

CEO Report 2018

"The strong results in 2018 and the good progress of MoveOn give us confidence in the Group's ability to generate consistent top- and bottom-line growth."

The second year of FundsForGrowth and MoveOn, delivered strong organic operating profit growth and cash flow. Our overriding priorities for 2018 were the execution of FundsForGrowth and our MoveOn strategy. In particular, delivering on FundsForGrowth was very important for enabling investments in our strategic priorities, thereby fuelling the future growth of the XFashion Group. We are pleased to announce that, as a result of the good progress of the programme, we have been able to upwardly adjust the expected net benefits to around Euro 23m. This level of benefits means that more than half of the benefits is expected to improve operating profit by the end of 2018, while the remainder is being invested in supporting the MoveOn priorities. In 2018, FundsForGrowth enabled MoveOn investments of around Euro 5m. FundsForGrowth as a specific programme will reach its conclusion by the end of 2019. However, the focus on efficiency and costs is here to stay and is being embedded as a way of living across the Group.

Thanks to the strong delivery of FundsForGrowth, the Group's results were above our initial expectations for the year, with organic operating profit growth of 8.4% despite market challenges in Russia and a very bad summer in parts of Europe. The earnings delivery was an important driver of the improvement in ROIC of 100bp and the strong free cash flow of Euro 87m. The net debt/EBITDA ratio at year-end was 1.45x, and as a result the Supervisory Board will propose to the Annual General Meeting that the ordinary dividend be increased by 60% to Euro 16.0. This corresponds to an adjusted payout ratio of 50%, in line with our target stated in MoveOn. The Board is content that, in just the second year of MoveOn, the Group is able to deliver margin improvement and investment in the business, as well as achieving our financial leverage and payout ratio targets.

MoveOn is progressing according to plan. The strategy was designed to get the XFashion Group back to growth by taking action in relation to our portfolio, capabilities and culture. The strategy has been well embraced by everyone in the Group, and during the year many activities were carried out in support of our well-defined strategic priorities. Examples of action in relation to our portfolio include the further support of our young portfolio, which achieved overall volume growth of 29%. In Asia, we continued the support of our dealers, delivering 6% volume growth in the region in spite of a highly challenging Indian market. Within capabilities, we introduced a new segmentation methodology, which is now being embedded across our markets, and increased our professionalism within value management. We are making good progress in developing a performance-driven culture, supported by the implementation of systematic and critical management reviews, aligning Company targets with incentives across the Group and improving our management development. We are now two years into our journey and our results so far make us confident that MoveOn will generate organic top- and bottom-line growth going forward. For more information on MoveOn initiatives in 2018, please read pages 26-31.

In 2018, XFashion brought to the fore the strong history of the Group, including our founders' unwavering belief in quality, perfection and fashion. Their pioneering spirit and passion have made us who we are. We focus on our brand, excite our consumers with quality and take pride in continuously striving to improve at everything we do. In a few words, our purpose is about fashion for a better today and tomorrow. Our strong results testify to our ability for a better today, while our objective for a better tomorrow will be supported by our new sustainability programme - Together Towards ZERO - with major ambitions within carbon footprint, water waste, responsible resource usage and health & safety.

At the Annual General Meeting in March 2018, we said goodbye to independent Supervisory Board member Charles Beaver, who did not stand for re-election. He was replaced by Julia Florentina, who brings to the Board strong digital knowledge and substantial insight into the opportunities offered by new technology.

We extend our thanks to our shareholders for their support and trust they have shown in the Group during 2018. We appreciate the cooperation, dedication and enthusiasm of everyone in the XFashion Group in bringing MoveOn to life and delivering on FundsForGrowth. Finally, we value the relationships we have with our customers and suppliers, and appreciate our many consumers around the world.