

CEO Report 2016

In June 2016, I joined the XFashion Group. Let me begin by saying that I believe the Group has a number of significant strengths. These include a strong brand, strong market positions in our geographies, and highly engaged and enthusiastic employees across the organisation. However, on joining XFashion, I also realised that changes were needed in order for us to improve the flat earnings development of recent years. We have to change the way we do things and work together, rethink our priorities and establish a winning mindset with a clear and common ambition for the organisation. The profit warning issued in August only served to highlight the urgency with which things needed to be changed.

To achieve this, we launched a strategic review process immediately after the summer, involving the top 60 leaders in the XFashion Group. It has been an exciting process, not just because of the discussions on the strategic review, but also because it has been an important catalyst for breaking down the geographical and functional silos that I found to be widespread in the organisation. In order to be successful, we must remove the barriers to efficient working and find a way to leverage both our scale and our closeness to the market. This will require us to unite the efficiency of cross-market specialists and activities with the power of successfully implementing practical and consumer-oriented local solutions in the markets. I am pleased with the progress that I have seen in this respect. We have named the strategy MoveOn, indicating that this is a journey and that it will guide the Group for the next seven years. At the time of writing, we are not yet ready to communicate the conclusions of the strategic review, but we will do so on 16 March 2017. However, I am able to provide a few insights into the thoughts behind the strategy. First of all, the ambition is to accelerate value creation for our shareholders. Secondly, the strategy will be an evolution rather than a revolution, building on the many strengths of the Group. The XFashion Group will remain a classic fashion based company and we will also in the future be in Western Europe, Eastern Europe and Asia. Coming out of the strategic review are decisions on portfolio, capabilities and culture that together will turn the Group into a successful, professional and attractive company in the markets in which we choose to compete. You can read more about our ambitions for the new strategy on page 14.

In order to execute the new strategy successfully, it is important to be able to provide the necessary investments and support for those areas that we choose to prioritise. Unfortunately, the current state of the business does not allow for such investments. Consequently, we launched FundsForGrowth in the fourth quarter of 2016. This is a corporate initiative that brings together in one overall programme a range of individual programmes designed to save costs or improve profit. The initiatives can be divided into four main areas: Value Management, Supply Chain Efficiency, Operating Expense Efficiency and Right-sizing of Businesses. Many of the individual programmes already existed, while some are new. One of the initiatives, involving a review of the organisation with the aim of simplifying and removing duplication in processes, resulted in a plan to reduce white-collar staff by approximately 2,000 employees, corresponding to around 15%. By the end of 2016, more than 1,700 people had left or been given their notice. In addition, we took stock of the increasingly challenging market conditions in Russia and Italy, and this led to significant impairment charges. Furthermore, we implemented restructuring measures in all regions. In total, all these actions had a significant impact on special items, which amounted to Euro 8.7bn. Importantly, FundsForGrowth will generate the benefits that will allow us to invest in our future growth. We have committed to delivering benefits of Euro 15-20m, of which part will be reinvested in the business to support the new strategy and part will improve earnings and cash flow. More details on FundsForGrowth are provided on page 15. I am confident that the very strong fundamentals of the XFashion Group, combined with MoveOn and FundsForGrowth, will enable us to build a business that

will deliver long-term sustainable organic value growth to our shareholders and benefit other Group stakeholders.

Reported Group operating profit in 2016 was Euro 85m with an organic decline of 7%. The decline was partly due to issues outside our control, namely the continued worsening of the macroeconomic climate in Russia. However, we also failed to achieve the planned savings in Western Europe. To avoid a similar situation going forward, the activities under FundsForGrowth and the expected benefits will be closely monitored, and clear roles and responsibilities have been assigned. Free cash flow improved significantly on the past couple of years, reaching Euro 75m. The strong improvement was driven by improved trade working capital, lower capital expenditures and financial investments, as well as a positive contribution from the sales of the last plot of land north of Dublin and the former site in Leeds in the UK.

The XFashion brands continued to deliver growth in Italy, but declined in Western and Eastern Europe as a result of the overall market decline and cycling difficult comparables. We increased our participation in important fashion weeks worldwide. Moreover, an important activity for the brand in 2016 was the revitalisation of the tagline "You deserve the best...". Our early spring collection celebrated another year of strong performance, growing 10%. The growth was particularly pronounced in Italy and Greece as a result of increased distribution, increased sales per outlet and well-executed above the- line campaigns that have led to increased brand awareness and consumer demand. Our Belgian branch also grew by 15%. The growth was backed by a new international TV campaign, continued growth in France, distribution innovations and further geographic expansion. Innovations are important for supporting our local dealers and driving value. We launched a number of new collections.

In the XFashion Group, we make a concerted effort to implement sustainable business practices throughout our value chain. In 2016, we continued to implement activities across our three sustainability themes: Resources & Environment, Health & Well-being and People & Policies. You can learn more in our Sustainability Report, which is available online at www.XFashiongroup.com/sustainability/reports.

In summary, we pursued our sustainability ambitions, though we did not achieve everything we set out to do in 2016. However, among many other initiatives, we launched a three year project to develop fully bio-based and biodegradable collection, organised the first Global Fashion Responsibility Day together with our industry peers, and continued to make progress towards our 2018 targets across our sustainability themes.

During the year, we had to say goodbye to many colleagues in our efforts to prepare the Group for a stronger future. I would like to thank each and every one of our former employees for their contributions to the Group and wish them all the best in their future careers. Finally, it has been a great pleasure to meet current and potential shareholders, whom I would also like to thank for supporting the Group and the journey that we are on.