneration reported here complies with the remuneration policy. However, prior to her appointment as the CEO, Susanne Ehnbåge was granted a retention bonus in March 2023. This can be considered as a temporary deviation to the remuneration policy. See further details on section related to CEO's employment relationship.

Five-year development of remuneration and company performance

	2019	2020	2021	2022	2023
CEO Pay					
Jari Latvanen – Total remuneration (19.8.2019 – 12.5.2023, including payments during notice period)	161 329	528 270	604 252	604 315	662 961
Change from the previous year %	–	227	14	0	10
Susanne Ehnbåge – Total remuneration (period 12.5.-31.12.2023)	–	–	–	–	342 831
Change from the previous year %	–	–	–	–	–
Employee Pay					
Personnel salary in average, EUR	30 532	32 257	33 356	35 309	35 053
Change from the previous year %	−2	6	3	6	−0.7
Board Pay					
Remuneration in average paid to Board member	57 175	51 754	63 952	58 614	69 678
Change from the previous year %	2	−9	24	−8	19
Adjusted operating result, EUR mill.	39.8	−12.3	68.3	79.8	80.0
Total shareholder return	7.14 %	−43.36%	85.57%	−8.70%	47.06%

REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The remuneration of the members of the Board of Directors shall be paid in cash or in the company's shares. The shares acquired for the members of the Board of Directors in 2023 cannot be transferred until two years have passed from the date of purchase or until the membership of the Board of Directors of the person in question has ended, whichever is earlier.

Board fees include annual and meeting fees for Board and committee work. The amount of annual remuneration reflects the amount of work required. Thus, the remuneration of the Chair is higher than that of the member, and the remuneration of the Audit Committee is higher than that of other committees.

A meeting held by telephone or other telecommunications connection shall be paid the standard meeting fee without any adjustment to the residency. In addition, the members of the Board of Directors are compensated for travel and accommodation expenses in accordance with the general travel policy.

The members of the Board of Directors are not included in incentive schemes or performance-based remuneration, and they do not have a supplementary pension arranged by Stockmann.

During the financial year 2023, the members of the Board of Directors were paid a total of EUR 299 400 (2022: 278 300) in cash and 60 088 (2022: 60 134) shares in the company as share rewards. The value of the shares on the purchase dates was EUR 134 000 (2022: 132 000). The total value of the fees was EUR 433 400 (2022: EUR 410 300).

All payments made to the members of the Board of Directors in the financial year 2023 were in accordance with the remuneration policy.

Remuneration of the Board of Directors 2023

	(TEUR)
Fixed annual remuneration	
Chair	85
Vice chair	60
Members	42.5
Fixed committee fees	
Chair of the Audit Committee	10
Members of the Audit Committee	5
Meeting fees (per meeting)	
Chair of the Board/Committee	1.2
Members	0.6
If the meeting is held physically outside the country where the Chair or member resides, the meeting fee shall be doubled.	

Remuneration of the members of the Board of Directors 2023

	Annual fees, EUR	Meeting fees, EUR	Total fees, EUR
Sari Pohjonen, Chair	90 000	24 200	114 200
Roland Neuwald, Vice-Chair	65 000	18 300	83 300
Stefan Björkman	42 500	12 800	55 300
Timo Karppinen	52 500	16 700	69 200
Anne Kuittinen		600	600
Tracy Stone	42 500	13 200	55 700
Harriet Williams	42 500	12 600	55 100
Total	335 000	98 400	433 400

FINANCIAL BENEFITS INCLUDED IN THE CEO'S EMPLOYMENT RELATIONSHIP

Short term incentive – Jari Latvanen

	STI 2022 – paid in 2023		STI 2023 – accrued (paid in 2024)	
Measure	Weighting	Result	Weighting	Result
Stockmann Division	70%	Below target	70%	Below target
Lindex Division	30%	Between target and maximum	30%	Between target and maximum
Pay-out to CEO based on STI, EUR	N/A	119 520	N/A	48 870
Pay-out from maximum incentive opportunity, %	N/A	62%	N/A	12%

