TOM TAILOR GROUP

#TTG-RESET

ANNUAL REPORT 2016

KEY FIGURES
TOM TAILOR GROUP

EUR million	2016	2015	Change relative
Revenue	968.5	955.9	1.3%
TOM TAILOR Retail	313.6	289.1	8.5%
TOM TAILOR Wholesale	351.9	341.0	3.2%
BONITA	303.0	325.8	–7.0%
Share of revenue (in %)			
TOM TAILOR Retail	32.4	30.2	–
TOM TAILOR Wholesale	36.3	35.7	–
BONITA	31.3	34.1	–
Gross profit	527.5	535.3	–1.5%
Gross profit margin (in %)	54.5	56.0	–
EBITDA	10.3	67.6	–84.8%
EBITDA margin (in %)	1.1	7.1	–
Impacts of RESET on EBITDA	48.5	–	–
EBIT	–72.9	17.3	–521.2%
EBIT margin (in %)	–7.5	1.8	–
Impacts of RESET on EBIT	80.9	–	–
Net income for the period	–73.0	0.1	–
Earnings per share (in EUR)	–2.95	–0.18	–
Cash generated from in operations	50.3	49.3	2.2%
Cash flows from investing activities	–14.5	–24.9	42.0%
Free cash flow	20.0	13.1	53.1 %
	31/12/2016	31/12/2015	
Total assets	695.7	823.1	–15.5%
Equity	162.9	225.5	–27.8%
Equity ratio (in %)	23.4	27.4	–
Cash funds	38.1	50.5	–24.5%
Financial liabilities	232.8	267.9	–13.1 %
Net debt	194.7	217.4	–10.4%
Gearing (in %)	119.5	96.4	–
Employees (reporting date)	6,789	6,981	–2.8%
TOM TAILOR Wholesale	810	850	–4.7%
TOM TAILOR Retail	2,277	2,198	3.6%
BONITA	3,702	3,933	–5.9%

General note: Due to the presentation of rounded figures, some totals might deviate from the sum total of the respective individual items.

#TTG-RESET

We are now a completely different company than we were a year ago. Our focus is now squarely on our healthy core business. This is the only way can we further strengthen our attractive brands: TOM TAILOR, TOM TAILOR Denim and BONITA.

Thanks to our RESET cost-cutting and efficiency programme, we are systematically dumping baggage and optimising our processes. What challenges have we tackled? Around 250 of the up to 300 planned store closings are underway or have already been completed. We also wound up our loss-making business in South Africa. Moreover, the TOM TAILOR POLO TEAM and TOM TAILOR CONTEMPORARY brands have been discontinued. During the course of 2017, we will remove BONITA men from the market and complete our withdrawal from the Chinese and US markets and large parts of the French market. We will further slash ongoing costs in operations.

Once we are better positioned, we will start fresh –
with our excellent team of employees,
our long-term customer relationships
and very attractive brands.

You can count on it!

"Out with the old, in with the new." The photo on our cover underscores the core message of our strategic reorganisation.

OUR BRANDS

TOM TAILOR
EST. 1962

The mid-priced TOM TAILOR brand has been a major textile market player since 1962. Young, modern women and men between the ages of 35 and 45 are this collection's target group.

The TOM TAILOR brand capitalises on its international profile and "new urban player" positioning. This brand attitude reflects the brand's mission of appealing to self-confident target groups with a high affinity for lifestyle and fashion. The new TOM TAILOR styles are detailed, clean and fashionable. The product strategy and brand design were inspired by international zeitgeist and shaped by the history of the TOM TAILOR brand.

TOM TAILOR Denim

On the market since 2007, TOM TAILOR Denim is TOM TAILOR's trendy denim lifestyle brand. In line with its slogan "Young Fashion for Open-minded Personalities", TOM TAILOR Denim designs unconventional, bold and sporty looks for customers from 25 to 35 years old.

Each month, TOM TAILOR Denim puts out new fashion themes that carry through all of its looks. In all cases, denim is the focus. The blue jean fabric is the soul that comes to life in all washes, fits, grades and detailing. In addition to concentrating on denim, the hallmarks of this brand are high quality, confident styling and contemporary trends that can continually be reinterpreted. Every TOM TAILOR Denim collection is based on a unique idea.

BONITA

Since 1979, the BONITA brand has always stood for fashion that is current and designed especially for women over 40.

As a provider of sophisticated styles for confident women, the brand always delivers the latest looks. BONITA is a contemporary partner designing clothes for women who want fashion to highlight their individual style. Its twelve collections per year feature lovingly crafted details and perfect fits. The looks are authentic, stylish and emphasize the customer's natural beauty. BONITA emphasises the modularity of its pieces, excellent service and optimal customer support.

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LETTER OF THE MANAGEMENT BOARD

Dear Shareholders, Business Partners and Employees,

At its core, the TOM TAILOR GROUP is a company with a rich tradition and strong brands. Nonetheless, the rapid expansion of recent years has left cracks in our foundation, and customers today have new opportunities to shop not just at any time of the day or night, but using a wide variety of channels. In addition, online stores provide shoppers with access to new, international brands as well as personalised services. This trend offers great opportunities, but it also requires a critical analysis of existing brand portfolios, sales channels, and especially workflows.

For this reason, we – a Management Board team newly constituted in the second half of the year – have stepped up the pace and introduced a number of initiatives aimed at improving efficiency and profitability. The past financial year therefore counts among the most dynamic and difficult ever in our 50-year corporate history. Since the launch of our RESET programme in autumn 2016, we have focused on the healthy core of our business, reducing complexity and improving processes. TOM TAILOR, TOM TAILOR Denim and BONITA are our foundation. The TOM TAILOR POLO TEAM, TOM TAILOR CONTEMPORARY and BONITA men lines were discontinued. We will also close up to 300 stores and withdraw from China, the United States and mostly from France in the current financial year. In the fourth quarter of 2016, we stopped doing business in the South African market.

The initial effects of the RESET programme became evident as early as year-end 2016: In the fourth quarter, we improved BONITA's gross margin, reduced inventories and decreased net debt. We met all the targets in the forecast we adjusted in October 2016: Despite the difficult market environment, we generated revenue growth of 1.3% to around EUR 969 million and therefore hit our target for reported EBITDA (earnings before interest, taxes, depreciation and amortisation) of EUR 10.3 million (previous year: EUR 67.6 million).

However, we still have quite a way to go until RESET takes full effect from the fourth quarter of 2017 onward. These initial successes nonetheless indicate that we are on the right track. In the coming months, we will continue to put every effort into this initiative and complete it to a large extent. At the same time, we will look to the future and cautiously introduce new growth initiatives, for example, by investing in a promising omnichannel platform and in-demand store locations. We are very pleased to be taking on these projects after receiving the full support of the Supervisory Board to do so.

Thank you very much on behalf of the TOM TAILOR GROUP to our shareholders and business partners for your confidence in us. And to our employees: we would like to sincerely thank you for your strong motivation and untiring commitment to the Company.

The Management Board team

Dr Heiko Schäfer | Thomas Dressendörfer | Uwe Schröder

Hamburg, March 2017

THE MANAGEMENT BOARD

THOMAS DRESSENDÖRFER
CFO

DR HEIKO SCHÄFER
CEO

UWE SCHRÖDER
Member of the Management Board

DR HEIKO SCHÄFER (*1972)

Dr Heiko Schäfer joined the TOM TAILOR GROUP initially as Chief Operating Officer (COO) in December 2015. In September 2016 he also assumed the role of Chief Executive Officer (CEO), a position to which he was appointed permanently in mid-March 2017. As CEO he is responsible for corporate strategy, sales, e-commerce, marketing and public relations.

Dr Heiko Schäfer started his career at the Boston Consulting Group, where he advised clients for more than six years, mainly from the consumer goods and retail sectors, in sales / marketing and operations topics. Prior to that, he built up extensive experience parallel to his academic studies as a consultant in prestigious consulting companies. Dr Heiko Schäfer studied business administration at the University of Saarbrücken and subsequently earned a doctorate degree at the University of Mannheim with a dissertation on cross-selling. Dr Schäfer joined the TOM TAILOR GROUP from the private equity firm Kohlberg Kravis Roberts (KKR) in London. Previously, Dr Heiko Schäfer worked for over six years as a senior executive for the adidas Group, where his last position was as Senior Vice President with responsibility for product development, sourcing and logistics for the four lifestyle / fashion labels of the adidas umbrella brand.

THOMAS DRESSENDÖRFER (*1958)

Thomas Dressendörfer has been with the TOM TAILOR GROUP since 15 June 2016. As Chief Financial Officer (CFO), he is responsible for finance and accounting, controlling, investor relations, IT, human resources, auditing, taxes and legal affairs.

Thomas Dressendörfer has built up extensive experience as the CFO of exchange-traded companies and major corporate divisions and regions. He previously held CFO positions at implant manufacturer Institut Straumann AG, which is listed on the Swiss SIX stock exchange, and technology firm Uster Technologies AG, also based in Switzerland. During the course of his career he has also held senior finance positions at Randstad, The Nielsen Company and Procter & Gamble. As an independent consultant he most recently advised companies on complex business projects and turnarounds. Thomas Dressendörfer is a German citizen and holds a degree in business administration and economics from the University of Erlangen-Nuremberg.

UWE SCHRÖDER (*1941)

Uwe Schröder is a co-founder of the TOM TAILOR GROUP, which was established in 1962 in Hamburg. In 1965 he began his professional career at the Company as a trained textile engineer. He built the Company and managed the business of the Group until 2006 as Managing Director and Chairman of the Management Board.

From 2006 until 22 September 2016 he was Chairman of the Supervisory Board of TOM TAILOR Holding AG and was then delegated to the Company's Management Board, where he has assumed responsibility for product, sales and collections-related issues on an interim basis. In addition to this role Uwe Schröder is Chairman of the Association of Non-Food Importers.

TOM TAILOR ON THE CAPITAL MARKET

SHARES AND INVESTOR RELATIONS

The investor relations activities of TOM TAILOR Holding AG aim to provide transparent, timely and regular information to capital market participants. The main topics address in particular the Company's strategic focus, news and current developments.

In this respect, communication with the capital market is a key element in building and strengthening trust. In so doing, the Company intends to secure access to providers of equity and safeguard the capital market as an additional financing channel.

TOM TAILOR'S SHARES MOVE SIDEWAYS

The German DAX® index recorded a slight uptrend in 2016 that was nevertheless punctuated by strong fluctuations. After starting the year at 10,743 points, the benchmark index fell sharply and registered its lowest level of 8,753 points in February. The DAX® then recovered and finished the trading year at 11,481 points (+6.9%).

TOM TAILOR's shares started 2016 trading at EUR 5.21 and lost ground in the first half of the year owing to a challenging environment combined with uncertainty about the Company's development and disappointing results. The shares fell to their lowest point of EUR 3.12 on the basis of end-of-day prices on 7 July. As the year went on, the share price recovered, mainly thanks to the cost and process optimisation programme RESET announced on 20 October. In spite of the capital increase, the share price continued to stabilise in December, helping to deliver a solid performance overall. The shares finished the trading year at EUR 5.18, representing a market capitalisation of EUR 148.3 million (previous year: EUR 135.6 million) for an average daily trading volume across all stock exchanges of 139,355 shares (previous year: 210,400).

The TOM TAILOR share in the period from 1 January to 31 December 2016

Key Data on TOM TAILOR Shares

Class of shares	No-par-value registered shares
ISIN	DE000A0STST2
WKN (German securities ID number)	A0STST
Ticker symbol	TTI
Stock markets	Frankfurt and Hamburg
Most important trading venue	Xetra (electronic trading system)
Designated sponsor	Commerzbank AG Hauck & Aufhäuser Privatbankiers KGaA

TOM TAILOR's Share Performance

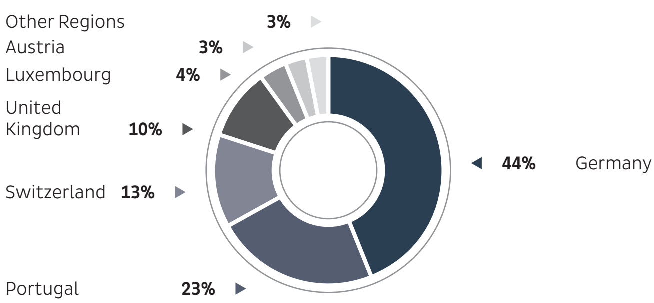
		2016	2015
Shares in issues as at reporting date	Units	28,629,846	26,027,133
Share capital	EUR	28,629,846	26,027,133
Capital increase	EUR	2,602,713	–
High (Xetra closing price)	EUR	5.39	13.97
Low (Xetra closing price)	EUR	3.12	3.28
Price at financial year-end (Xetra closing price)	in %	5.18	5.21
Free float at financial year-end	in EUR million	70.53	75.03
Market capitalisation at financial year-end	Units (approx.)	148.3	135.6
Average daily trading volume	EUR	139,355	210,400
Reported earnings per share	EUR	–2.95	–0.18
Operating cash flow per share	EUR	1.76	1.89

SHAREHOLDER STRUCTURE WITH STABLE ANCHOR INVESTOR

At the beginning of the year, Fosun International Limited (Fosun) had exercised its purchase option to 4.5% of the share capital, increasing its stake from 24.97% to 29.47%. Fosun participated in the capital increase in December 2016 in the extent of its existing shareholding, which kept this at a constant level. As a strategic anchor investor, Fosun therefore continues to be involved in the development of TOM TAILOR Holding AG, and the free float remains unchanged at 70.53%.

TOM TAILOR Holding AG issued 2,602,713 new shares in December 2016 and increased its share capital from EUR 26,027,133 to EUR 28,629,846 (one share is equivalent to one euro). In the course of this capital increase, the regional structure of the shareholder base in free float, which mainly comprises institutional investors from Europe, changed. This substantially increased the share of investors from Switzerland from 4% to 13%, while the share of investors from Germany, the United Kingdom and the United States in particular decreased by two percentage points in each case.

Regional Shareholder Structure — 31 December 2016



Alongside Fosun, Farringdon with a stake of 9.7% and Internationale Kapitalanlagegesellschaft from Germany with a shareholding of more than 5% were among the largest institutional investors at year-end. At the end of the year, around 20.5% of TOM TAILOR's shares were privately held.

DIALOGUE WITH THE CAPITAL MARKET

The dialogue with the capital market in the reporting period was dominated by the measures introduced to improve profitability. For this, the Management Board and the Investor Relations department met frequently with analysts and investors to report on progress in the implementation of the individual measures as well as the strategic realignment. TOM TAILOR held road shows in Europe for this specific purpose and took part in investor conferences.

The Annual General Meeting, at which around 39.8% of the share capital was represented (previous year: 57.1%), was held in Hamburg on 24 May 2016. Shareholders approved the proposals for resolutions on the agenda with a large majority of the votes, resulting in the adoption of all agenda items. In addition, all people who are interested in the Company can find out more about its performance, figures and strategy the whole year round at http://ir.tom-tailor-group.com or contact the Investor Relations team directly.

At year-end, ten international investment houses were tracking the performance of the TOM TAILOR GROUP and issued investment recommendations based on their assessments. At the end of December 2016, six analysts issued “buy” recommendations and four issued “hold” recommendations for the Company's shares. There were no recommendations to sell TOM TAILOR shares. In 2017, the number of research coverages is expected to be increased to show as balanced a picture of the recommendation as possible.

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FUNDAMENTAL INFORMATION ABOUT THE GROUP

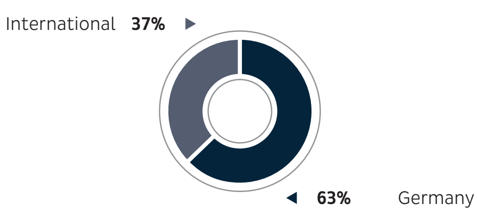
ORGANISATIONAL STRUCTURE AND BUSINESS OPERATIONS

CLEAR BRAND POSITIONING AND FOCUS ON HEALTHY CORE BUSINESS

As an international, vertically integrated fashion company, the TOM TAILOR GROUP focuses on offering casual wear in the mid-range price segment. Its product portfolio is complemented by an extensive range of fashionable accessories and home textiles. The Group's TOM TAILOR umbrella brand and BONITA brand cover all age groups from babies to best agers.

The Company was established in Hamburg in 1962; its regional core market traditionally has been Germany. Following the TOM TAILOR Group's strong growth in recent years, nationally and internationally, the Company has now systematically focused its strategy, structures and processes on profitability. Here, the Company is concentrating on its core sales markets, which include Austria, Switzerland, South-Eastern Europe and Russia in addition to Germany. Today, the Company generates about one-third of consolidated revenue outside Germany. Altogether, the TOM TAILOR GROUP is represented internationally in over 35 countries.

