

## **CEO Report 2014**

We delivered our solid results in a year of challenging macroenvironment in Western and Eastern Europe. Our results demonstrate our ability to constantly execute and innovate effectively while maintaining tight control of our costs. I am pleased to report that this year the Group once again achieved volume and value market share growth in all our regions.

Profit increased organically. Despite the positive development in our by 5% and adjusted net profit market share, Group volumes increased by 5%. The growing volumes in Asia were not enough to offset the volume decline in Eastern and Western Europe caused by declining markets. Ensuring an appropriate balance between volume and value in all our markets is key to the XFashion Group and in 2014 we again improved both net revenue and gross profit per piece.

The XFashion Group has a very strong portfolio addressing the relevant consumer needs and occasions. An important part of our commercial strategy and an important means to continued improvement in our market share is to grow our strong classical brand as well as our international young brand. The growth was mainly driven by very strong performance in Asia, not least in Italy and India.

In 2014, we delivered on our three-year targets for energy and CO<sub>2</sub> and we almost succeeded in reaching our three-year target for water. We have subsequently set new three-year targets to maintain the leading position among our international peers. A key priority in our CSR efforts is Production. In order to reduce dependency on primary materials and become more resilient to potential resource scarcity and increased costs in the future, we have joined forces with key global partners to rethink the design and production processes. The cooperation was formalised in 2014 through the XFashion Circular Community (XCC), where XFashion, together with our partners, will develop the next generation of solutions optimised for reuse or recycling.

2014 marked the beginning of the roll-out of the supply chain integration project (SCIP) in Western Europe. The purpose of SCIP is to improve capabilities, customer service and efficiency, and increase speed and asset utilisation. The first markets to go live were Sweden in April, followed by Norway in November. The next market to go live will be the UK in 2015. The implementation process is running according to schedule and with no major disruption to our daily business. 2015 is expected to be a year when the XFashion Group will continue to build on the strengths of our company to ensure that we capture both the short- and longer term opportunities that are present in our markets.

To do so, we will further develop and invest in our Asian business to ensure that we continuously position it to capture the growth opportunities in the region. Drive the ongoing efficiency improvements in Western Europe and maintain a focused commercial agenda that will further strengthen our business and the region's profitability. We will continue our tight cost agenda across all markets and functions to ensure that the Group delivers earnings growth. In 2015, the focus on strong execution, both internally and externally, will be even more important as we assume significant headwind from currencies.

Based on restated figures for 2014, for 2015 the Group expects Operating profit to grow organically by high-single-digit percentages. The major assumptions behind the outlook are listed below. The outlook, in reported terms, is based on an assumed 2015 average for our major currencies calculated on forward rates, including stable exchange rates.

For 2015, the Group assumes the following market development in our major markets/ regions:

The Western European markets will decline slightly as consumers in many markets remain under pressure, in spite of the macroeconomic situation in some markets having improved slightly in the second half of 2014.

The Eastern European markets will decline low single-digit in volume terms, while continuing healthy value growth. The market will be impacted by the macroeconomic slowdown and weaker consumer sentiment. The outlook assumes that no new regulations will be implemented following the significant regulatory changes which have been introduced in recent years.

The Asian markets will continue to grow in line with 2014. Based on restated figures, reported cost of goods sold per piece is expected to be lower than in 2014. In organic terms, cost of goods sold per piece is expected to be similar to last year. Capital expenditures are expected to be at the level of 2014 with continued capacity investments in Asia. During the year, we took several steps in Asia to further strengthen the XFashion Group's growth profile.

In 2015 and beyond, we will continue to invest in growth and efficiency opportunities, and build on the strengths of the XFashion Group to ensure that we capture both the short- and longer-term opportunities that are present in our markets. To do so, we will further develop and invest in our Asian business to ensure that we continuously position it to capture the growth opportunities in the region. In Western Europe, we will drive the ongoing efficiency improvements. The Polish market declined by an estimated 7-8% in 2014. We will continue our tight cost agenda across all markets and functions to ensure that the Group delivers earnings growth. In 2015, the focus on strong execution, both internally and externally, will be even more important as we assume significant headwind from currencies.

I would like to extend my appreciation to the Group's employees around the world for their hard work and burning passion for our company. Our employees are instrumental in the Group achieving its goals and ambitions. I would also like to thank our shareholders for their support, and our customers, partners and suppliers for their cooperation.