Total compensation – Jari Latvanen

Remuneration element	Paid	Description	Compliance to remuneration policy
Salary and benefits	Paid: EUR 543 441	The CEO had the following short-term benefits: phone and car.	Complies with the policy
Short-term incentives	Paid: EUR 119 520 Accrued: 48 870 Policy maximum: 100% annual base salary	For financial year 2022 results, paid in 2023. Accrued bonus for financial year 2023 is prorated and paid in 2024.	Complies with the policy
Long-term incentives	Paid: EUR 0 Accrued: EUR 0	Not eligible for long-term incentives under the terms of the scheme due to termination of employment.	Complies with the policy
Pension	Not applicable	Not applicable	Complies with the policy
Severance benefits	Accrued: EUR 360 000	Contractually entitled to a severance payment equivalent to 9 months' basic salary, payable in a lump sum in January 2024.	Complies with the policy

Susanne Ehnbåge has acted as the CEO of Stockmann plc as of 12 May 2023. The company's previous CEO, Jari Latvanen, left his position on 12 May 2023.

The remuneration of the CEO consists of a fixed salary, which includes a monetary salary and the right to car and telephone benefits, a possible supplementary pension arrangement and a short- and long-term performance-based incentive scheme.

Performance bonuses are tied to financial and strategy implementation criteria. The earning period for the short-term performance bonus is the calendar year.

In 2022, the Board of Directors of Stockmann plc decided to establish a share-based long-term incentive plan for the management and selected key employees of Stockmann and its subsidiaries. The performance targets based on which the potential share reward will be paid are total shareholder return, revenue, operating result and reduction of climate emissions. The maximum reward for the CEO under the valid long-term incentive plan 2022–2024 is 168 000 shares, including a cash proportion to cover taxes and tax-related costs arising from the reward. The potential reward will be paid in 2025. Correspondingly, the maximum reward from the 2023–2025 plan is 175 000 shares. The potential reward will be paid in 2026.

During the period of (period 12.5.-31.12.2023) CEO Susanne Ehnbåge was paid a total of 274 562 euros. Fixed monetary salary accounted for 270 287 euros and fringe benefits for 4 275 euros. In addition, a performance bonus of EUR 159 627 will be paid from the 2023 short-term incentive plan in 2024. Prior to her appointment as the CEO, Susanne Ehnbåge was granted a retention bonus in March 2023. The aim of the retention incentive was to ensure commitment to Lindex's long-term growth plans during a critical phase of largest investment in Lindex's history to logistic platform and her continued employment and commitment to the Group. The retention bonus included employment condition and personal performance targets.

Stockmann Group's remuneration policy allows temporary deviation in number of occasions relating e.g. to changes in business strategy and any exceptional circumstances serving the long-term interest and resilience of the company. The Board of Directors have carefully considered the interests of the company and its shareholders, prevailing market practice and the competitiveness required for remuneration when launching this incentive and resolved that circumstances meet the requirements of an acceptable temporary deviation within Stockmann's Remuneration Policy under chapter 7. The retention bonus of EUR 197 208 was paid in January 2024.

The CEO was not paid any shares or option rights as remuneration. The CEO's supplementary pension plan follows market practice in Sweden, and the pension contribution in 2023 was 68 268 euros (12.5.–31.12.2023). The pension age is in line with the legislation in country of residence.

For the time being, the CEO's shareholding does not meet the recommendation of the long term incentive program terms and conditions concerning shareholding, because she started in the position in May 2023.

If the company terminates the CEO's contract, the period of notice is 6 months, in addition to which the CEO is entitled to a severance pay corresponding to 12 months' salary. On the CEO's side, the notice period is 6 months.

On 12 May 2023, Susanne Ehnbåge was appointed as Group CEO with immediate effect. Jari Latvanen served as CEO until that date. Jari Latvanen was entitled to 6 months notice period and severance pay corresponding to 9 months' basic salary, which is paid as onetime payment in January 2024. In 2023, payments during notice period amounted to EUR 350 662. The severance compensation will be paid in January 2024 and the total amount of severance pay is 360 000 euros.