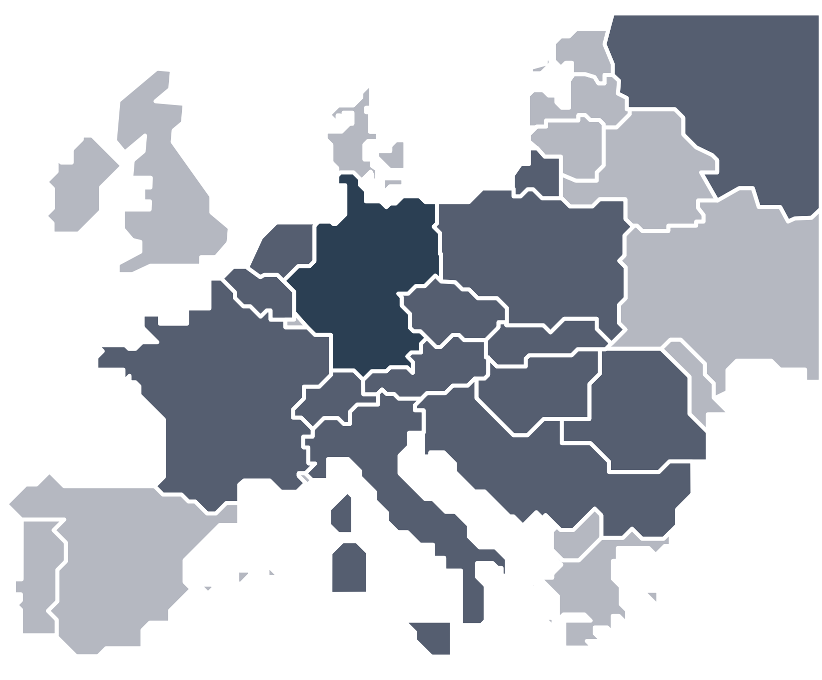
International presence of the TOM TAILOR GROUP (31.12.2016)



1,627 Retail and Franchise Stores

Country	TOM TAILOR	BONITA
Germany	240	667
Austria	100	104
Switzerland	24	41
France	17	1
Benelux [1]	11	131
Poland	9	3
Russia	76	0
Southeastern Europe [2]	126	2
Others	74	1
Total	**677**	**950**

1 Benelux comprises Belgium and the Netherlands only.
2 Southeastern Europe comprises Bulgaria, Croatia, Serbia, Slovenia, Kosovo. Romania, Bosnia-Herzegowina, Macedonia



THE TOM TAILOR GROUP'S ORGANISATIONAL STRUCTURE

The TOM TAILOR GROUP is managed by TOM TAILOR Holding AG, which is domiciled in Hamburg, Germany. With its two governing bodies, the Management Board and the Supervisory Board, the Company has the dual management and supervisory structure that is mandatory in Germany. Together, these two bodies are committed to the interests of shareholders and the good of the Company in equal measure.

TOM TAILOR shares are admitted to trading on the regulated market in the Prime Standard segment of the Frankfurt Stock Exchange and to trading on the regulated market of the Hamburg Stock Exchange. The Company went public in March 2010. The major shareholder of TOM TAILOR Holding AG is the Chinese investment group Fosun, which held a 29.47% stake as at 31 December 2016. All other shares are in free float (for more information, please see the section entitled "TOM TAILOR on the Capital Market").

The TOM TAILOR GROUP is headed by a management team with many years' experience in the sector and the market, led by three Management Board members (for more information please see the section entitled "The Management Board".) The respective subsidiaries run the operating business. This organisational structure with clearly assigned top and bottom line responsibilities enables business processes to be managed at local level and allows for considerable individuality of the main operating subsidiaries in the local markets.

Alongside TOM TAILOR Holding AG, the Group comprises a total of 46 (2015: 47) direct and indirect subsidiaries, of which 43 were included in consolidation as at 31 December 2016. Most subsidiaries in Germany and abroad are held via TOM TAILOR GmbH, Hamburg, whose sole shareholder is TOM TAILOR Holding AG (a list of shareholdings can be found in the notes to the consolidated financial statements). During the 2016 financial year there was only one change in the basis of consolidation, resulting from the liquidation of TT Franchise AG, Buchs, Switzerland. This enterprise ceased trading in the 2014 financial year and was deleted from the commercial register on 9 November 2016.

PROVEN TREND MANAGER BUSINESS MODEL

As a fashion company, the TOM TAILOR GROUP operates in a fast moving international market environment that is highly competitive. Its success is based on brand strength, flexibility and the ability to identify and satisfy fashion trends and customer needs in due time.

Focusing squarely on fashionable casual wear, accessories and home textiles in the mid-range price segment, the TOM TAILOR GROUP systematically combines the emotional added value of a lifestyle brand with the strategic advantages of an integrated system provider. Its business model is based on proximity to the market and to customers. By providing collections that change from one month to the next, the Company taps into the zeitgeist, swiftly identifies promising trends and implements them in its own collections. This enables the TOM TAILOR GROUP to offer the latest fashion trends to its target groups in the mass market soon after they emerge.

WELL-POSITIONED BRANDS IN COMPLEMENTARY SEGMENTS

In its core business, the TOM TAILOR umbrella brand is targeted at men and women aged 25 to 45. In addition, the product range includes clothing for teenagers, children and babies. The TOM TAILOR brand's market presence is determined by the collections for the two brands – TOM TAILOR and TOM TAILOR Denim – that are designed individually for each of the product lines. The Company releases 14 collections a year (12 monthly collections and two basic collections every six months) for these two brands. The collections are sold retail through Company-owned stores and e-commerce and wholesale primarily through shop-in-shops and franchise stores.

The BONITA brand has a separate profile and caters to women over 40, ideally complementing the range of TOM TAILOR collections and product lines. BONITA sells twelve collections per year using a highly standardised system comprising its own stores and e-commerce in retail and concessions with selected partners in wholesale.

THE TOM TAILOR BRANDS

TOM TAILOR

The TOM TAILOR MEN, TOM TAILOR WOMEN and KIDS, MINIS & BABY product lines are marketed under the TOM TAILOR umbrella brand.

The TOM TAILOR brand has been firmly established in the textile market since 1962 and enjoys a high degree of visibility in the mid-range price segment as well as strong brand awareness among customers. This brand's collections are directed at young, modern women and men aged between 35 and 45.

TOM TAILOR:
Target groups – men and women aged 35 to 45

In August 2014, the Company began to purposefully hone and enhance the profile of the TOM TAILOR brand. This process has successfully positioned the TOM TAILOR core brand as a "new urban player" with an international profile. The new brand attitude addresses self-confident target groups with a high affinity for lifestyle and fashion. Current fashion trends are implemented several times per year with the new TOM TAILOR styles. The product strategy and brand design are based on a holistic collection concept and are systematically inspired by international zeitgeist.

TOM TAILOR Denim

TOM TAILOR Denim, the Group's trend-driven denim lifestyle line, has had a strong foothold in the market since 2007. "Young fashion for open-minded personalities" is the core mission of this brand. Unconventional, bold, sporty looks are offered with the TOM TAILOR Denim Male and TOM TAILOR Denim Female product lines. The brand is targeted at men and women aged 25 to 35.

TOM TAILOR Denim:
Target groups – men and women aged 25 to 35

For TOM TAILOR Denim, speed is a success factor. Time and again, TOM TAILOR Denim implements new fashion themes in current collections on a monthly basis, focusing on denim in all washes, fits, grades and detailing. Other core attributes of the TOM TAILOR Denim brand are high quality and confident style in relation to the current trends.

TOM TAILOR ACCESSORIES / LICENSED PRODUCTS

The TOM TAILOR brand world is complemented by a wide range of accessories. The Company generates revenue from selling accessories itself and from licence fees for accessories offered under the TOM TAILOR brands. Purposeful award of licences and close cooperation with the various partners provide the basis for TOM TAILOR's long-standing success in this area.

The accessories product range primarily features shoes, leather goods, belts, gloves, hats, scarves, bodywear, ties, bags, perfume, jewellery, umbrellas, watches and sunglasses, bed linen and toiletries. Some of the accessories such as shawls, scarves and jewellery are developed and marketed by the TOM TAILOR GROUP itself, especially in the TOM TAILOR Denim Male and TOM TAILOR Denim Female product lines. However, the vast majority are distributed by various licensees that work closely with the TOM TAILOR GROUP to develop the products.

THE BONITA BRAND

The TOM TAILOR GROUP offers fashionable clothing for and women over 40 ("best agers") under the BONITA brand. The BONITA collections are characterised by high-quality items of clothing that can be mixed and matched repeatedly to create new outfits. Colourful and stylish BONITA accessories complement the collections effectively. These include scarves, shawls, necklaces, belts, watches and bags. The entire development process for these products is controlled by BONITA itself, i.e. without licensing partners.

BONITA:
Target group – women ages 40 and up

EFFICIENT VALUE CHAIN

The TOM TAILOR GROUP is a vertically integrated fashion company that systematically controls and flexibly manages the entire value chain. The process starts with the idea for the design, through purchasing and product manufacture, and subsequently to warehousing and logistics down to marketing at the point of sale. The different links in the value chain and the entire flow of goods are interconnected.

Systematic evaluation of daily sales figures is a key aspect of efficient value creation. In addition, through its sales channels (retail, wholesale) the Company obtains direct customer feedback which is then taken into account in the development of new collections and in procurement planning. An efficient network of production and logistics partners allows rapid implementation.

Value Chain of the TOM TAILOR GROUP

Product Development
- Brand scouts
- Trendspotting
- Design and product management

Production / Sourcing
- Sourcing mainly in Asia and Turkey
- Own purchasing organisation in Asia
- High sustainability standards

Logistics, Warehousing
- **TOM TAILOR:** Logistics provider
- **BONITA:** Own logistics

Distribution
- Retail
- Wholesale
- E-commerce

Product Development
With its brand scouts, the TOM TAILOR GROUP identifies fashion trends around the world and collects ideas for the new collections. The Company also attends fashion shows in order to record trend developments. It then evaluates this data and works its findings into the design of the new collections so as to offer the latest products to a broad group of buyers at good prices. The TOM TAILOR GROUP generally gets its collections into stores within nine to ten months. Flash collections take two months less.

Production and Procurement
Most of the products sold by the TOM TAILOR GROUP are manufactured by its suppliers in Asia, mainly in Bangladesh, China, India, Vietnam and Pakistan. The share of this production is approximately 90% for the TOM TAILOR brand and roughly 60% for the BONITA brand. In TOM TAILOR Sourcing Ltd., Hong Kong, China, the Company has its own sourcing organisation. The Company ensures local production and procurement with eight offices in Asia and around 270 employees. Asia thus plays an important role for the TOM TAILOR GROUP so that large quantities can be produced at high quality and fair prices. Turkey is also an instrumental part of the Group's procurement activities. The remaining part of production for both brands is largely concentrated there. Overall, more than 60% of the products sourced are billed in US dollars. More information on procurement can be found in the section entitled "Sustainability and Responsibility".

Logistics and Warehousing
Logistics activities have been organised in different ways for its umbrella brand TOM TAILOR and its brand BONITA.

TOM TAILOR engages two logistics providers to manage its warehouses. Requirements for logistics processes are based on a focus on services, state-of-the-art replenishment concepts, national and international distributors as well as the broad range of customers. A new ultra-modern logistics centre in Hamburg has been in use since summer 2015 that constitutes an important element of the TOM TAILOR GROUP's omnichannel strategy. The new logistics centre is owned and operated by an external service provider.

BONITA operates a self-managed, state-of-the-art, SAP-based, automated warehouse and logistics centre at the Hamminkeln site. All BONITA stores are supplied from there. Supply is based on an analytically integrated push-pull process, which in a first step delivers around 80% of the goods ordered. Call-offs from the logistics centre and stock transfers between the stores are triggered by evaluating daily sales figures using the POS systems as well as by deriving and simulating requirements based on these evaluations. Using this systematic process the Company supplies its shops with merchandise in line with requirements, maximises sales potential and manages stocks.

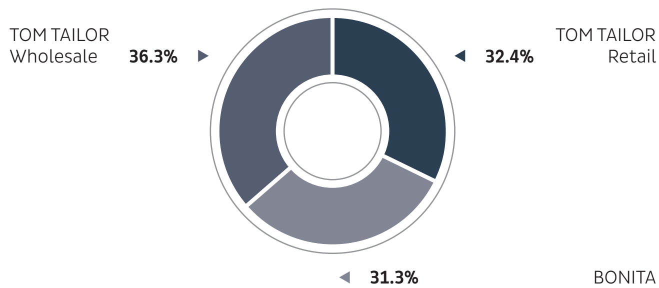
Distribution

The TOM TAILOR GROUP distributes its collections directly to end customers (retail) and through resellers (wholesale). In recent years, the Company has purposefully expanded the share of the direct retail business in the over-the-counter retail business and the e-commerce business. The Group now generates around 64% of its revenue in the retail segment (2007: 6%) and consequently 36% in the wholesale business, which remains important.

Management of the business through sales channels and brands

The TOM TAILOR GROUP manages the business through the individual sales channels and brands, which is why the Group's segment reporting is divided into wholesale and retail. The Wholesale segment is comprised of the business with resellers for the TOM TAILOR brands. The Retail segment makes a distinction between the TOM TAILOR umbrella brand and the BONITA brand and comprises the various forms of the brick-and-mortar retail business and the online business. On account of their verticality (concessions), the selling spaces managed by BONITA in the Wholesale segment are allocated to the Retail segment.

Revenue Structure by Retail and Wholesale



In the brick-and-mortar retail business, the choice of location is especially important. The TOM TAILOR GROUP therefore bases such decisions on an individual profit and loss account with corresponding return figures. This calculation includes special factors such as the size of the property, the lease term, expected footfall, location, catchment area and many more.

Customers can purchase TOM TAILOR products in retail stores as well as in online shops. In this way, the Company takes customers' ever-changing shopping behaviour into account. Thus, the TOM TAILOR GROUP safeguards this increasingly significant sales channel, considering retail and wholesale in equal measure.

STRATEGIC FOCUS

PROFITABILITY STEERING THE FUTURE

In 2016, the TOM TAILOR GROUP centred its strategic objectives on profitability and ushered in a series of measures to enhance earnings. The Company also refined its strategy, dividing it into two phases.

- Phase one from the end of 2016 to the start of 2018 involves consolidating the Company and focusing squarely on profitability. The Group will concentrate on its healthy core business and purposefully divest all unprofitable business activities in a gradual process so as to lay the foundations for further growth.

  In addition to these consolidation activities, three focus areas have been identified in which targeted investments will again be made in 2017 – a year of consolidation – to safeguard the Company's future: a) the strength of the brand(s), b) digitalisation and expansion of e-commerce and c) upgrading of the Company's technological infrastructure (especially the IT landscape).

- In Phase two, which will run from the beginning of 2018 until 2019, the TOM TAILOR GROUP will then embark on a profitable, reduced-risk growth course, which will take place in the regional core markets and with the Company's remaining attractive core brands.

The Group primarily regards profitability in terms of increases in the operating result and operating margin as well as net income for the year (for more information see the section entitled "Financial Key Performance Indicators"). For this, the strategy, which will be implemented cleanly and consistently, will be divided into the following components:

- Implementation of the RESET cost and process optimisation programme;
- Strengthening of the brands through more targeted marketing as well as more fashionable collections;
- Strengthening of the Group's own retail business, especially in its core market, Germany;
- Efficiency enhancements in sourcing and logistics;
- Further development of digitalisation; and
- Improvement of financial position and debt reduction

IMPLEMENTATION OF THE RESET COST AND PROCESS OPTIMISATION PROGRAMME

The actions to be implemented as part of this programme are relatively near-term measures and are expected to give a significant boost to profitability within a short time. The Company will therefore strengthen its healthy core operating business in particular by reducing complexity and simplifying processes. To this end, TOM TAILOR has already discontinued its business activities in South Africa. In addition, it intends in 2017 to withdraw from the market in China (end of March), the USA (end of June) and for the most part also in France (end of the year). The Company is also overhauling its network of stores and will close up to 300 unprofitable or less attractive stores by the end of 2018. These plans will affect around 250 BONITA stores and up to 40 TOM TAILOR stores (especially the flagship stores). After withdrawing TOM TAILOR POLO TEAM and TOM TAILOR CONTEMPORARY from the market, the Group decided to also discontinue its BONITA men line in summer 2017. The brands concerned were unable to achieve critical revenue mass and were loss-makers.

Focus, efficiency enhancements, profitability increase

STRENGTHENING OF THE BRANDS

Brand profiles are pivotal in a competitive market environment. For this reason, the Group plans to hone the profile especially of its TOM TAILOR and TOM TAILOR Denim brands to make them more desirable. It will achieve this through consistent, pinpointed marketing activities, i.e. by conducting conventional off-line marketing campaigns in print and out-of-home media and increasingly through online marketing in particular. Guerilla marketing tactics are also planned that will selectively achieve a high degree of awareness. These will make brand communication bolder, more provocative and more emotive. Apart from this, the monthly collections will be selectively made more fashionable to differentiate the brands increasingly from those of the Group's competitors in the mass market. At BONITA, the style of the collection was updated with fresher and more contemporary looks. We interpret fashion trends for our customers and incorporate them into our collections along with a customised colour range. This allows customers to use the colour-coordinated pieces to create new looks throughout the year based on advice from BONITA.

STRENGTHENING OF THE GROUP'S OWN RETAIL BUSINESS

The TOM TAILOR GROUP generates around two-thirds of its revenue from its own retail shops. Digitalisation and the associated structural change in the industry have reduced footfall in many stores. To counter this trend, the TOM TAILOR GROUP is reorganising its retail business so as to improve processes and customer service. Its objective is to raise the conversion rate, i.e. the proportion of people who enter a store and actually buy something. Sales promotions will also be scaled back and used more judiciously than in the past. In addition, placement of merchandise in stores and allocation of staff to the different locations and time frames will be optimised and the technical equipment updated. This will give staff more time to assist customers. Having introduced "click & collect" in 2016, the Company will connect the e-shop with the physical stores in 2017 by rolling out an "order from store" function.

