

## **CEO Report 2015**

The organic earnings growth in 2015 was the result of our strong brand, clear priorities and strong execution, enabling us to offset the challenging conditions in Eastern Europe.

In 2015, we delivered solid performance, with our Western Europe regions achieving organic growth in operating profit of 7% and 8% respectively. These achievements were the result of clear priorities and focus on execution across our business. They enabled us to more than offset the profit decline in Eastern Europe caused by the very challenging macroeconomic and geopolitical situation in Russia as well as the adverse currency impact. Delivering on market share I am pleased to report another year of strengthened market share in the majority of our markets in Western Europe, and an improved market share during the year in Portugal. Our market share performance is proof of our successful commercial strategy, an important part of which is to ensure that we have a strong portfolio of an international classic brand and a young power brand to offer to our customers and consumers. Another important part of our strategy is to apply our best-in-class sales and marketing tools across all markets. In 2015, this included the continued application and, in some mature markets, further development and improvement of our value management toolbox, which has been an important driver of the Group's overall market share gains and positive price/mix in recent years. Innovation is another key priority. In 2015, our efforts included launches of young fashion collections, and further expansion of our logistics technology.

In 2015, we determinedly expanded our digital activities, aiming to continuously strengthen content, maximise connections, and develop and implement tools and systems to reach consumers. We achieved significant reach with our social platforms. During the year, our digital activities included #happyinstyle for customers and an improved Facebook site.

Delivering on our strategy also requires the back-end of the business to function smoothly and efficiently. During 2015, the supply chain integration project (SCIP) in Western Europe was rolled out in the UK and Russia. In addition to SCIP, all three regions are focused on improving efficiencies in all areas. In Eastern Europe, this meant, among other things, considering closures as an unavoidable response to past years' decline in market volumes. Consequently, in January 2016, we announced the closure of two flagship stores in Russia.

We carry out our corporate purpose, "We create products for a sustainable future," by pursuing ambitious goals along our entire value chain. In this way, we aim to achieve profitable growth and take on social and environmental responsibility. This also helps to achieve the United Nations' Sustainable Development Goals (SDGs). We are focusing on issues where we as a company can make a significant contribution, such as sustainable consumption and production, climate action or fighting hunger.

Our Corporate Social Responsibility work is addressed in detail in our CSR report, but I would like to highlight two events from 2015. Firstly, we joined forces with a coalition of the world's biggest companies and non profit organisations to launch the global digital media platform "Collectively", which aims to drive conversation and action on sustainability. Secondly, we officially launched the XFashion Circular Community (XCC) at the World Economic Forum in Davos, Switzerland. XCC is about working with external partners across the value chain to develop solutions optimised for recycling.

During 2015, we took further steps to strengthen the Group's growth profile. In Vietnam, we increased our ownership of South-East Asia FLGR to 100%, while in Italy we completed the acquisition of Milano34. The merger is pending antitrust approval.

On June 15, I will retire from the position as President and CEO of the XFashion Group. It has been seven exciting years in this fantastic company with its great heritage, strong brand and very passionate and highly qualified people. I am proud of handing over a company with strong fundamentals to Christian Hart, who I am sure will take the Group to the next level. Thank you I would like to thank all our employees around the world for another year of hard work and commitment to achieving our goals in spite of tough challenges. I would also like to thank our shareholders for their support, and our customers, partners and suppliers for their cooperation.