The previous CEO, Jari Latvanen, was paid a total of 543 441 euros in 2023. Fixed monetary salary accounted for 529 043 euros and fringe benefits for 14 398 euros. In addition, he was paid a performance bonus of EUR 119 520 from the short-term bonus scheme for 2022. Jari Latvanen had been granted 212 000 shares under both the 2022 and 2023 long-term incentive plans. In accordance with the terms and conditions of the incentive plan, Jari Latvanen is not entitled to the above-mentioned incentives due to termination of employment. Jari Latvanen's retirement age was determined in accordance with Finnish pension legislation, and pension accrued in accordance with the Employees' Pensions Act. He had not been granted a separate supplementary pension.

Summary of share-based incentive plans granted, earned, and delivered to the CEO Susanne Ehnbåge:

Long-term incentive period	PSP 2022–2024	PSP 2023–2025	PSP 2024–2026
Maximum number of shares issued			
(gross)	168 000	175 000	–
Date of issue	23.11.2022 150 00 pcs and 06.07.2023 18 000 pcs	06.07.2023	–
Issue price of shares, EUR	Closing price on 23.11.2022 1.924 EUR and on 06.07.2023 2.07 EUR	Closing price on 06.07.2023 2.07 EUR	–
Number of shares issued (gross)	168 000	175 000	–
Number of shares delivered (gross)	–	–	–
Date of delivery of shares	–	–	–
Price on the date of delivery of the shares, EUR	–	–	–
Share ownership requirement	CEO and Group Management Team members are required to build up his/her holding of shares at least up to a level where the value of the shares owned by the GMT member corresponds at each point in time to the annual gross base salary. Until the holding requirement is fulfilled, the relevant GMT member must hold at least fifty percent (50%) of the net shares awarded to him/her for each PSP–cycle.		

Short term incentive – Susanne Ehnbåge (period 12.5.-31.12.2023)

	STI 2023 – accrued (paid in 2024)	
Measure	Weighting	Result
Lindex Division	70%	Between target and maximum
Stockmann Division	30%	Below target
Pay-out to CEO based on STI, EUR	N/A	159 627
Pay-out from maximum incentive opportunity, %	N/A	85%

Total compensation – Susanne Ehnbåge (period 12.5.-31.12.2023)

Remuneration element	Paid	Description	Compliance to remuneration policy
Salary and benefits (period 12.5.-31.12.2023)	Paid: EUR 274 562	The CEO has the following short-term benefits: a phone and a car.	Complies with the policy
Short-term incentives (period 12.5.-31.12.2023)	Accrued: EUR 159 627 Policy maximum: 100% of annual base salary	Accrued bonus for financial year 2023 is prorated and paid in 2024.	Complies with the policy
Retention bonus	Accrued: EUR 197 208	Granted in the previous position as CEO of Lindex.	Temporary deviation from the Policy
Long-term incentives	Paid: Not applicable Accrued: EUR 0 Policy maximum: 200% of the annual base salary at grant	Ongoing schemes: For the vesting period 2022-2024, 168 000 shares have been granted to the CEO, with a value of EUR 325 860 at the time of grant. For the 2023-2025 award period: 175 000 shares have been granted to the CEO, worth EUR 362 250 at the time of grant. The vesting period for all long-term incentive plans is three years. The potential awards are fully dependent on the achievement of performance measures.	Complies with the policy
Pension (period 12.5.-31.12.2023)	Accrued: EUR 68 268	The CEO is eliglibe to take retirement upon reaching the age of sixty-five (65). Her pension scheme is determined according to a defined contribution-based system, partly under the ITP1 plan and partly of an extra pension provision to 30 % of income above ITP1 income cap.	Complies with the policy
Severance benefits	Not applicable	Remuneration paid to the CEO if dismissed by the company corresponds to twelve (12) months' salary plus a six (6) months' period of notice salary.	Complies with the policy