EFFICIENCY ENHANCEMENTS IN SOURCING AND LOGISTICS

The products sold by the GROUP are mainly manufactured in Asia, but also in Europe. In 2016, the TOM TAILOR GROUP began to significantly reduce the number of suppliers from which it procures these products. This allows procurement to be consolidated at selected manufacturers and higher volumes to be ordered at better prices. The Group also intends to connect its suppliers to its IT systems to be able to manage processes even more efficiently. What is more, the number of items and samples per collection is to be reduced by up to 30%. This will make the production process less complex and improve the Company's cost base.

Logistics will continue to be dominated by optimisation of freight rates, which must now be managed more actively once again following the sharp drop in market prices in 2015 and 2016. 2017 will also see the Company stepping up its efforts to enhance efficiency and warehouse logistics processes.

FURTHER DEVELOPMENT OF DIGITALISATION

Digitalisation has radically changed the structure of the textile market in a trailblazing manner and is therefore of strategic importance. With this in mind, the Company intends to increasingly manage its own e-shop itself and develop it further in line with its objectives. The online sales channel will also continue to be connected to the physical stores through the introduction of the "order from store" feature in Germany. This will allow customers who did not find the right item in the store to order the desired products in the shop and have them delivered to their home or to the store. Furthermore, the Company will increase its budget for online marketing. In addition, powerful IT systems will be needed for the internal processes; the Company will likewise invest in these and progressively roll out SAP.

IMPROVEMENT OF FINANCIAL POSITION AND DEBT REDUCTION

The RESET cost and process optimisation programme is focused on boosting profitability. This will mainly involve systematic, long-term reduction of the Company's debt, which in turn will strengthen its equity base. To achieve this, the TOM TAILOR GROUP intends to improve its cash flow and generate a positive free cash flow that will be used to further reduce its net debt. Its aim is to lower the ratio of net debt to reported EBITDA to below 2.0 in the medium term. This will be aided by the annual scheduled repayment of EUR 15 million of the long-term loan running until 2020.

In addition, based on the RESET programme the Group seeks to achieve net income for the period and substantially improve its operating ratios. On account of the RESET measures introduced, 2017 will be viewed as a year of transition. If all measures are systematically implemented on schedule, the Company expects that EBITDA by the end of 2018 will improve by EUR 30 to EUR 40 million over the basis year, 2016. The TOM TAILOR Group can then use this net income to strengthen equity to achieve, in principle, an equity ratio of at least 30%.

INTERNAL MANAGEMENT SYSTEM

FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

The internal management system used within the TOM TAILOR GROUP goes beyond a pure KPI (key performance indicator) system. It offers an overview of financial and non-financial factors. In addition, leading indicators that could affect the business are monitored and evaluated.

The Management Board uses a large number of different tools and indicators to evaluate business developments, enhance its strategy and make investment decisions.

Clearly defined core control variables and leading indicators

FINANCIAL KEY PERFORMANCE INDICATORS

A variety of reporting systems are used at the TOM TAILOR GROUP to measure financial key performance indicators. These are differentiated at the level of both the overall Group and by segment. The main financial key performance indicators in financial year 2016 were revenue, reported EBITDA, the reported EBITDA margin, recurring EBITDA and the recurring EBITDA margin. From the 2017 financial year onwards, both recurring EBITDA and the recurring EBITDA margin will no longer be used as financial key performance indicators. In addition to revenue, reported EBITDA and the reported EBITDA margin, reported EBIT, the reported EBIT margin and the gross margin will also be used as financial key performance indicators in the 2017 financial year.

In addition, key indicators such as net debt, the equity ratio, working capital and various inventory turnover ratios are monitored at Group level. In the Wholesale segment, the figures for pre-orders are also used for management purposes.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

In addition to financial indicators, the TOM TAILOR GROUP uses a range of non-financial factors, e.g. in order to collect and evaluate information about how the Company is perceived. Both external surveys (for example, the brand survey performed by the German magazine DER SPIEGEL or retailer surveys) and internal studies (for example, customer surveys in the Wholesale segment, or trends in social networks such as Facebook) are used. The SPIEGEL brand survey, which is published every two years, is a crucial non-financial key performance indicator that measures TOM TAILOR's development from a consumer perspective with regard to brand awareness, brand ownership and consumers' purchasing appetite.

LEADING INDICATORS RELEVANT FOR THE COMPANY

The Management Board receives reports providing varying levels of detail about operational business developments on an ongoing basis. Actual data is compared with the planning, negative variances are analysed, and, where necessary, countermeasures are taken. TOM TAILOR's Management Board pays particular attention to analysing leading indicators. These make it possible to draw conclusions about future business developments. Key leading indicators for the TOM TAILOR GROUP are incoming orders, the USD / EUR exchange rate, the gross margin generated per purchase and like-for-like sales in Company-owned stores. Various key performance indicators are also evaluated at store level, such as the conversion rate and the personnel expenses per store. The conversion rate is the ratio of the number of people who buy something to those who enter a store. Special software helps model and optimise personnel planning and hence ultimately personnel expenses per store. In addition, regular comparisons are made with the performance of relevant competitors.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

SOLID UPSWING IN THE EURO ZONE

The economic upturn in the euro zone was solid. The gross domestic product (GDP) grew robustly at 1.7% in 2016 (previous year: 2.0% adjusted) on a broad regional basis. All countries in the currency area, including those with structural problems, posted positive growth rates. The drivers of this trend were higher public expenditure and especially strong consumer spending. In Europe, the labour market continued its positive trajectory. The unemployment rate dropped from 10.5% to 9.6% during the year. In the EU it declined from 9.0% to 8.2%. Regional differences remain very pronounced, with high unemployment in France, Italy, Portugal and especially Spain. Inflation was minimal, although the advantages of low energy costs petered out gradually. According to Eurostat, inflation in the euro zone remained moderate in 2016. Only in December did inflation accelerate noticeably to 1.1% due to higher fuel and food prices. The Institut für Weltwirtschaft (IfW – Institute for the World Economy) in Kiel puts growth in spending by private households in the euro zone at 1.7% (previous year: 1.8%).

2016: STRONG CONSUMER DEMAND IN THE CORE MARKETS OF THE TOM TAILOR GROUP

The main sales market for the TOM TAILOR GROUP is Germany.

The German economy steadily continued its solid upswing, as reported by the Federal Statistical Office (Destatis). GDP growth was at its highest in five years at 1.9% in real terms. This healthy expansion continued to be driven by domestic demand. Strong stimulus was also generated by government spending (+4.2%) and substantial construction investments (+3.1%). However, private consumption was the engine for the economy with vigorous growth of 2.0%. With interest rates still low and price inflation minimal for the year as a whole, the consumer environment remained positive. Moreover, the positive trend on the labour market has continued for 11 years now. For the first time, 43.5 million persons were employed on average for the year. According to preliminary estimates, this represents an increase of around 429,000 persons, or +1.0%. The disposable income of private households rose by a nominal 2.8%.

In 2016, the mood of consumers in Germany was thoroughly positive, hitting a high for the year of 10.2 points in September as measured by the GfK Consumer Climate index. The score was still high in December at 9.8 points, exceeding the result for the prior-year month by 0.5 points. Income expectations and the propensity to buy in particular were much higher than a year before. The most important international markets for the TOM TAILOR GROUP are Switzerland, Austria, the Benelux countries, South Eastern European EU member states and Russia. Economic growth and spending by private households developed as follows in these countries in 2016:

After pressure from currency appreciation in the previous year, economic performance in Switzerland normalised in 2016. GDP growth picked up to nearly 1% in 2016. Production grew and the price trend slowed somewhat due to the strong Swiss franc and low oil prices. However, the labour market still lacked forward momentum. At a nearly constant employment figure, the number of unemployed persons rose by 0.5%. Swiss economic researchers concur in their estimates that private consumption expanded by 0.9% in 2016 compared with 1.1% in the previous year (SECO, KOF).

After four restrained years, the economy in Austria picked up the pace again in 2016, growing 1.4% according to the country's central bank (OeNB). The recovery was driven by investments in equipment and private consumption. Spending was boosted by tax reform, increased expenditure for refugees and individuals seeking asylum, and an upturn in the labour market. Although the unemployment rate rose as a result of the growing population, the number of employed persons also increased considerably as per the OeNB. In view of continued low inflation, consumer spending grew by 1.1% in 2016 (previous year: stagnation).

Estimates by the IfW in Kiel indicate that economic growth in 2016 in Slovenia (+2.6%), Croatia (+2.5%), Bulgaria (+3.0%) and Romania (+4.7%) was noticeably stronger than the average of all EU countries. Unemployment also declined further, significantly in some cases. In these countries, with the exception of Croatia, unemployment rates are also lower than in the euro zone or the EU as a whole. Consumer demand grew further in 2016. Growth in the Netherlands was 2.1%, with growth in Belgium coming in at just 1.2% and Russia seeing a slight contraction of -0.6%.

FASHION SALES AGAIN TRAILED RETAIL OVERALL IN 2016

According to the Statistical Office of the European Union (Eurostat), retail sales in the euro zone grew by an average of 1.8% in real terms in 2016 compared with the preceding year. The Federal Statistical Office (Destatis) calculates that retail sales in Germany in 2016 rose by 2.2% in nominal terms and by 1.6% in real terms (excluding vehicles, petrol stations).According to preliminary data by the German Retail Federation (HDE), retail companies in Germany generated sales of EUR 482.2 billion in 2016 (excluding vehicles, petrol stations, fuels and pharmacies). This is equal to growth of 2.3% in nominal terms (+1.6% in real terms). The German retail trade has thus grown for the seventh consecutive year.

For the textile and fashion business, 2016 was another challenging year

For the textile and fashion business, 2016 was a challenging year. Many companies experienced financial difficulties or ceased doing business entirely. Destatis reports that retail sales in Germany of textiles, clothing, shoes and leather goods (in brick-and-mortar stores and online) grew by 1.1% in nominal terms in 2016 (+0.4% in real terms) and were therefore robust, although somewhat weaker than in the retail segment as a whole. At the same time, the increase in online and mail order sales of all types of retail goods was disproportionately high (+5.1% in real terms, +5.8% in nominal terms). The HDE puts the preliminary net annual sales generated by online retail at EUR 44.0 billion in 2016 (not including holiday travel). This corresponds to nominal growth of 11% and a market share of nearly 9%. In 2016, the online business therefore gained further ground in the retail sector. This trend also affected the textile and fashion industry, which is accelerating expansion of its omnichannel offerings as a result.

SIGNIFICANT EVENTS IN THE REPORTING PERIOD

MAJOR SHAREHOLDER INCREASES INTEREST TO 29.47%

On 4 February 2016 major shareholder Fosun International Limited (China) increased its equity interest in TOM TAILOR Holding AG from 24.97% to 29.47%. This move underscores Fosun’s strategic interest in the TOM TAILOR GROUP.

TOM TAILOR GROUP CONTINUES DIGITALISATION DRIVE

On 22 March 2016 the TOM TAILOR GROUP expanded its range of services for customers, introducing “click&collect” at 145 stores in Germany. This service allows customers to place orders online at tom-tailor.de and conveniently pick them up at a selected local store. Customers can also benefit from receiving assistance in the store.

On 15 March 2016, the TOM TAILOR GROUP stepped up its partnership with Zalando. A broad selection of the Group’s TOM TAILOR and TOM TAILOR Denim products is now showcased in a new TOM TAILOR-branded shop on zalando.de. TOM TAILOR provides the content and design for the branded shop, which are integrated into zalando.de, and is responsible for both product management and for delivering the goods to end customers from a warehouse set up at a service provider.

THOMAS DRESSENDÖRFER APPOINTED NEW CHIEF FINANCIAL OFFICER

The Supervisory Board of TOM TAILOR Holding AG appointed Thomas Dressendörfer Chief Financial Officer (CFO) of the Company with effect from 15 June 2016. As CFO, he is responsible for finance and accounting, controlling, investor relations, human resources and legal affairs. He succeeds Dr Axel Rebien.

EXPANSION OF VERTICAL WHOLESALE AT BONITA

At the beginning of the third quarter of 2016, the TOM TAILOR GROUP began to open further vertical wholesale spaces at a well-known partner, expanding its target customer approach in its umbrella brand BONITA through the addition of an important distribution channel. The Company opened a total of 56 of these shop-in-shops by the end of 2016.

MANAGEMENT BOARD AND SUPERVISORY BOARD REORGANISED

TOM TAILOR Holding AG has reorganised its Management Board. Dr Heiko Schäfer was appointed as the new Chairman of the Management Board on a transitional basis after Dieter Holzer resigned from the Company's Management Board with immediate effect in agreement with the Supervisory Board on 22 September 2016. Dr Schäfer has served as the Company's Chief Operating Officer (COO) since December 2015. He combines many years of experience in the fashion industry with sound expertise in managing cross-functional transformation projects and will lead the Company with Chief Financial Officer (CFO) Thomas Dressendörfer. Together, they will drive forward initiatives already introduced to sustainably improve profitability.

The Supervisory Board has also delegated its Chairman, Uwe Schröder, to the Company's Management Board for a maximum period of one year in accordance with section 105, sentence 2 of the Aktiengesetz (AktG – German Stock Corporation Act). He has assumed responsibility for product, sales and collections-related issues on an interim basis. Supervisory Board member and former President and CEO of TUMI INC, Jerome Griffith, has been appointed as the new Chairman of the Supervisory Board.

NEW MEASURES ADOPTED TO SIGNIFICANTLY IMPROVE PROFITABILITY

Under its new management, the TOM TAILOR GROUP has adopted new, short-term measures to improve profitability that go considerably beyond the CORE programme initiated in late 2015. Their aim is to focus the Group's efforts on its strong core business in a market environment that has undergone structural change. The objective of these measures is to sustainably improve profitability while releasing funds for capital expenditure, particularly in digital sales channels and brands. At the same time, the TOM TAILOR GROUP will systematically divest its loss-making activities. This includes withdrawing from non-profitable international markets, closing additional retail stores and discontinuing product lines. The Group's future activities will focus on the TOM TAILOR umbrella brand and its Casual, Denim and Kids lines, as well as BONITA Women.

The implementation of these cost and process optimisation measures resulted in a one-off extraordinary charge of approximately EUR 75 million in the third quarter of 2016 consisting primarily of non-cash expenses. This new programme will not create any additional financing needs and is fully supported by the Group's lending banks.

TOM TAILOR HOLDING AG GENERATES PROCEEDS OF EUR 12.8 MILLION FROM SUCCESSFUL CAPITAL INCREASE

On 9 December 2016, TOM TAILOR Holding AG issued 2,602,713 new no-par-value registered shares from the capital increase resolved on the preceding day in return for cash contributions. The new shares were placed at a price of EUR 4.90 per share under the terms of a private placement with Fosun International Ltd. and institutional investors using an accelerated bookbuilding procedure.

The new shares were issued by way of a capital increase from authorised capital. The implementation of the capital increase was entered in the commercial register on 12 December 2016. As a result of the capital increase, the Company's share capital has risen from EUR 26,027,133 to EUR 28,629,846. Shareholders' pre-emptive rights were disapplied. The new shares carry dividend rights from 1 January 2016 and on 14 December 2016 were admitted to trading on the regulated market in the Prime Standard segment of the Frankfurt Stock Exchange and to trading on the regulated market of the Hamburg Stock Exchange. Gross issuing proceeds of around EUR 12.8 million accrued to the Company from the capital increase. TOM TAILOR Holding AG intends to use the funds that accrued to it from the capital increase to support ongoing restructuring measures.

COMPARISON OF ORIGINAL GROUP FORECAST AND ACTUAL 2016 FIGURES

RESTRUCTURING PROGRAMME LED TO REVISION OF GROUP GUIDANCE

At the end of 2015, the TOM TAILOR GROUP launched a cost-cutting and efficiency programme to counter the effects of structural change in the textile industry. Against this backdrop, the Company had formulated its guidance for the 2016 financial year conservatively. At the start of the year, the Management Board anticipated a moderate increase in consolidated revenue of a low single-digit percentage over the prior year (2015: EUR 955.9 million). Moreover, the Company originally expected recurring EBITDA in 2016 to remain around the previous year's level (2015: EUR 76.3 million).

During the reporting period, competition and price pressure grew further, and the TOM TAILOR GROUP's market situation deteriorated. The new management of the TOM TAILOR GROUP therefore announced a cost and process optimisation programme called RESET on 20 October 2016 with the aim of improving profitability in the short term. This programme comprises a number of measures to reinforce the high-performance core business. Implementing these new cost and process optimisation measures resulted in a one-off extraordinary charge of approximately EUR 75 million in the third quarter of 2016 consisting primarily of non-cash expenses. This affected quarterly earnings and the original Group guidance. As a result, the Management Board revised its guidance for the reporting year. The Company continued to expect consolidated revenue to grow moderately by a single-digit percentage, but adjusted the expected reported EBITDA range to EUR 10 million to EUR 20 million due to special factors in the third quarter.

