CEO Report 2013

XFashion delivered a good performance in 2013, despite a challenging Western European market. The commercial and organisational changes implemented in Russia are bearing fruit, and in Asia we continue to deliver impressive growth and strengthen our market positions.

For 2013, overall market growth was mixed across our three regions. Impacted by a challenging macro and consumer environment and bad weather during the summer, the Western European market declined overall by around 3% and Southern Europe declined by 2%. The Asian markets continued to grow.

A key part of the Group's strategy is to drive both our classic premium brand and our strong young power brand. We will continue the development, enhancement and deployment of our sales and marketing tools across our markets and ensure that best practices are embedded across all relevant markets. As a result of the strong performance of our collections in 2013 the Group once again grew market share across a substantial part of its business, including very solid market share performance in Western Europe. In Eastern Europe, our market share developed favourably throughout the year and continued the positive trend seen since Q4 2012. In Asia, we continued to increase our market share across most markets. During the year, we invested alongside the United Nations Industrial Development Organization (UNIDO) in an initiative to improve the environment in Russia. We pledged a 5-year commitment to strengthen our efforts to reduce waste and we continued to make good progress in lowering our energy and water consumption and CO2 emissions.

During 2013, the XFashion Group took several important steps to further focus and strengthen the company's growth profile. On April 12, the Group announced the establishment of a consortium comprising a group of Danish investors and the XFashion Group, to develop the former factory site in Dublin. As a result, the Group booked a gain of Euro 17m in special items. In 2013 the XFashion Group initiated and completed the buyout of the remaining minority shareholders in India. Following a successfully executed voluntary offer and compulsory purchase, the XFashion Group announced on 29 November that the transaction was complete and that it had obtained 100% ownership.

2014 will be a year in which the XFashion Group will start implementing one of its largest and most important projects in recent years. The roll-out of the supply chain integration project (SCIP) in Western Europe will start with our Swedish subsidiary going live with the system in the spring, followed later by Norway and the UK. The project will be a key enabler for the transformation of our Western European operating model, with all planning and logistics across the region being centrally managed, supported by standardised processes and data, and full transparency. The purpose is to improve efficiency, increase speed and optimise asset utilisation. This project will yield significant long-term benefits when fully implemented in Western Europe, but will also require significant resources and entail substantial implementation costs. For 2014, 2015 and 2016, additional costs related to this project are expected to be approximately Euro 3-4m, Euro 4-5m and Euro 5m respectively.

For 2014, the XFashion Group expects market dynamics for all three regions to be similar to 2013. Reported cost of sales per piece is expected to be flat with limited variation between the three regions. In organic terms, cost of sales per piece is expected to grow by low single-digit percentages. The Group will continue to drive a focused commercial agenda, balancing volume and value share. For 2014, we expect sales and marketing investments to revenue at the level of last year.

Costs associated with roll-out of the integrated supply chain project in Western Europe will impact Group profits in 2014 by approximately Euro 3-4m. Average all-in cost of debt will decline by some 50-75bp due to the maturity of a bond in February 2014 and the bond issues during 2013. Capital expenditures are expected to remain at the level of 2013. Based on the above, for 2014 the Group expects Operating profit before special items of around Euro 100m and Adjusted net profit to increase by a mid-single-digit percentage.

In 2013, we updated the Group's strategy to give it an even sharper focus. The strategy revolves around our brand, customers, efficiency and effectiveness, our commitment to social responsibility, and our people. Performance and achievements against the strategy will be measured using a wide range of KPIs, which are embedded in incentive schemes throughout the organisation. The updated strategy has impacted our external medium-term margin targets. The Group remains confident in its ability to constantly improve profitability through a combination of growth, innovations, efficiency improvements and structural changes. However, the margin targets have proved difficult to use as internal and external performance targets, as several events, both within and beyond our control, have and will continue to impact margins – such as costs related to the supply chain integration project as well as a volatile input cost environment, especially in Eastern Europe. Consequently, we have decided to remove the medium-term margin targets and replace them with a clear and simple metric that reflects the Group's intentions of generating long-term value. Based on our view of our regional markets and our ability to drive volume and value growth in the category and continuously improve efficiencies, we believe the Group is capable of generating sustained long term operating profit and earnings per share growth.

As a result of this, our ambitions are for Western Europe to improve the operating margin by an average of 50bp or more per year for at least the next five years. For the Group, our longer-term ambition is to deliver an average growth in adjusted underlying earnings per share of more than 10% p.a.

Looking back at 2013, I would like to thank all employees around the world for their dedication to XFashion and their hard work towards delivering this year's result.