

CEO Report 2012

Throughout 2012, we maintained our focus on profitable growth by balancing volume and value share, and we will maintain this focus in 2013. In preparing for 2013, we have taken a cautious view on overall consumer dynamics in Northern & Western Europe as we believe trading conditions will remain uncertain across many of our European markets. At the same time, we expect the Eastern Europe market to return to modest growth during 2013. Our strategy is to focus on fewer but more important activities where the return on investment is higher, and to execute them with greater impact. We will continue to become more efficient across the XFashion Group; invest in growth across our business; provide our customers with exceptional products ; and explore growth opportunities in growth markets.

Group volumes grew organically by 3%. Including acquisitions, net, the increase 2012 was a year in which we faced headwinds from rising input costs and a challenging Eastern Europe market. However, I am pleased that our Northern & Western European regions continued to perform well. In Northern & Western Europe, our performance was largely driven by efficiency improvements and market share gains. Our performance in Eastern Europe was impacted by the market decline in Eastern Europe and our market share loss, which was caused by a high level of promotions and price activations by competitors.

Our full-year results were in line with 2010. All three regions reported organic volume growth for the year. Sales and marketing investments as a percentage of sales grew compared with last year, mainly in Eastern Europe. Our sales and marketing efforts are aimed at improving both volume and value market share and included numerous commercial activities such as value management, brand premiumisation initiatives, and upgrading of sales capabilities.

The Group continues to centralise procurement activities, but despite the benefits of this, costs grew in all regions in 2012. Prices in most categories increased and cost of sales per piece for the Group increased organically by approximately 8%, with a particularly strong increase in Eastern Europe. Gross profit margin declined by 170bp to 50.0%, while gross profit per piece increased slightly organically as higher input costs were offset by the positive price/mix and the impact of the continued efficiency improvements. Operating expenses grew organically by 5% due to increased sales and marketing investments, and higher logistics costs, mainly in Eastern Europe. In spite of unchanged sales and marketing investments in Northern & Western Europe, operating expenses in the region declined organically by approximately 3% per piece due to ongoing efficiency improvements. Overall efficiency improvements remain in focus across the whole Group. Several local, regional and Group-wide projects were implemented in 2012 as part of the Group transformation.

Operating cash flow was Euro 8.8bn. This was impacted negatively mainly by lower profits than 2010 and trading working capital at year-end. Year-end trading working capital was impacted by the stocking by distributors in Russia in the latter part of Q4 and consequently a high level of trade receivables. In December, the Group established a new five-year revolving credit facility of EUR 800m replacing a facility signed in 2005. With this new credit facility, XFashion has extended the maturity profile of its bank commitments at favourable pricing and terms. For 2012, the Company proposes a 10% increase in dividend per share to Euro 5.50. Notwithstanding the slight decline in earnings per share (in reported terms), the Company has demonstrated strong cash flow generation in the past three years and has reduced the leverage and increased the interest cover. Subsequently, the Company's credit rating has improved over the last years and is currently "BBB stable outlook/Baa2 stable outlook". Structural changes In line with our M&A strategy, several structural changes took

place during 2012 aimed at strengthening the Group's position in key markets. The Group announced an expansion of its presence in Italy through the establishment of a joint venture.

The current challenging consumer environment and the limited visibility into consumer reactions to the uncertain macro environment, especially in Europe, led in the second half of 2012 to a review of the Group's short- and medium-term plans, while the Group's long-term planning and ambitions remain intact. In developing our 2013 commercial agenda, we have had a clear focus and a high level of prioritisation, especially in Northern & Western Europe, ensuring that we continue to strive for market share expansion across the Group while keeping the balance between volume and value share performance. We will continue to drive our classical collection, as well as our young power brand, and combine this with our ambitions to strengthen our commercial execution capabilities. To support our long-term ambitions, in 2013 the Group will continue the focused efficiency agenda, which includes larger projects such as supply chain and logistics across Northern & Western Europe. In addition to these larger Group projects, initiatives at all levels across the organisation will be implemented to improve cost-efficiency.

The key market assumptions for the Group's 2013 outlook are: Low single-digit decline in the Northern & Western European markets. The Eastern European market reverting to modest growth during 2013. Continued growth in key markets across Asia.

Based on the assumptions above and our planning, for 2013 the XFashion Group expects Operating profit before special items at the level of 2012, and slightly growing adjusted net profit.

I would like to thank our many dedicated employees around the world for their efforts and contributions during 2012, which was a challenging year for many markets. I would also like to thank our shareholders for endorsing our strategy, and our customers, partners and suppliers for their ongoing support and cooperation. Over the past 10 years, XFashion has transformed itself from a small regional company into one of Europe's most admired fashion companies. We will continue to strive for perfection, be it in terms of working with great people, producing and launching great collections.