With consolidated revenue of EUR 968.5 million and reported EBITDA of EUR 10.3 million, the actual figures for 2016 are in the expected and the lower end of the bandwidth of the revised guidance, respectively. EBITDA adjusted to RESET impacts for 2016 amounted to EUR 58.8 million, well below the recurring EBITDA for the previous year of EUR 76.3 million, and therefore also considerably below the original forecast, which projected this figure at about the prior-year level. The Company was unable to reach all of the targets in the original guidance for financial year 2016. The following table presents the actual results for the 2016 financial year compared with the original and adjusted forecasts:

Comparison: Group Forecast vs. Actual Figures in 2016

EUR million	2015	2016	Original forecast	Comment	Adjusted forecast	Comment
Consolidated revenue	955.9	968.5	moderate increase	achieved	moderate increase	achieved
Recurring EBITDA	76.3	58.8	at prior-year level	not achieved	–	–
Reported EBITDA	67.6	10.3	–	–	10–20	achieved
Operating cash flow	49.3	50.3	at prior-year level	achieved	below prior-year level	overachieved
Capital expenditure	33.1	16.4	approx. 25	not achieved	approx. 20	not achieved
Free cash flow	13.1	20.0	positive	achieved	negative	overachieved

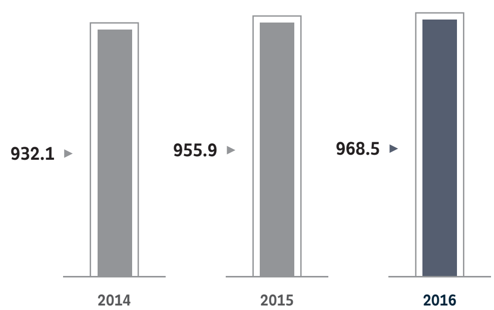
RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

RESULTS OF OPERATIONS

Consolidated Revenue up 1.3%

The TOM TAILOR GROUP's revenue rose by 1.3% in financial year 2016 to EUR 968.5 million (2015: EUR 955.9 million).

Development of Consolidated Revenue (in EUR million)



The BONITA segment generated revenue of EUR 303.0 million in financial year 2016, down 7.0% from the previous year (2015: EUR 325.8 million). The revenue of the TOM TAILOR segments increased by 5.6% in 2016 to EUR 665.5 million (2015: EUR 630.1 million).

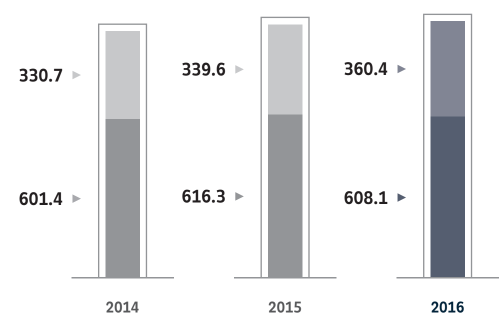
In the fourth quarter of 2016, consolidated revenue rose by 2.7% to EUR 273.5 million (prior-year quarter: EUR 266.3 million). The increase in revenue in this period can be attributed exclusively to the TOM TAILOR segments, whose revenue climbed 4.3% to EUR 191.3 million (prior-year quarter: EUR 183.5 million). BONITA's revenue in the fourth quarter of 2016 at EUR 82.1 million (prior-year quarter: EUR 82.8 million) was down 0.8% year-on-year.

Revenue by Region

In Germany, the TOM TAILOR GROUP posted revenue of EUR 608.1 million in 2016, which represents a slight year-on-year increase of 1.3% (2015: EUR 616.3 million). The BONITA revenue in Germany decreased by 7.6% to EUR 216.7 (2015: EUR 234.5 million). TOM TAILOR's two segments collectively generated combined revenue in Germany of EUR 391.4 million (2015: EUR 381.8 million) for year-on-year growth of 2.4%. Outside of Germany, consolidated revenue continued to grow. The TOM TAILOR GROUP's revenue abroad totalled EUR 360.4 million (2015: EUR 339.6 million), which was a year-on-year increase of 6.1%. This was primarily driven by increased revenue in Russia and South-Eastern Europe. BONITA accounted for EUR 86.3 million of international revenue (2015: EUR 91.3 million) whereas the two TOM TAILOR segments accounted for a combined EUR 274.2 million of international revenue (2015: EUR 248.3 million).

Revenue by Region (in EUR million)

Germany   Foreign countries



Segment Reporting

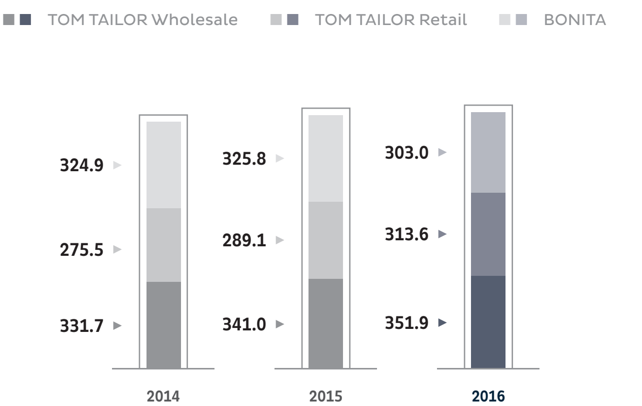
Segment reporting in the TOM TAILOR GROUP is basically divided into the Retail and Wholesale segments.

The Retail segment comprises the brick-and-mortar retail and outlet stores operated by the Group and its e-commerce activities. The e-commerce business consists of its own e-shops supported by service providers and e-commerce partnerships with mail-order companies. In the Retail segment a distinction is made between the TOM TAILOR umbrella brand and the BONITA brand.

In the Wholesale segment, the Company distributes TOM TAILOR products to business customers, who sell these to end customers via different sales channels. These include franchise stores, shop-in-shops and multi-label sales outlets.

There are a total of three reportable segments (TOM TAILOR Retail, TOM TAILOR Wholesale and BONITA).

Revenue by Segment (in EUR million)



Expansion Fuels 8.5% Growth in TOM TAILOR Retail Segment – EBITDA down as a Result of Special Factors of EUR 11.4 million

TOM TAILOR Retail Segment — Key Data

	2016	2015
Revenue (in EUR million)	313.6	289.1
Growth (in %)	8.5	4.9
on a like-for-like basis (in %)	–0.1	–0.3
Number of stores	472	460
Reported EBITDA (in EUR million)	8.2	20.3
Reported EBITDA margin (in %)	2.6	7.0

The expansion of the TOM TAILOR Retail segment remained one of the key growth drivers for the TOM TAILOR GROUP in the past financial year. Revenue in this segment was increased by 8.5% in 2016 to EUR 313.6 million (2015: EUR 289.1 million).

On a like-for-like basis (i.e. excluding expansion), revenue growth in the TOM TAILOR Retail segment stood at -0.1% (2015: -0.3%) and was unable to track the trend in the sector, which closed 2016 with growth of 1.1%. In the fourth quarter, like-for-like revenue climbed 4.2% compared with -0.1% in the prior-year quarter. The segment's total revenue grew by 8.8% in the fourth quarter to EUR 102.3 million as a result of the expansion (prior-year quarter: EUR 94.1 million).

At 472, the number of retail stores rose by 12 since 31 December 2015. Altogether, 32 new stores were opened and 20 stores were closed. Of the 472 retail stores, 181 are in Germany and 291 are in other countries. The e-commerce revenue of the TOM TAILOR brands increased by 6.9% year-on-year in 2016 to EUR 45.0 million (2015: EUR 42.1 million).

Reported EBITDA declined by 59.6% to EUR 8.2 million year-on-year (2015: EUR 20.3 million). This decrease was mainly attributable to a high level of extraordinary charges associated with the set of measures approved in autumn 2016. Special factors amounting to EUR 11.4 million comprise expenses for onerous contracts of EUR 7.9 million, surrender premiums paid to lessors of EUR 1.7 million, inventory write-downs of EUR 0.6 million, personnel expenses of EUR 0.6 million and other expenses of EUR 0.6 million. This also put downward pressure on the gross margin, which dropped to 54.9% in 2016 (2015: 57.4%). As a result of the growth in revenue, gross profit nevertheless increased by EUR 6.2 million to EUR 172.2 million in the reporting period (2015: EUR 166.0 million).

BONITA Revenue down 7.0% – EBITDA Lower due to EUR 32.1 million in Special Factors

Bonita Segment — Key Data

	2016	2015
Revenue (in EUR million)	303.0	325.8
Growth (in %)	−7.0	0.3
on a like-for-like basis (in %)	−6.8	1.7
Number of stores	950	1,026
Reported EBITDA (in EUR million)	−22.6	18.0
Reported EBITDA margin (in %)	−7.5	5.5

The BONITA segment exclusively comprises own stores, the brand's own e-shop and vertically operated shop-in-shops in the wholesale business. In financial year 2016, revenue fell by 7.0% to EUR 303.0 million (2015: EUR 325.8 million). On a like-for-like basis, revenue slid 6.8% in 2016 for reasons including restrained price promotions and a very weak third quarter (2015: +1.7%).

In the fourth quarter of 2016, BONITA generated revenue of EUR 82.1 million, a decrease of 0.8% on the prior-year level of EUR 82.8 million. On a like-for-like basis, revenue in this period decreased by 2.9% (prior-year quarter: +2.0%).

The number of BONITA stores fell by 76 as against 31 December 2015 to 950. Altogether, seven new stores were opened and 83 stores were closed. Of the 950 stores, 667 are in Germany and 283 are in other countries. The BONITA e-shop saw stable performance, generating revenue of EUR 3.7 million in 2016 (2015: EUR 3.7 million). Furthermore, 56 BONITA shop-in-shops were opened in the financial year ended.

Reported EBITDA in the BONITA segment decreased by EUR 40.6 million to EUR -22.6 million in the 2016 financial year (2015: EUR 18.0 million). As in the TOM TAILOR Retail segment, the prevailing factor in this decrease was a high level of extraordinary charges associated with the set of measures approved in autumn 2016. These special factors of EUR 32.1 million relate to inventory write-downs totalling EUR 13.7 million, expenses for onerous contracts in the amount of EUR 8.5 million, personnel expenses amounting to EUR 5.2 million, and other expenses of EUR 4.7 million for surrender premiums paid to lessors and the cost of restoring properties to their original condition. During the reporting period, the BONITA segment also incurred expenses of EUR 2.3 million for severance payments to personnel not associated with the set of measures approved in autumn 2016.

Compared with the previous year, the gross margin declined by 2.8 percentage points to 63.4% (2015: 66.2%). In contrast, adjusted for a high level of inventory write-downs, the gross margin stood at 67.9%, up from the previous year. The increase was due particularly to the decline in price promotions and improved product costing. In the fourth quarter of the year under review, the gross margin was 71.1% – also higher than the figure for the prior-year quarter (2015: 69.1%). However, the higher gross margin was unable to offset the revenue loss. At EUR 205.6 million, gross profit adjusted for the special factors arising from the approved set of measures was EUR 10.2 million lower in 2016 than in the prior-year period (2015: EUR 215.8 million).

TOM TAILOR Wholesale Segment Expands 3.2% – EBITDA Reduced Due to EUR 5.1 million in Special Factors

TOM TAILOR Wholesale Segment — Key Data

	2016	2015
Revenue (in EUR million)	351.9	341.0
Growth (in %)	3.2	2.8
Number of shop-in-shops	3,050	2,956
Number of franchise stores	205	203
Reported EBITDA (in EUR million)	24.7	29.2
Reported EBITDA margin (in %)	7.0	8.6

The revenue of the TOM TAILOR Wholesale segment increased by 3.2% in the reporting year to EUR 351.9 million (2015: EUR 341.0 million). In Germany, the revenue of the Wholesale segment was boosted by 2.2% to EUR 224.4 million (2015: EUR 219.5 million). Outside Germany, revenue increased by 4.9% to EUR 127.5 million (2015: EUR 121.5 million). In the fourth quarter, the revenue of the Wholesale segment fell by 0.5% to EUR 89.0 million (prior-year quarter: EUR 89.4 million). The number of shop-in-shops rose by 94 as against 31 December 2015 to 3,050. The number of franchise stores increased by two to 205 in the year under review.

Reported EBITDA in the TOM TAILOR Wholesale segment decreased by EUR 4.5 million year-on-year to EUR 24.7 million (2015: EUR 29.2 million). In the past financial year, the TOM TAILOR Wholesale segment also saw downward pressure from a number of one-off expenses. The one-off items associated with the set of measures approved in autumn 2016 totalled EUR 5.1 million and included personnel expenses of EUR 1.9 million, inventory write-downs of EUR 1.0 million and other expenses in the amount of EUR 2.2 million. In addition, during the reporting period, the TOM TAILOR Wholesale segment incurred expenses of EUR 4.3 million for severance payments to personnel; these were not associated with the set of measures approved in autumn 2016.

The gross margin rose from 45.0% to 46.4% in the past financial year. This was mainly due to improved incoming product costing and lower discounts. In the fourth quarter of 2016, the gross margin stood at 46.6%, also down on the figure of 44.0% reported for the prior-year quarter.

Other Operating Income Falls EUR 6.7 million

Other operating income decreased by EUR 6.7 million to EUR 32.3 million in financial year 2016 (2015: EUR 39.0 million). This was primarily the result of a drop in gains on the disposal of assets, which at EUR 1.2 million were EUR 4.6 million lower than in the previous year (2015: EUR 5.8 million). Foreign exchange gains totalled EUR 7.4 million, down EUR 2.3 million (2015: EUR 9.7 million). In other operating expenses, these gains stood in contrast to foreign exchange expenses from currency translation of EUR 7.8 million (2015: EUR 7.9 million). Licence income from the out-licensing of the TOM TAILOR brand (2016: EUR 6.6 million) and rental income (2016: EUR 4.6 million) also made a notable contribution to this item.

Gross Profit Adversely Affected by High Inventory Write-Downs – Recurring Gross Margin Stable at 56.0%

In the financial year ended, the cost of materials in the TOM TAILOR GROUP increased by 4.9% to EUR 441.0 million (2015: EUR 420.6 million). This includes one-off expenses for inventory write-downs totalling EUR 15.3 million. Gross profit adjusted for these expenses increased by 1.4% from EUR 535.3 million to EUR 542.8 million. At 56.0%, the recurring gross margin remained at the previous year's level. Including one-off impairment losses, the Group's gross profit declined EUR 7.8 million to EUR 527.5 million.

In the last quarter of the financial year ended, the gross margin amounted to 56.6%, up from 56.1% in the prior-year quarter. The main reason for this development was the positive performance in the TOM TAILOR Wholesale and BONITA segments.

Personnel Expense to Revenue Ratio Increases to 22.7% on One-Off Expenses

Personnel expenses rose by 5.5% in 2016 to EUR 220.2 million (2015: EUR 208.6 million), The personnel expense to revenue ratio increased from 21.8% in the prior-year period to 22.7% in the past financial year. The growth in absolute terms was principally the result of higher expenses for severance payments and leaves of absence totalling EUR 14.3 million. Of this amount, EUR 7.7 million was attributable to the set of measures approved in autumn 2016. The remaining expenses totalling around EUR 6.6 million were attributable to the BONITA and TOM TAILOR Wholesale segments. Personnel expenses adjusted for the one-off expenses incurred in the reporting period amounted to EUR 212.5 million.

The TOM TAILOR GROUP employed 6,789 people as at 31 December 2016 (previous year: 6,981), of whom 3,702 worked at BONITA (previous year: 3,933).

One-Off Expenses Increase Other Operating Expenses by 10.5%

At EUR 329.4 million, other operating expenses were up 10.5% on the figure for the prior-year period (2015: EUR 298.1 million). The increase in the financial year ended mainly reflects one-off expenses in connection with the set of measures approved in autumn in the amount of EUR 25.5 million. This figure comprises expenses for onerous contracts in the amount of EUR 16.4 million, surrender premiums paid to lessors of EUR 5.4 million, the cost of restoring properties to their original condition in the amount of EUR 1.3 million and other expenses totalling EUR 2.4 million.

Marketing expenses decreased 5.0% to EUR 30.4 million in the reporting year (2015: EUR 32.0 million). As in the previous year, 2016 marketing expenses again included the costs of a TV advertisement broadcast for the TOM TAILOR umbrella brand in the third and fourth quarters. Furthermore, rental expenses rose by 1.6% to EUR 111.3 million in 2016 (2015: EUR 109.5 million), primarily because of regular rent increases. Further key elements of other operating expenses were logistics costs for order picking of EUR 24.5 million (2015: EUR 24.1 million) and outgoing shipping costs of EUR 14.0 million (2015: EUR 12.8 million).

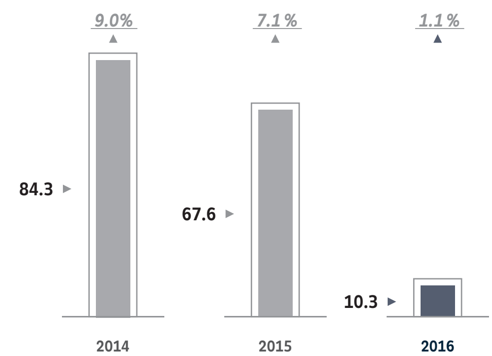
Reported EBITDA down 84.8%

Reported EBITDA (earnings before interest, taxes, depreciation and amortisation) of the TOM TAILOR GROUP fell by 84.8% to EUR 10.3 million due to one-off expenses during the reporting year (2015: EUR 67.6 million). Above all, this significant decline in reported EBITDA reflects one-off expenses associated with the set of measures approved in the third quarter totalling EUR 48.5 million.

In the fourth quarter of 2016, recurring EBITDA fell by 11.3% year-on-year to EUR 27.6 million (prior-year quarter: EUR 31.1 million). This reduction is largely the result of lower other operating income.

Development of Reported EBITDA, Group (in EUR million)

Reported EBITDA margin in %



Depreciation, Amortisation and Impairments Jump EUR 32.9 million

Depreciation, amortisation and impairment losses amounted to EUR 83.1 million in 2016, up EUR 32.9 million on the prior-year figure (2015: EUR 50.3 million). This is primarily due to impairments of property, plant and equipment of businesses that are not sustainably profitable and write-downs resulting from store closures in the total amount of EUR 28.8 million and the write-down of the BONITA men brand totalling EUR 3.6 million. Depreciation / amortisation / impairment losses for the TOM TAILOR GROUP in the reporting period contrasted with significantly reduced capital expenditures of EUR 16.4 million (2015: EUR 33.1 million).

Financial Result down EUR 1.5 million

At EUR –16.3 million, the financial result in 2016 fell EUR 1.5 million compared with the previous year (EUR –14.9 million). This is primarily due to a higher average net debt, particularly in the first nine months of the financial year ended, one-off financing costs and a debt-related increase in interest rate margins.

Positive Income Tax Effects of EUR 16.2 million

Income from income tax amounted to EUR 16.2 million in 2016 (2015: expense of EUR 2.4 million). Income tax comprises the current taxes of German Group companies (outside of the group of companies consolidated for income tax purposes) and international Group companies for 2016 and the continued recognition of deferred tax assets on current tax loss and interest carryforwards of the German Group companies (within the group of companies consolidated for income tax purposes).

With net income before income tax of EUR –89.2 million (2015: EUR 2.5 million), the effective tax rate was thus 18.2% (2015: 97.1%). The high effective tax rate mainly results from the limited tax deductibility in Germany of rental and financing expenses for trade tax purposes, the non-recognition of deferred tax assets on losses of the international Group companies and the measurement of deferred tax assets on tax loss carryforwards and interest carried forward.

Reported Net Income for the Period Falls to Loss of EUR 73.0 million

Reported net income for the period declined from EUR 0.1 million in 2015 to a net loss of EUR 73.0 million in the 2016 financial year on account of one-off expenses. Earnings per share (EPS) amounted to EUR -2.95 (2015: EUR -0.18).

FINANCIAL POSITION

Liquidity and Financial Management Principles

Financial management is performed centrally by the TOM TAILOR GROUP's headquarters in Hamburg. The goal is to ensure consistent, Group-wide liquidity management, make optimum use of the available liquidity and guarantee the TOM TAILOR GROUP's ability to meet its financial obligations. On this basis, the TOM TAILOR GROUP's financial management aims to maintain sufficient liquidity for the Company's future development at all times. The cash generated by operating activities and the available bank lines of credit are a key source of financing.

The TOM TAILOR GROUP's long-term financial management is based on its corporate strategy, with short- and medium-term financial management focusing primarily on the requirements of operating activities. Rolling cash flow planning and daily liquidity reports are used to determine liquidity requirements.

The TOM TAILOR GROUP covers its financing needs by maintaining a balanced debt-to-equity ratio, which ensures both financial stability and sufficient flexibility. The Group aims for an equity ratio of more than 30% in the long-term. However, as at 31 December 2016 the equity ratio was 23.4% and thus below this target figure (2015: 27.4%).

The TOM TAILOR GROUP monitors and analyses the financing opportunities on the financial markets and trends in financing availability very closely in order to ensure it maintains adequate liquidity over the long term. In May 2013, a portion of the previous short-term financing entered into as part of the BONITA acquisition amounting to EUR 80 million was replaced by the successful issuance of borrower's note loans. The issue was placed mainly with institutional investors in Germany and other European countries. The borrower's note loan has three tranches with maturities of 2.6, 3.6 and five years, and bears both fixed and variable rates of interest. The final tranche of the borrower's note loan in the amount of EUR 15 million will mature at the end of May 2018.

In addition to the borrower's note loan, the TOM TAILOR GROUP finances its operational and long-term funding requirements through a syndicated loan agreement. The loan agreement currently in place was renegotiated at the end of May 2015. The new funding has a total volume of EUR 500 million, thus ensuring the financial framework for the Company's further development. As part of the renegotiation process, the TOM TAILOR GROUP also redeemed the EUR 45 million variable tranche of the borrower's note loan from 2013. A total of EUR 475 million of the loan refinancing has a term of five years, while EUR 25 million has a term of three years plus two options to extend the term by one year in each case. The bank lines of credit of EUR 500 million comprise a current account overdraft facility of EUR 187.5 million (utilisation as at 31 December 2016: EUR 78.6 million), a guaranteed line of credit of EUR 187.5 million (utilisation as at 31 December 2016: EUR 140.0 million) and bank loans of EUR 125.0 million (outstanding liability as at 31 December 2016: EUR 102.5 million). The variable effective interest rate for the lines drawn down is based on three-month and six-month EURIBOR plus a margin that depends on the ratio of net debt to recurring EBITDA.

The continuation of the borrower's note loans and the syndicated loan is dependent on compliance with financial covenants (net debt/EBITDA, net debt incl. future rent/EBITDAR and equity ratio); these are to be calculated on the basis of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). In the third quarter of 2016, TOM TAILOR informed its financing institutions that the financial covenants could not be met as at 30 September 2016 against the backdrop of the measures approved. In this context, the financial key figures as at 30 September 2016 and for the duration of the syndicated loan were re-adjusted in favour of the TOM TAILOR Group. All covenants were met as at 31 December 2016.

Operating Cash Flow Up Slightly to EUR 50.3 million

TOM TAILOR GROUP — Development of Key Cash Flows

in EUR million	2016	2015
Operating cash flow	50.3	49.3
Change (in %)	2.2	−30.0
Net cash provided by investing activities	−14.5	−24.9
Free cash flow	20.0	13.1
Change (in %)	53.1	−65.3

Cash generated from operations rose slightly by 2.2% or EUR 1.1 million to EUR 50.3 million in financial year 2016 (2015: EUR 49.3 million).

Net cash used in investing activities amounted to EUR 14.5 million in the reporting year and therefore was above the prior-year level (2015: EUR 24.9 million). Investments in controlled selling spaces in 2016 were lower than in 2015. Purchases of intangible assets and property, plant and equipment decreased by EUR 16.7 million to EUR 16.4 million (2015: EUR 33.1 million). Alongside the investments in controlled selling spaces, total proceeds of EUR 1.9 million were generated from the sale of fixed assets (2015: EUR 8.1 million).

The net amount of net cash provided by operating activities and net cash used in investing activities (free cash flow) improved by EUR 6.9 million to EUR 20.0 million in the reporting period (2015: EUR 13.1 million).

Net cash provided by financing activities of EUR 0.2 million in the previous year stood in contrast to net cash used in financing activities of EUR 32.7 million in the reporting year. The decrease in the financial year ended was due in particular to scheduled repayments of the fixed loans and a borrower's note loan tranche that was due totalling EUR 33.0 million.

Investments in Intangible Assets and Items of Property, Plant and Equipment Reduced Considerably

The Group invested a total of EUR 16.4 million (2015: EUR 33.1 million) in the past financial year to further expand controlled selling spaces in all three segments. Of that amount, EUR 6.1 million was invested in the TOM TAILOR Retail segment (2015: EUR 17.1 million) and EUR 6.8 million in the TOM TAILOR Wholesale segment (2015: EUR 8.4 million). Capital expenditure in the retail business related to shop fittings and fixtures. A total of EUR 4.1 million was spent on new selling spaces in the TOM TAILOR Wholesale segment. The remaining EUR 2.7 million mainly related to the IT / software infrastructure and to the acquisition of customer bases. BONITA invested a total of EUR 3.5 million in 2016 (2015: EUR 7.6 million), primarily in shop fittings for new stores and in remodelling and expanding existing stores.

NET ASSETS

Intangible Assets down EUR 17.0 million

Alongside brands, the intangible assets item includes the customer base, beneficial leases and licences that were realised by the identification of hidden reserves in the course of purchase price allocation for the acquisition of the TOM TAILOR operating business by TOM TAILOR Holding AG in 2005. During the BONITA purchase price allocation in 2012, a total of EUR 187.7 million was added for the BONITA brand and a further EUR 20.4 million from the recognition of hidden reserves was included in BONITA's current leases. The brands and goodwill reported are tested for impairment on an annual basis. Based on the Company planning, with the exception of the BONITA men brand no impairment loss needed to be recognised as at the reporting date. With regard to the customer base, a distinction is made between regular customers, franchise partners, shop-in-shop customers and multi-label customers. The customer base and licences identified at that time are amortised on a straight-line basis over their respective useful lives. The leases recognised are also amortised on a straight-line basis. In addition to the hidden reserves identified in 2005 and 2012, the intangible assets item largely comprises key money paid for new selling spaces, as well as software licences.

In the past financial year, intangible assets decreased by EUR 17.0 million to EUR 295.2 million (2015: EUR 312.2 million), mainly due to amortisation and impairment losses. The increase in impairment losses is primarily due to the impairment of the BONITA men brand (EUR 3.3 million) and the impairment of leases associated with the planned store closures (EUR 1.4 million).

Property, Plant and Equipment Lower by EUR 48.1 million

Property, plant and equipment mainly includes leasehold improvements made to fit out and remodel Company showrooms, as well as shop fittings and fixtures for the Company's own stores. The logistics site operated by BONITA, including the land, warehouse and operating facilities, is also included in property, plant and equipment.

Taking into account the year-on-year decrease in capital expenditure, and depreciation and impairments, property, plant and equipment declined considerably by EUR 48.1 million to EUR 104.2 million in 2016 (2015: EUR 152.3 million).

Decline in Net Working Capital

Net working capital is calculated as the sum of inventories and trade receivables less trade payables at the reporting date.

Amounting to EUR 159.1 million at the reporting date, inventories were down EUR 35.4 million on the prior-year figure (2015: EUR 194.5 million). This decrease was attributable mainly to write-downs of EUR 15.3 million, stepped up sales in the fourth quarter of 2016 and a reduction in ordering volume. Trade receivables decreased by EUR 8.0 million to EUR 41.2 million at the reporting date (2015: EUR 49.2 million). Trade payables decreased due to the decline in inventories by EUR 40.5 million to EUR 128.3 million (2015: EUR 168.8 million).

On the whole, net working capital as at 31 December 2016 fell by 3.9% to EUR 72.0 million (2015: EUR 75.0 million), and thus accounted for 7.4% of consolidated revenue (2015: 7.8%).

Selected Figures for Net Assets, Financial Position and Results of Operations

in EUR million	2016	2015	2014
Equity	162.9	225.5	239.2
Non-current liabilities	282.9	318.6	308.1
Current liabilities	249.9	279.0	241.6
Financial liabilities	232.8	267.9	239.9
Cash funds	38.1	50.5	36.9
Net debt	194.7	217.4	202.9
Total assets	695.7	823.1	788.9

Financial Liabilities and Net Debt Reduced

Under the non-current liabilities, non-current financial liabilities as at 31 December 2016 decreased by EUR 26.5 million year-on-year to EUR 196.2 million (2015: EUR 222.7 million). This reduction was largely due to repayment of the fixed-rate loan on schedule and the borrower's note loan tranche maturing in December 2016. Current financial liabilities were down EUR 8.6 million at the reporting date to EUR 36.6 million (2015: EUR 45.2 million).

At 31 December 2016, net debt amounted to EUR 194.7 million, down EUR 22.7 million on the prior-year figure of EUR 217.4 million.

Equity Ratio at 23.4%

Equity was lower in the reporting period at EUR 162.9 million, mainly due to the net loss for the period (31 December 2015: EUR 225.5 million). TOM TAILOR Holding AG increased equity by EUR 12.8 million in December 2016 by issuing 2,602,713 shares. However, the equity ratio as at 31 December 2016 dropped overall to 23.4% (31 December 2015: 27.4%).

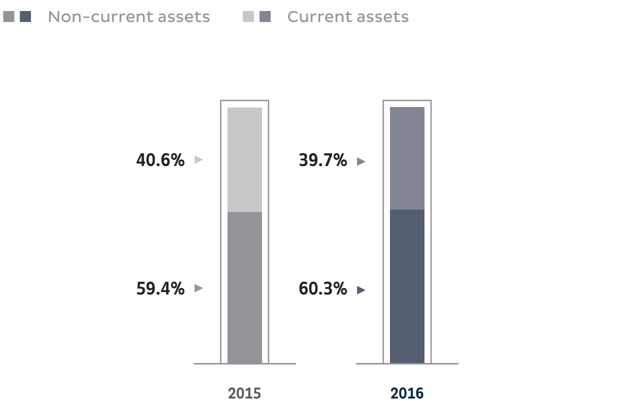
Off-Balance-sheet Financial Instruments

The Company does not use any off-balance-sheet financing instruments such as asset-backed securities or contingent liabilities involving special-purpose entities not included in the consolidated financial statements. At 31 December 2016, receivables from German business customers of EUR 13.6 million were sold under a rolling factoring programme.

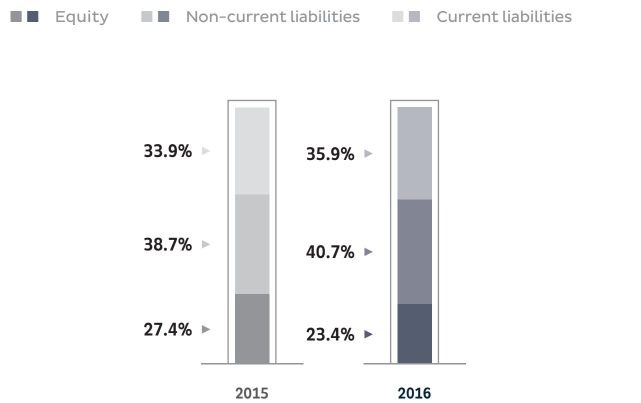
Rating

The TOM TAILOR GROUP has sufficient bank lines of credit and does not make use of financing instruments such as bonds or commercial paper. Consequently, the TOM TAILOR GROUP is not rated by external rating agencies.

Asset Structure of the TOM TAILOR GROUP



Capital Structure of the TOM TAILOR GROUP



OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF THE RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

In the view of the Management Board of TOM TAILOR Holding AG, business performance of the TOM TAILOR GROUP in the 2016 financial year was not satisfactory. The TOM TAILOR Group was able to expand further in an environment still marked by challenges, lifting consolidated revenue by 1.3% year-on-year. However, reported EBITDA decreased significantly to EUR 10.3 million (2015: EUR 67.6 million), mainly because of one-off expenses in the third quarter of the financial year, and the net loss for the period was considerable at EUR -73.0 million. In view of these one-off expenses, TOM TAILOR was also forced to adjust the original operating result forecast in autumn 2016.

With a moderate year-on-year increase in revenue to EUR 968.5 million and reported EBITDA of EUR 10.3 million, the actual figures for the year under review are within the range of the revised Group guidance for 2016. Cash flow from operations and free cash flow exceeded the projections in the adjusted Group guidance. Investments totalled EUR 16.4 million, lower than anticipated in the original and revised Group forecasts.

Based on the original Group guidance for the 2016 financial year, revenue growth, cash flow from operations and free cash flow met expectations. Prior to one-off expenses arising from the set of measures approved in autumn 2016, recurring EBITDA amounted to EUR 58.8 million in financial year 2016, down considerably from the recurring EBITDA of EUR 76.3 million in the previous year.

Considering the other medium-term financial goals of the TOM TAILOR Group, the debt level improved in the financial year ended, but the target ratio of net debt to reported EBITDA of below 2.0 was not yet reached. Likewise, neither a net income for the period nor an equity ratio of at least 30% were generated.

Management Judgements

With the exception of the new methods described in the notes no accounting policies were applied in the 2016 consolidated financial statements that differ from those applied in previous years and that, if applied differently, would have had a material effect on the net assets, financial position and results of operations. Information on the influence of estimates on the assumptions and judgements made is provided in the notes to the consolidated financial statements.

EMPLOYEES

Employees are a company's most important resource and are therefore the key to the success of any enterprise. One of the main tasks of human resources work in the TOM TAILOR GROUP is therefore to attract good people, systematically develop them and ensure that they remain with the Company for the long term. The workforce was distributed as follows as at 31 December 2016:

Employees

	2016			2015		
Number of employees on 31 December	**Retail**	**Wholesale**	**Total**	**Retail**	**Wholesale**	**Total**
Germany	3,480	540	**4,020**	3,521	568	**4,089**
Core markets outside Germany	1,515	104	**1,619**	1,634	108	**1,742**
Other countries	984	166	**1,150**	976	174	**1,150**
Total	**5,979**	**810**	**6,789**	**6,131**	**850**	**6,981**

Of the total of 6,789 employees, 3,087 worked at TOM TAILOR and 3,702 at BONITA. At 31 December 2016 TOM TAILOR Holding AG had six employees including the three members of the Management Board (previous year: 33).

DIVERSITY AND WORK-LIFE BALANCE

At the end of the reporting year 91% of the TOM TAILOR GROUP's employees were female. Women made up around 81% of TOM TAILOR employees and about 97% of BONITA employees. The two management levels below the Management Board included eleven women, i.e. women account for 35% of all senior executives.

A good balance between work and family life is a major concern for most of the Group's employees. The TOM TAILOR GROUP's flexitime, part-time and home office options enable employees to be flexible and customise their work to suit themselves to a large degree. A total of 65% of the TOM TAILOR GROUP's staff worked part time in 2016. At TOM TAILOR this figure was 35% and at BONITA 91%. The "TOM TAILOR goes Family" initiative enables employees to make use of a wide range of free services. In 2016, for instance, many employees took advantage of this offer during the strike at day care facilities across Germany.

TOM TAILOR GROUP AS AN ATTRACTIVE EMPLOYER

Demographic trends have led to shortage of well-trained staff available in the labour market. As a result, the long-term retention of employees in the Company and providing continuing education and professional development therefore play a key role for the TOM TAILOR GROUP. Given these factors, the Company has taken a number of steps to position itself as an attractive employer so that it can recruit and retain staff for the long run.

Moreover, TOM TAILOR regularly invites speakers from outside the Company to give presentations on topics such as motivation and leadership. The TOM TAILOR GROUP's Retail Academy enhances the skills of its workforce, including executives. This programme consists of four modules, including sales, visual merchandise and management training as well as resource-oriented HR development.

In addition, TOM TAILOR GROUP provides voluntary social benefits for its staff. For example, it offers a Company pension plan featuring additional employer contributions, a Group policy for occupational disability insurance and daycare subsidies.

TARGETED SUPPORT OF YOUNG TALENT AND INDIVIDUALISED PROFESSIONAL DEVELOPMENT OF EMPLOYEES

The TOM TAILOR GROUP strongly emphasises focused training and promotion of young talent. The Company's training plan ranges from conventional professional training options for the head office and the selling spaces alike through internships to trainee programmes for university graduates. These programmes are continually updated.

The TOM TAILOR GROUP offers its employees a wide range of continuing education opportunities that are revised on an ongoing basis and adapted to meet new requirements. In annual performance reviews, the Company determines employees' training requirements and wishes. The options include both professional classes (e.g. textile training) and skills-based development opportunities (e.g. intercultural competency). The "Leadership Lab" is aimed at executives in particular and is a multi-module executive development programme for both new and experienced managers.

Internal Company events for the entire staff are also regularly held on a variety of topics. One example is the lunchtime "brown bag" sessions at which employees in key positions or people responsible for new functions introduce themselves to the staff.

FOCUS ON HEALTH IN THE WORKPLACE

The personal well-being and health of its employees is a key concern for the TOM TAILOR GROUP. This is why the Group launched its Health in "TOM TAILOR goes balance" initiative that comprises external employee counselling and also offers a large number of seminars. Topics include stress prevention, health in the workplace and coping with change. The Company also provides financial backing for health courses.

Since 2012, employees have been able to contact an external coaching institute for free, anonymous advice and support on questions or problems related to their job, private lives or families. By introducing this service, the Company supports its employees in overcoming challenging and stressful life situations and so help maintain their health over the long term.

Our employees are a key factor of success

TEAM SPIRIT AND INTERNATIONAL CORPORATE CULTURE

The TOM TAILOR GROUP's corporate culture distinguishes itself through its hands-on mentality, open-door policy and flat hierarchies. As a result, employees feel comfortable taking responsibility quickly and putting their ideas into action. Direct communication with executives ensures short communication chains and quick decisions. Its enthusiastic and dynamic corporate culture makes the TOM TAILOR GROUP stand out from its competitors.

As a fashion company, the TOM TAILOR GROUP depends on many international employees and considers this aspect of its workforce a key success factor. In 2016, employees of 52 different nationalities worked in the Group, enriching the Company with their different cultural backgrounds, viewpoints, opinions and experience. This opens up new potential that boosts the Company's long-term success. Employees slated to be seconded abroad are prepared for the experience with seminars customised for the TOM TAILOR GROUP to minimise cultural barriers.

SUSTAINABILITY AND RESPONSIBILITY (NON-FINANCIAL STATEMENT)

RESPONSIBLE CORPORATE GOVERNANCE

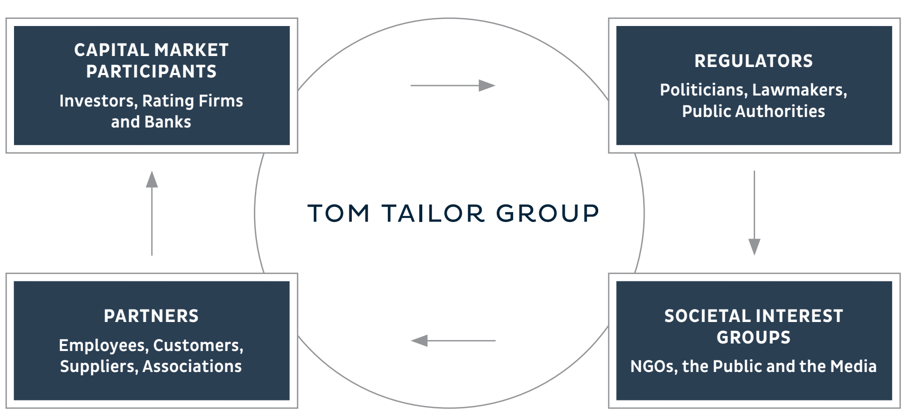
The TOM TAILOR GROUP's business activities are based on the principles of good and responsible corporate governance with an emphasis on integrity and requiring ethical behaviour from each and every employee. Protecting human rights is an integral part of the principles according to which we do business. Additional information about this topic is provided in the section entitled "Responsible Action in the Production Process". The plan to promote diversity in the composition of TOM TAILOR's governing bodies is part of the Corporate Governance Declaration.

In a global industry such as textiles, corporate responsibility towards employees, customers, suppliers and the environment is of particular significance. As a fashion company, the TOM TAILOR GROUP embraces corporate responsibility: it is integral to all processes at the Company and is an underlying factor in the long-term financial success of the TOM TAILOR GROUP.

The TOM TAILOR GROUP's approach to business includes a well-balanced human resources policy and maintaining relationships with business partners along the entire value chain based on a foundation of trust. The Group places great emphasis on decent, safe and fair working conditions at its supplier operations, on reducing its environmental footprint in the production and procurement process and in stores as well as on high product quality. Detailed information on TOM TAILOR's business model, corporate structure and corporate strategy is provided in the section entitled "Fundamental Information about the Group".

The TOM TAILOR GROUP's corporate responsibility activities undergo a process of continual improvement. The Company works with the support of all participating stakeholders on implementing its sustainability strategy first defined in 2016. This plan contains the next steps in the sustainability process up to 2019, which are continually updated in view of current developments and dialogue with stakeholders.

Stakeholder Dialogue



A regular exchange of information with stakeholders is vital for the TOM TAILOR GROUP. Our key stakeholders are business partners, employees, capital market participants, regulators and societal interest groups that all make a variety of demands on the TOM TAILOR GROUP at the national and international levels. The TOM TAILOR GROUP conducts focused, target group-oriented conversations with stakeholders so as to improve transparency concerning decisions made by the Company and therefore build trust. In addition, this exchange helps the Group to identify trends early on and to align TOM TAILOR's sustainability activities with the material interests of stakeholders.

FINANCIAL RESPONSIBILITY

Financial responsibility is a core component of corporate strategy and company management. Business success is what ensures the continued existence of the Company. The TOM TAILOR GROUP's performance in this regard in financial year 2016 is outlined in detail in this management report, and the consolidated financial statements and notes in this Annual Report.

We act in a sustainable manner and accept corporate responsibility

LEGAL RESPONSIBILITY

Compliance with the law and impeccably ethical behaviour by all employees are important to the TOM TAILOR GROUP in order to maintain confidence in the Company by customers, business partners, capital market participants and other stakeholders. Existing corporate guidelines are reviewed, updated and brought in line with new rules and laws. In some cases, the Company's rules exceed these, for instance in the case of materials used in TOM TAILOR's products. The plan in 2017 is to revise the existing compliance manual and prepare further guidelines.

RESPONSIBILITY TO EMPLOYEES

The employees of the TOM TAILOR GROUP are a key factor in the Company's success. The Company therefore positions itself as an attractive employer and is committed to responsible human resources policy. The TOM TAILOR GROUP's responsibility to employees is reflected in issues such as focused training and continuing education opportunities, diversity, a modern work environment, the promotion of health, and a performance-oriented, international corporate culture. Detailed information about this topic is provided in the section entitled “Employees”.

RESPONSIBILITY FOR THE ENVIRONMENT

By joining the Business Social Compliance Initiative (BSCI) and voluntarily signing up to its code of conduct, the TOM TAILOR GROUP has undertaken to comply with national environmental protection legislation. These national laws usually are not sufficient to adequately protect the environment in the production countries.

In 2015, the TOM TAILOR GROUP therefore launched a DETOX initiative to eliminate chemicals that are harmful to the environment from production and gradually replace them with more ecologically sustainable alternatives, an issue relevant to the entire textile industry. The TOM TAILOR GROUP has tightened the rules for the use for certain substances in end products. In some cases, these thresholds therefore exceed strict European statutory requirements. Moreover, the Company analyses numerous random samples both in its own and in third-party laboratories to ensure compliance with these regulations.

INCREASING THE USE OF ORGANIC COTTON

For some years now, the TOM TAILOR GROUP has used organic cotton in selected products. This supports the transition from conventional, resource-intensive cotton cultivation towards more ecologically balanced cultivation methods. The TOM TAILOR GROUP sources its organically produced cotton from certified suppliers complying either with the leading global certification standard, GOTS (Global Organic Textile Standard), or the Organic Exchange 100 standard.

Since August 2016, the Company has been a member of the Better Cotton Initiative (BCI). The BCI is a not-for-profit organisation that aims to reorganise cotton production by establishing better cotton as a mainstream raw material. In 2017 the share of BCI cotton products used by the TOM TAILOR GROUP is expected to approximately double to 20%.

PRODUCT QUALITY AS A CONTRIBUTOR TO ENVIRONMENTAL PROTECTION

The TOM TAILOR GROUP offers consumers good-quality, fashionable casual wear with an attractive value proposition. In order to ensure this standard of quality, the Company monitors the entire value chain. Items of clothing are subject to a variety of quality controls from production through to delivery to the point of sale in which the general workmanship and fit are checked along with compliance with the TOM TAILOR GROUP's defined quality and material requirements.

Good product quality means that clothing will last longer. Seen in terms of the entire life cycle – from growing the cotton to the ultimate disposal of the product by consumers – this makes a key contribution to protecting the environment.

We place special emphasis on product quality and a supply chain oriented on sustainability

RESPONSIBLE ACTION IN THE PRODUCTION PROCESS

The TOM TAILOR GROUP's collections are mainly manufactured in Asia, where the majority of global textile production takes place. The diversified supplier structures in the textile industry require great commitment in order to guarantee decent, safe and fair working conditions at the Asian suppliers. The Company has implemented a system for minimising supply chain risks. This concept rests on supplier certification, the stipulation of standards as well as controls and support for local partners.

The Company has maintained purchasing offices in Asia's most important procurement markets since 2011 via the joint venture TOM TAILOR Sourcing Ltd. so as to ensure direct contact with its suppliers, regularly monitor these itself and assist them.

The Company sources a large proportion of its merchandise from Bangladesh. In 2014, the TOM TAILOR GROUP opened its own purchasing office in Bangladesh to better control and safeguard local standards. The Company has made a long-term commitment to Bangladesh as a key procurement market. The purchasing office in Dhaka has around 100 employees working for the TOM TAILOR GROUP, most of whom visit the factories on a daily basis.

With regard to its production process, the TOM TAILOR GROUP voluntarily adheres to the principles of the BSCI, which includes all key standards of the International Labour Organisation (ILO), the UN Global Compact and the UN Declaration of Human Rights. Further elements are the OECD Guidelines for Multinational Enterprises and other internationally recognised treaties. These include a ban on child labour, safe and decent working conditions, fair pay, regulated working times, adherence to local laws, no discrimination and workers' freedom of association to form unions and freely negotiate rates.

Before the TOM TAILOR GROUP works with a new supplier, auditors from the purchasing company TOM TAILOR Sourcing perform in-depth checks of this supplier (Initial Factory Assessment). These inspections are based on the BSCI standards and standards defined by the Company. During the year under review, the TOM TAILOR GROUP completed 165 initial audits and 25 follow-on audits at suppliers.

If the inspection is successful, the TOM TAILOR GROUP enters into an agreement with the supplier concerned in which the supplier undertakes to adhere to the purchasing guidelines of the TOM TAILOR GROUP. These include restrictions or complete bans on the use of animal hair, certain types of down and feathers, real fur, leather and skins, shells, silk from India, cotton from Uzbekistan, mulesing of sheep and sandblasting in the production process. Over the course of the cooperation, employees from the TOM TAILOR purchasing offices and accredited agencies will perform regular announced and unannounced supplier audits and checks. If any deviations from the specified standards arise, the supplier will be sanctioned or the employees of the TOM TAILOR purchasing company will draft suitable measures and development plans with the supplier so that the standards are complied with once more.

Cooperation with our suppliers: we establish standards and check and support them

In India, the TOM TAILOR GROUP has been a member of the Tamil Nadu Multi-Stakeholder Group (TNMS Group) since 2012, an association combining individual BSCI members and the Ethical Trading Initiative (ETI). The group is taking a determined stand against Sumangali in southern India. Sumangali is a widespread form of employment in this region, in which young women undertake to work in factories for several years but do not receive the majority of their wages until the end of their multi-year employment. The idea is that the girls save for a dowry, which is a prerequisite for getting married. This widespread practice frequently results in a number of types of forced labour of young women. The TNMS Group is conducting systematic educational campaigns on the ground, including training suppliers, holding discussions with local legislators, NGOs and associations or setting up local community and training centres.

Furthermore, the TOM TAILOR GROUP is committed to fur-free collections. This is why the Company has been a member of the FUR FREE RETAILER PROGRAMME (FFRP) since 1 December 2015. The FFRP is an international initiative of leading animal and environmental protection organisations. The programme designates retailers, labels and designers who have made a written commitment not to use fur in their product ranges and helps consumers to find guaranteed fur-free fashion. The programme's German representative is the animal welfare organisation VIER PFOTEN – Stiftung für Tierschutz.

STATEMENT ON CORPORATE GOVERNANCE

The Corporate Governance Statement in accordance with section 289 a of the Handelsgesetzbuch (HGB – German Commercial Code) can be found in the Corporate Governance Report of the Annual Report and on TOM TAILOR Holding AG's website http://ir.tom-tailor-group.com.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

REMUNERATION OF THE MANAGEMENT BOARD MEMBERS OF TOM TAILOR HOLDING AG

In the 2016 financial year, the Management Board of TOM TAILOR Holding AG comprised Dr Schäfer, Mr Dressendörfer (from 15 June 2016), Mr Schröder (from 22 September 2016), Mr Holzer (until 22 September 2016) and Dr Rebien (until 15 June 2016).

The system of remuneration for Management Board members aims to ensure the successful, sustainable, value-focused performance of the Company.

As required by section 87 of the Aktiengesetz (AktG – German Stock Corporation Act) and the German Corporate Governance Code (GCGC), the Supervisory Board determines the total remuneration and regularly reviews the remuneration system. In setting an appropriate level of total remuneration, attention is paid to its customariness in view of both the Company's environment (customary remuneration in the Company's industry, in companies of comparable size, in Germany) and the Company's pay scale (ratio of Management Board remuneration to that of the workforce).

COMPONENTS OF MANAGEMENT BOARD REMUNERATION

The Management Board's remuneration is composed of fixed and variable (performance-based) components. In addition, members receive fringe benefits, e.g. use of a company car and accident insurance.

1) Fixed Salary

The amount of fixed salary received depends on the duties and area of responsibility of each Management Board member. It is paid in 12 equal instalments.

2) Variable Remuneration

The variable remuneration components for Dr Schäfer and Mr Dressendörfer are based on a multi-year bonus. Mr Dressendörfer was granted a one-off fixed bonus for the 2016 financial year.

The other variable remuneration components are as follows:

- One-year bonus
- Multi-year bonus
- Matching Stock Programme (MSP)
- Long-Term Incentive Programme (LTI)
- Stock Option Programme (SOP)

In addition, selected Management Board members hold equity interests in FCM Beteiligungs GmbH, which could generate proportional income for them in the future.

a) One-year Bonus

The short-term bonus for the Management Board member Dr Rebien (until the end of January 2016) was based on the net revenue and EBITDA of TOM TAILOR Holding AG on a consolidated basis. The contracts of Dr Schäfer, Mr Dressendörfer, Mr Schröder and Mr Holzer do not stipulate a one-year bonus.

b) Multi-year Bonus

The Management Board receives a multi-year bonus in accordance with performance targets agreed contractually with each member. The following targets are used depending on the provisions of the contract in each case: net revenue, net revenue growth, EBITDA growth, reduction in net financial liabilities, growth in operating cash flow, and consolidated earnings per share (EPS) for the TOM TAILOR Holding AG Group as well as its growth. The bonus payment is calculated using the average from the current financial year and the two preceding financial years. If the bonus calculated using the EPS component is negative for this reporting period, this reduces the bonus. There is a cap on the amount of the multi-year bonus for Management Board members.

c) MSP

On 20 January 2010 the Supervisory Board approved implementation of a Matching Stock Programme (MSP) for the members of the Management Board as a share-based remuneration system to align the interests of the Management Board and the shareholders. The MSP entitles the plan participants to acquire phantom stocks provided that the plan participants' employment with the Company has not been terminated at the time the MSP is subscribed. Only the Management Board members Mr Holzer and Dr Rebien participated in the MSP.

The MSP runs for a total of 14 years from the date of the initial listing and is allocated in five tranches. The phantom stocks can only be exercised under the condition that TOM TAILOR Holding AG shares outperform the SDAX during the exercise period. The strike price is calculated using the average, non-weighted closing price of TOM TAILOR Holding AG shares on the last trading day prior to exercise of the phantom stocks in a tranche.

The phantom stocks are subject to a vesting period of four years from the date of allotment of the relevant tranche. The gains from the MSP are capped for all plan participants at a maximum of 2.5% of the EBITDA in the most recent finalised annual financial statements of TOM TAILOR Holding AG.

d) LTI

In July 2010 a Long-Term Incentive (LTI) Programme was introduced for the Management Board and executives of TOM TAILOR Holding AG. This Programme serves to align the interests of the Management Board members, executives and shareholders of TOM TAILOR Holding AG as well as to encourage retention of personnel and achievement of the Company's long-term goals.

The LTI runs for a total of eight years from the date of initial listing of TOM TAILOR Holding AG shares. Assuming an active, unterminated employment relationship, the LTI will be awarded annually.

The target amount for each plan participant is based on their fixed salary at the time of issuance and is determined for the Management Board members by the Supervisory Board. The amount of the LTI payment will be calculated over a period of three years on the basis of EBITDA / net revenue (Factor 1) and the share price (Factor 2). Factor 1 comprises achievement of the target EBITDA growth over the three-year performance period weighted at 30% and achievement of the net revenue growth target over the three-year performance period weighted at 20%. Factor 2 comprises the growth in value of TOM TAILOR shares over the performance period. In calculating the LTI, Factor 2 must be included at a factor of at least 1.0.

Participants are entitled to a payout from the LTI only if at least 70% of the Factor 1 plan targets were attained. The value of the factors cannot exceed 2.0 in each case. The LTI payment is subject to a lock-up period of three years from the date it is granted.

e) SOP

On 3 June 2013 the Annual General Meeting of TOM TAILOR Holding AG resolved to introduce a Stock Option Programme (SOP) at the Company. The performance targets for the Programme are measured on the basis of a multi-year assessment and comply with the legal requirements of the Aktiengesetz (AktG – German Stock Corporation Act) and the German Corporate Governance Code.

In financial year 2016 the members of the Management Board Dr Schäfer, Mr Dressendörfer, Mr Holzer and Dr Rebien were eligible to participate in the Stock Option Programme. Dr Schäfer and Mr Dressendörfer were granted stock options.

Each option entitles plan participants to acquire one TOM TAILOR share. Until the TOM TAILOR shares are transferred, the option holders are entitled neither to pre-emptive rights to new shares of the Company from capital increases nor to equity derivatives nor to rights to dividends or other distributions.

The SOP performance period runs for four years, and the maximum term of the stock options shall not exceed seven years from the date of issue. In the four issuing periods, the option beneficiaries will receive stock option rights with two different strike prices. For 75% of the issued stock option rights (type A stock option rights), the strike price corresponds to the issue price; for the remaining 25%, the strike price of the stock option rights issued (type B stock option rights) corresponds to 120% of the issue price. The stock option rights may only be exercised if (1) the closing price of the shares on the last five trading days of the vesting period exceeds the issue price by an average of at least 35%, whereby the issue price shall correspond to the average closing price of the shares on the last 30 trading days before the date of issue of the respective stock option right, and (2) diluted consolidated earnings per share adjusted for special factors for the financial year ending prior to the end of the respective vesting period have increased by at least 50%. The gain achieved by the option beneficiaries when exercising their options may not exceed three times the issue price (cap).

f) Equity Interest in FCM Beteiligungs GmbH (Third-party Benefits)

In financial year 2014, the Management Board members Mr Holzer and Dr Rebien invested in FCM Beteiligungs GmbH from their net earnings for an equity interest in this company totalling 38%. FCM Beteiligungs GmbH holds 1,991,369 TOM TAILOR Holding AG shares. This represents a share of 6.96%. The Management Board members' equity interest therefore constitutes an investment in TOM TAILOR Holding AG and aligns the interests of management with those of the shareholders.

Proceeds are generated from the equity interest when shares are sold by FCM Beteiligungs GmbH. The gains from the equity interest are paid to participants in proportion to their interest in FCM Beteiligungs GmbH. This interest is reduced by what is known as a “performance ratchet” arrangement to a previously determined minimum, if the share price remains below a previously fixed hurdle when shares are sold. In addition to the aforementioned proceeds, the Management Board members are entitled to a performance bonus when TOM TAILOR shares are sold. This is based on the share price exceeding additional hurdles within a fixed time period. Shares can be sold after expiration of the lock-up period on 11 August 2015. This requires prior consultation with the Management Board members and executives of TOM TAILOR Holding AG. When the investment was made, the market value of the equity interest attributable to the members of the Management Board was around EUR 0.7 million.

Upon leaving TOM TAILOR Holding AG, participants in the performance ratchet arrangement are generally entitled to retain their interest in TOM TAILOR shares. Their share of the investment is reduced to the ratchet minimum. Claims to any performance bonuses are thereby extinguished.

3) Fringe Benefits

In addition to the personal use of a company car, fringe benefits include reimbursement of flight costs to the place of residence and work, premium payments for legal expenses insurance and D&O insurance and, for Mr Holzer, contributions to an endowment insurance policy.

4) Termination Benefits

No retirement benefits are granted to the members of the Management Board. In the event that a member of the Management Board becomes unable to work, his salary will continue to be paid for a maximum of six months; in the event of the death of a member of the Management Board, payments will continue for a maximum of 12 months. In the event of termination of an employment contract by the Company, Mr Dressendörfer is entitled to severance pay in the amount of his fixed remuneration for the remaining term of the contract. The severance amount is limited to a maximum of two years' minimum salary or EUR 0.9 million in accordance with German Corporate Governance Code regulations. If employment is terminated for good cause in accordance with section 626 of the Bürgerliches Gesetzbuch (BGB – German Civil Code), then any claims to severance pay are extinguished.

As part of the termination agreements signed with Dr Rebien and Mr Holzer, the Company waived its claims to repayment of the overpayment amounting to EUR 0.2 million in each case in financial year 2015. In this context, Dr Rebien and Mr Holzer in turn waived any claims arising from the MSP, LTI or SOP variable remuneration components. In addition, the continued payment of Mr Holzer's fixed salary and granting or maintenance of his other benefits until the end of March 2017 were agreed.

A commitment was made in financial year 2016 to pay Dr Rebien and Mr Holzer total severance of EUR 1.7 million and EUR 1.3 million, respectively.

Benefits Granted

	Dieter Holzer				Dr Axel Rebien			
EUR	**2015**	**2016**[5]	**2016** (Min)[5]	**2016** (Max)[5]	**2015**	**2016**[5]	**2016** (Min)[5]	**2016** (Max)[5]
Fixed remuneration	875,000	900,000	900,000	900,000	600,000	710,000	710,000	710,000
Fringe benefits	32,123	32,198	32,198	32,198	21,833	12,742	12,742	12,742
Total	**907,123**	**932,198**	**932,198**	**932,198**	**621,833**	**722,742**	**722,742**	**722,742**
One-year variable remuneration	–	–	–	–	150,000	4,275	–	–[6]
Multi-year variable remuneration	259,520	22,915	–	6,438,313	140,336	18,077	–	1,390,624
Multi-year bonus[1]	–	–	–	6,100,000	–	–	–	1,123,333[7]
MSP[2] 2014 – 2018	–	–	–	–	–	–	–	
LTI 2014 – 2017 / 2015 – 2018	63,460	22,915	–	338,313[8]	42,306	18,077	–	266,891[9]
AOP[3] 2014 – 2018 / 2015 – 2019	196,060	–	–	–	98,030	–	–	–
Total	**1,166,643**	**955,113**	**932,198**	**7,370,511**	**912,169**	**745,094**	**722,742**	**–**
Retirement benefit	–	–	–	–	–	–	–	–
Total remuneration	**1,166,643**	**955,113**	**932,198**	**7,370,511**	**912,169**	**745,094**	**722,742**	**–**

Benefits Granted

	Dr Heiko Schäfer				Thomas Dressendörfer			
EUR	**2015**	**2016**	**2016** (Min)	**2016** (Max)	**2015**	**2016**[4]	**2016** (Min)[4]	**2016** (Max)[4]
Fixed remuneration	49,167	590,000	590,000	590,000	–	245,000	245,000	245,000
Fringe benefits	172	12,600	12,600	12,600	–	5,246	5,246	5,246
Total	**49,339**	**602,600**	**602,600**	**602,600**	**–**	**250,246**	**250,246**	**250,246**
One-year variable remuneration	–	300,000	–	300,000	–	650,000	–	650,000
Multi-year variable remuneration	–	154,205	–	2,057,369	–	217,735	–	2,442,000
Multi-year bonus[1]	–	–	–	610,000	–	–	–	–[11]
MSP[2] 2014 – 2018	–	–	–	–	–	–	–	–
LTI 2014 – 2017 / 2015 – 2018	–	45,337	–	226,369[10]	–	–	–	–
AOP[3] 2014 – 2018 / 2015 – 2019	–	108,868	–	1,221,000	–	217,735	217,735	2,442,000
Total	**49,339**	**1,056,805**	**602,600**	**2,959,969**	**–**	**1,117,981**	**467,981**	**3,342,246**
Retirement benefit	–	–	–	–	–	–	–	–
Total remuneration	**49,339**	**1,056,805**	**602,600**	**2,959,969**	**–**	**1,117,981**	**467,981**	**3,342,246**

1 Due to the method used, the target figures of the multi-year bonus cannot be derived and disclosed definitely for the Management Board members participating in this plan in the financial year.

2 Due to the method used, the maximum figures for the MSP cannot be derived and disclosed definitely.

3 In financial year 2015, options under the SOP were granted to Mr Dieter Holzer and Dr Axel Rebien. In financial year 2016, only Mr Thomas Dressendörfer and Dr Heiko Schäfer each were granted options under the SOP. The gain achieved by the option beneficiaries when exercising their options may not exceed three times the issue price (cap).

4 The fixed and variable remuneration for Mr Dressendörfer and Mr Schröder in financial year 2016 comprises pro-rated remuneration for their period of service as Management Board members.

5 Mr Holzer and Dr Axel Rebien waived portions of their remuneration in their respective termination agreement.

6 The one-year variable remuneration of the former Management Board member Dr Axel Rebien for January 2016 is not capped.

7 Calculation is made on a pro-rata basis in accordance with the respective director's contract.

8 Overall remuneration comprising the fixed annual salary and the multi-year bonus is capped at EUR 8.0 million. Should the fixed annual salary and the multi-year bonus reach EUR 7.0 million, the LTI is limited to EUR 1.0 million.

9 Overall remuneration comprising the fixed annual salary and the multi-year bonus is capped at EUR 6.0 million. Should the fixed annual salary and the multi-year bonus reach EUR 2.0 million, the LTI is limited to EUR 4.0 million.

10 In principle, the LTI is not capped pursuant to the current director's contract.

11 For the year of joining the Management Board, no calculation of the multi-year bonus has been provided for.

Benefits Granted

	Uwe Schröder				Total Management Board	
EUR	2015	2016[4]	2016 (Min)[4]	2016 (Max)[4]	2015	2016
Fixed remuneration	–	198,334	198,334	198,334	1,524,167	2,643,334
Fringe benefits	–	–	–	–	54,128	62,786
Total	**–**	**198,334**	**198,334**	**198,334**	**1,578,295**	**2,706,120**
One-year variable remuneration	–	–	–	300,000	150,000	954,275
Multi-year variable remuneration	–	–	–	–	399,856	412,932
Multi-year bonus[1]	–	–	–	–	–	–
MSP[2] 2014 – 2018	–	–	–	–	–	–
LTI 2014 – 2017 / 2015 – 2018	–	–	–	–	105,766	86,329
AOP[3] 2014 – 2018 / 2015 – 2019	–	–	–	–	294,090	326,603
Total	**–**	**198,334**	**198,334**	**498,334**	**2,128,151**	**4,073,327**
Retirement benefit	–	–	–	–	–	–
Total remuneration	**–**	**198,334**	**198,334**	**498,334**	**2,128,151**	**4,073,327**

1 Due to the method used, the target figures of the multi-year bonus cannot be derived and disclosed definitely for the Management Board members participating in this plan in the financial year.

2 Due to the method used, the maximum figures for the MSP cannot be derived and disclosed definitely.

3 In financial year 2015, options under the SOP were granted to Mr Dieter Holzer and Dr Axel Rebien. In financial year 2016, only Mr Thomas Dressendörfer and Dr Heiko Schäfer each were granted options under the SOP. The gain achieved by the option beneficiaries when exercising their options may not exceed three times the issue price (cap).

4 The fixed and variable remuneration for Mr Dressendörfer and Mr Schröder in financial year 2016 comprises pro-rated remuneration for their period of service as Management Board members.

5 Mr Holzer and Dr Axel Rebien waived portions of their remuneration in their respective termination agreement.

6 The one-year variable remuneration of the former Management Board member Dr Axel Rebien for January 2016 is not capped.

7 Calculation is made on a pro-rata basis in accordance with the respective director's contract.

8 Overall remuneration comprising the fixed annual salary and the multi-year bonus is capped at EUR 8.0 million. Should the fixed annual salary and the multi-year bonus reach EUR 7.0 million, the LTI is limited to EUR 1.0 million.

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10 In principle, the LTI is not capped pursuant to the current director's contract.

11 For the year of joining the Management Board, no calculation of the multi-year bonus has been provided for.

Amounts Received

	Dieter Holzer		Dr Axel Rebien		Dr Heiko Schäfer		Thomas Dressendörfer	
EUR	**2015**	**2016[5]**	**2015**	**2016[5]**	**2015**	**2016**	**2015**	**2016[4]**
Fixed remuneration[4]	875,000	900,000	600,000	710,000	49,167	590,000	–	245,000
Fringe benefits[4]	32,123	32,198	21,833	12,742	172	12,600	–	5,246
Total	**907,123**	**932,198**	**621,833**	**722,742**	**49,339**	**602,600**	**–**	**250,246**
One-year variable remuneration	–	–	150,000	–[1]	–	300,000	–	650,000
Multi-year variable remuneration	422,856	29,507	164,446	18,988	–	–	–	–
Multi-year bonus	–	–	–	–	–	–	–	–
MSP[2] 2014 – 2018 / 2015 – 2019	–	–	–	–	–	–	–	–
LTI 2014 – 2017 / 2015 – 2018	422,856	29,507	164,446	18,988	–	–	–	–
AOP[3] 2014 – 2018 / 2015 – 2019	–	–	–	–	–	–	–	–
Total	**1,329,979**	**961,705**	**936,279**	**741,730**	**49,339**	**902,600**	**–**	**900,246**
Retirement benefits	–	–	–	–	–	–	–	–
Total remuneration	**1,329,979**	**961,705**	**936,279**	**741,730**	**49,339**	**902,600**	**–**	**900,246**

1 Dr Axel Rebien waived all of his short- and medium-term variable remuneration in his termination agreement dated 3 May 2016 and receives severance pay of EUR 90 thousand as compensation.

2 Due to the method used, the maximum figures for the MSP cannot be derived and disclosed definitely.

3 In financial year 2015, options under the SOP were granted to Mr Dieter Holzer and Dr Axel Rebien.
In financial year 2016, only Mr Thomas Dressendörfer and Dr Heiko Schäfer each were granted options under the SOP.
The gain achieved by the option beneficiaries when exercising their options may not exceed three times the issue price (cap).

4 The fixed and variable remuneration for Mr Dressendörfer and Mr Schröder in financial year 2016 comprises pro-rated remuneration for their period of service as Management Board members.

5 Mr Holzer and Dr Axel Rebien waived portions of their remuneration in their respective termination agreement.

Amounts Received

EUR	Uwe Schröder 2015	Uwe Schröder 2016[4]	Total Management Board 2015	Total Management Board 2016
Fixed remuneration[4]	–	198,334	1,524,167	2,643,334
Fringe benefits[4]	–	–	54,128	62,786
Total	–	**198,334**	**1,578,295**	**2,706,120**
One-year variable remuneration	–	–	150,000	950,000
Multi-year variable remuneration	–	÷–	587,302	48,495
Multi-year bonus	–	–	–	–
MSP[2] 2014 – 2018 / 2015 – 2019	–	–	–	–
LTI 2014 – 2017 / 2015 – 2018	–	–	587,302	48,495
AOP[3] 2014 – 2018 / 2015 – 2019	–	–	–	–
Total	**–**	**198,334**	**2,315,597**	**3,704,615**
Retirement benefits	–	–	–	–
Total remuneration	–	**198,334**	**2,315,597**	**3,704,615**

1 Dr Axel Rebien waived all of his short- and medium-term variable remuneration in his termination agreement dated 3 May 2016 and receives severance pay of EUR 90 thousand as compensation.

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5 Mr Holzer and Dr Axel Rebien waived portions of their remuneration in their respective termination agreement.

REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

In accordance with the Articles of Association, the members of the Supervisory Board receive fixed remuneration of EUR 48 thousand (the Chairman receives EUR 165 thousand and the Deputy Chairman EUR 90 thousand), plus compensation for outofpocket expenses. This remuneration is payable after the end of the Annual General Meeting that receives and resolves on the approval of the consolidated financial statements for the financial year in question.

DISCLOSURES REQUIRED BY TAKEOVER LAW IN ACCORDANCE WITH SECTION 315(4) OF THE HGB (GERMAN COMMERCIAL CODE) AND EXPLANATORY REPORT

The overriding goal of the TOM TAILOR GROUP's management team is to generate value for shareholders. This is why every proposed change of control and every takeover offer that could realise hidden reserves and enterprise value, benefiting shareholders, is carefully analysed to establish the expected synergies and the future potential to add value. A change of control is deemed to have occurred if a single shareholder or a group of shareholders acting in concert acquires more than 30% of the outstanding voting rights as a result of a takeover, an exchange, or another form of transfer, or if, as a result of a takeover or a reverse merger, the shareholders of TOM TAILOR Holding AG hold less than 30% of the voting rights in the combined entity after such a transaction has entered into force. The TOM TAILOR GROUP has not established any specific defensive mechanisms or measures against takeovers.

COMPOSITION OF SUBSCRIBED CAPITAL AND VOTING RIGHTS

TOM TAILOR Holding AG's subscribed capital (share capital) as at 31 December 2016 was EUR 28,629,846.00 and is composed of 28,629,846 noparvalue registered shares. Each share grants the holder equal rights and a single vote at the Annual General Meeting.

Restrictions Affecting Voting Rights or the Transfer of Shares

Lock-up provisions or other restrictions affecting voting rights or the transfer of shares did not exist in the reporting period.

EQUITY INTERESTS EXCEEDING 10% OF THE VOTING RIGHTS

To the knowledge of the Management Board, based on the notifications received by the Company in line with the WpHG as at 31 December 2016, the following direct or indirect equity interests in the share capital of TOM TAILOR Holding AG exceed 10% of the voting rights:

Fosun International Holdings Ltd., Road Town, Tortola, British Virgin Islands, holds 29.47% of the voting shares. 29.47% of the voting rights (8,436,290 voting rights) are attributable to Fosun International Holdings Ltd. in accordance with both section 22(1) sentence 1 no. 1 and section 22(2) WpHG. Fosun International Limited participated in the capital increase completed by TOM TAILOR Holding AG in December 2016, acquiring 767,019 shares. This means that the percentage of voting rights attributed to Fosun International Holdings Ltd. remained at 29.47%.

The voting rights attributed to Fosun International Holdings Ltd. in accordance with section 22(1) sentence 1 no. 1 WpHG are held by the following companies it controls and whose interest in the voting shares of TOM TAILOR Holding AG is 3% or more in each case: Fosun Holdings Limited; Fosun International Limited; Fosun Financial Holdings Limited; Millennium Gain Limited; Longrun Portugal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A.; FCM Beteiligungs GmbH

POWERS OF THE MANAGEMENT BOARD TO ISSUE SHARES

The shareholders have authorised the Management Board to issue new shares, options or conversion rights as follows:

Authorised Capital

The Management Board is authorised in accordance with section 4.3 of the Articles of Association to increase the Company's share capital in full or in part, with the consent of the Supervisory Board, on one or more occasions until 2 June 2018 by issuing new, noparvalue registered shares against cash contributions (Authorised Capital 2013 I). The new shares shall generally be offered to shareholders for subscription (including by way of indirect subscription in accordance with section 186(5) sentence 1 of the Aktiengesetz [AktG – German Stock Corporation Act]).

However, the Management Board is authorised, with the consent of the Supervisory Board, to disapply statutory pre-emptive rights in full or in part to eliminate fractions.

The Management Board is authorised, with the consent of the Supervisory Board, to specify the further details of the implementation of capital increases from Authorised Capital 2013 I.

The Management Board is authorised in accordance with section 4.4 of the Articles of Association to increase the Company's share capital in full or in part, with the consent of the Supervisory Board, on one or more occasions until 2 June 2020 by up to a total of EUR 2,602,713 by issuing new, noparvalue registered shares against cash and/or noncash contributions (Authorised Capital 2015). The new shares shall generally be offered to shareholders for subscription (including by way of indirect subscription in accordance with section 186 (5) sentence 1 of the AktG).

The Management Board is, however, authorised, with the consent of the Supervisory Board, to disapply shareholders' pre-emptive rights fully or partially in the following cases.

- to eliminate fractions
- in the case of cash capital increases in return noncash contributions to grant shares for the purpose of acquiring companies, business units of companies, equity interests in companies, or other assets or rights
- in the case of capital increases, if the issue price of the new shares is not materially lower than the quoted market price of the existing listed shares and the shares issued while disapplying shareholders' pre-emptive rights in accordance with section 186(3) sentence 4 of the AktG do not exceed a total of 10% of the share capital either at the time that this authorisation comes into effect or at the time it is utilised. This limit of 10% of the share capital must also include any shares that are (i) issued or sold during the authorisation period subject to the disapplication of pre-emptive rights while applying section 186(3) sentence 4 of the AktG, either directly or with the necessary modifications, or that (ii) are or can be issued to service convertible bonds and/or bonds with conversion or warrant rights or obligations insofar as the bonds are issued after this authorisation comes into effect subject to the disapplication of shareholders' pre-emptive rights in line with section 186(3) sentence 4 of the AktG.

The Management Board is authorised, with the consent of the Supervisory Board, to stipulate the other details of the implementation of capital increases out of the Authorised Capital 2015.

Contingent Capital

In accordance with section 4.5 of the Articles of Association, the share capital has been contingently increased by up to EUR 2,400,000 by issuing up to 2,400,000 noparvalue registered shares (Contingent Capital 2013). The sole purpose of the contingent capital increase is to grant shares to the holders of stock option rights under the Longterm Stock Option Programme. The Management Board was authorised to grant these shares by way of a resolution by the Annual General Meeting on 3 June 2013. The contingent capital increase will only be implemented to the extent that the holders of stock option rights granted on the basis of the authorisation by the Annual General Meeting on 3 June 2013 exercise these stock option rights and the Company does not settle the stock option rights by delivering own shares or by making a cash payment.

The new shares participate in profits from the beginning of the financial year for which the Annual General Meeting has not yet adopted a resolution on the utilisation of the net retained profits at the time the new shares are issued.

The Company's Management Board is authorised, with the consent of the Supervisory Board, to specify the further details of the implementation of the contingent capital increase, unless stock option rights and shares are to be granted to members of the Company's Management Board; in this case, the Supervisory Board shall specify the further details of the implementation of the contingent capital increase.

TOM TAILOR Holding AG has not issued convertible bonds or bonds with warrants in the past three years, nor are there any such bonds outstanding.

AUTHORISATION OF THE MANAGEMENT BOARD TO BUY BACK OWN SHARES

The shareholders have authorised the Management Board to acquire and use own shares as follows:

a)

The Company is authorised to acquire own shares for any permissible purpose until June 2, 2020 with a total nominal value representing up to 10% of the share capital existing at the time of the resolution, or – if less – of the share capital existing at the time of exercise of the present authorisation. The shares acquired based on this authorisation, along with any own shares acquired for any other purpose in the company's possession or attributable to it based on section 71d and section 71e AktG, are not permitted to exceed 10% of the company's share capital at any time. The authorisation may not be used by the Company to trade in own shares.

b)

The shares must be acquired on the stock market (aa) below) or by way of a public purchase offer directed to all shareholders (bb) below). Offers in accordance with bb) can also be solicited via a public invitation directed to all shareholders to submit offers to sell shares.

aa)

If the shares are acquired on the stock market, the purchase price per share paid by the Company (not including incidental acquisition costs) may not exceed or fall below by more than 10% the average closing price (arithmetic mean) of the Company's shares in XETRA trading on the Frankfurt Stock Exchange, or a successor system, on the last ten trading days prior to the undertaking to acquire the shares.

bb)

If the shares are acquired by way of a public purchase offer, a purchase price or a purchase price range can be specified. In this case, the purchase price per share paid by the Company (not including incidental acquisition costs) may not exceed by more than 10% or fall below by more than 20% the average closing price (arithmetic mean) of the Company's shares in XETRA trading on the Frankfurt Stock Exchange, or a successor system, on the last ten trading days prior to the date of publication of the final decision by the Management Board on issuing an offer or invitation. If the relevant price changes not insignificantly after publication of a public purchase offer, the purchase price or purchase price range may be adjusted. In this case, the closing price in XETRA trading on the Frankfurt Stock Exchange, or a successor system, on the last trading day prior to the public announcement of any adjustment is the deciding price.

cc)

The volume of the public purchase offer can be limited. If the volume of shares offered in a public purchase offer exceeds the possible buy-back volume, then the offers must be accepted in proportion to the shares offered; in this respect, the right of shareholders to tender their shares in proportion to their ownership interests is disapplied. In addition, the conditions can include preferred acceptance of smaller numbers of shares (up to 100 tendered shares per shareholder) partially barring a possible right to tender and rounding according to commercial principles to avoid fractions of shares. The public purchase offer can stipulate additional terms and conditions.

c)
The Management Board is authorised to use the own shares acquired on the basis of this authorisation for any legally permissible purpose, especially the following:

aa)
The shares can be sold (i) on the stock exchange or (ii) by way of an offer to all shareholders.

bb)
The shares can also be sold in ways other than on the stock exchange or by way of an offer to shareholders, if the shares are sold for cash and at a price (not including the incidental selling costs) that is not significantly below the stock exchange price of the Company's shares at the time of sale. This authorisation is only applicable provided the shares sold while disapplying shareholders' pre-emptive rights in accordance with section 186(3) sentence 4 AktG do not exceed a total of 10% of the share capital either at the time that this authorisation comes into effect or at the time it is exercised. This limit is to include shares issued during the term of this authorisation from authorised capital while disapplying shareholders' pre-emptive rights in accordance with section 186(3) sentence 4 AktG. Furthermore, this limit is also to include shares issued to service bonds with conversion or warrant rights or obligations, if the bonds are issued during the term of the authorisation while disapplying pre-emptive rights by corresponding application of section 186(3) sentence 4 AktG.

cc)
The shares can be offered to third parties in exchange for non-cash contributions, particularly as part of business combinations and acquisitions of companies, parts of companies, or equity investments in companies, along with other assets in connection with such acquisitions, and transferred to these third parties.

dd)
The shares can be used to service subscription rights issued to members of the Company's Management Board, members of the management of affiliated companies, and selected employees below Management Board level of the Company and below management level of affiliated companies from a Stock Option Programme resolved under agenda item 5 by the Annual General Meeting on June 3, 2013 with own shares of the Company. Please refer to the information pursuant to section 193 para. 2 no. 4 AktG in the resolution on agenda item 5 from the Annual General Meeting on June 3, 2013. This authorisation is applicable to the Supervisory Board to the extent that own shares are to be transferred to members of the Management Board of the Company.

ee)
The shares can be used to fulfil conversion or warrant rights granted by the Company or a Group company when issuing bonds in the future, or to fulfil conversion or warrant obligations arising from bonds issued by the Company or a Group company in the future.

ff)
The shares can be retired without the retirement or its implementation requiring an additional resolution by the Annual General Meeting. The retirement will lead to a reduction in the Company's share capital by the percentage attributable to the retired shares. By way of exception to the preceding, the Management Board can deem the share capital unchanged during the retirement and instead increase the percentage of the share capital accounted for by the non-retired shares. In this case, the Management Board is authorised to adjust the number of no-par value shares in the Bylaws.

d)
The preceding authorisations can be exercised in whole or in part, once or several times, for one or more than one purpose by the Company and, with the exception of the authorisation under c)ff), also by dependent companies or companies in which the Company holds a majority interest, or by third parties acting on their account or the Company's account.

e)
The use of own shares in accordance with the authorisations in sections c)bb) to c)ff) requires the approval of the Supervisory Board.

f)
The pre-emptive rights of shareholders are disapplied if the shares are used in accordance with the preceding authorisations in sections c)bb) to c)ee). In addition, the Management Board can disapply the pre-emptive rights of shareholders for fractions in the event the shares are sold by way of an offer to all shareholders.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD; AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The appointment and dismissal of the members of the Management Board of TOM TAILOR Holding AG are regulated by sections 84 and 85 of the AktG in conjunction with section 6 of the Articles of Association. According to section 6 of the Articles of Association, the Management Board consists of at least two persons. Apart from this provision, the Supervisory Board determines the number of members of the Management Board. The Supervisory Board may appoint a chairman of the Management Board and a deputy chairman.

Generally speaking, the Annual General Meeting is responsible for making amendments to the Articles of Association in accordance with section 179(1) of the AktG. In accordance with section 15 of the Articles of Association, however, the Supervisory Board is authorised to resolve amendments to the Articles of Association in cases that affect the wording only, for example amendments to the share capital resulting from a capital increase from authorised capital. Insofar as the Articles of Association do not specify any other majority, resolutions of the Annual General Meeting on amendments to the Articles of Association in accordance with section 179 (2) of the AktG require a majority of at least three quarters of the share capital represented when the resolution is adopted. Section 20.1 of the Articles of Association of TOM TAILOR Holding AG specifies that a simple majority of the votes cast and a simple majority of the share capital represented at the time of the resolution shall be sufficient for a majority of the votes and a majority of the share capital respectively, unless the law or the Articles of Association require otherwise.

CHANGE OF CONTROL

TOM TAILOR Holding AG is a party to the following agreement, which contains certain conditions governing a change of control following a takeover offer:

The Company has entered into a syndicated loan agreement with a consortium of banks. This agreement contains a change of control clause, which requires the early repayment of the bank finance granted in the case of a change of control at the Company, i.e. if either Fosun International Limited alone or in conjunction with a company directly or indirectly affiliated with Fosun and/or with several persons acting in concert within the meaning of section 2(5) of the Wertpapierübernahmegesetz (WpÜG - German Securities Acquisition and Takeover Act) acquires more than 50% of the voting rights in the Company, or if one or more persons (acting in concert) otherwise directly or indirectly acquire more than 30% of the voting rights in the Company. In the event that one or more lenders terminate the loan agreement due to a change of control, the bank finance provided by the lenders that terminated the agreement must be repaid pro rata.

RISKS AND OPPORTUNITIES

In the course of its business activities, the TOM TAILOR GROUP is exposed to a large number of risks and opportunities. Targets set may not be met either in whole or in part due to negative deviations (risks) or may be exceeded because of positive deviations (opportunities).

The risk manager coordinates and describes the responsibilities, processes, binding guidelines and formal rules in a risk manual. This provides the formal foundation for the risk management system. The risk manager also issues a risk report twice a year as well as reporting to the Management Board as needed.

BALANCED RISK AND OPPORTUNITY POLICY

The aim of risk and opportunity management is to identify risks at an early stage, to control them and to manage them using appropriate countermeasures. Another goal is to systematically leverage arising opportunities without ignoring the associated risks, and to simultaneously ensure that the Company's risk profile is acceptable. Our risk policy is also focused on the goal of increasing the TOM TAILOR GROUP's enterprise value in the long term.

EFFICIENT ORGANISATION OF RISK AND OPPORTUNITY MANAGEMENT

The Management Board of TOM TAILOR Holding AG bears overall responsibility for efficient risk and opportunity management in the Group as a whole. Group-wide risk management is centrally coordinated and managed from the Company's headquarters in Hamburg.

In operational risk management, risk owners manage all risks and opportunities arising from business processes in their areas of responsibility and are involved in making the associated business decisions.

STANDARDISED INTERNAL RISK CONTROL SYSTEM RELEVANT FOR THE FINANCIAL REPORTING PROCESS

The internal control system relevant for the financial reporting process of the TOM TAILOR GROUP ensures proper bookkeeping and accounting as well as the reliability of financial reporting in the consolidated financial statements and Group Management Report. As a core component of the Group's financial reporting process, it comprises preventive, monitoring and detection measures designed to ensure security and control.

A key tool is the principle of functional separation to ensure that the relevant corporate processes are handled separately. Consequently, employees only have access to the processes and data that are related to their work.

The Company also keeps in close contact with its auditors throughout the year with respect to new statutory provisions and new or unusual transactions. The consolidated financial statements are prepared centrally by Company employees using certified consolidation software. The employees concerned have many years of experience and expert knowledge of consolidation issues and IFRS accounting. Standardised reporting tools that provide all the information required for full IFRS consolidated financial statements are used by subsidiaries for reporting to the parent.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

During risk inventories, any new sources of risk are identified and existing sources of risk are reassessed if necessary. Risk assessments are first recorded in accordance with the “gross principle”, i.e. without taking into account measures that minimise risk. Subsequently, the net principle is applied (remaining risk after countermeasures). The quantitative aspects of relevant risks and opportunities are evaluated as fully as possible to establish potential losses and the probability of occurrence, and are prioritised in line with this as low, medium, medium-high or high risk, or low, medium and high probability. The following tables explain how the TOM TAILOR GROUP’s risks are classified.

Risk owners manage all operational risks and opportunities in the Company’s day-to-day business. Medium-high and high risks and the potential and actual countermeasures taken are also always considered by the Management Board. In this way, the TOM TAILOR GROUP prioritises its exposures according to potential risk to the Company and manages them effectively.

Classification of Risks and Opportunities: Probability of Occurrence

As at 31 December 2016	
Very improbable	up tp 10%
Improbable	from 10% to 30%
Not very probable	from 30% to 50%
Probable	from 50% to 80%
Highly probable	from 80% to 100%

Risk Classification: Potential Loss

As at 31 December 2016	
Low	Limited negative effects on business activities, financial position, results of operations and cash flows; effect on EBIT <= EUR 2 mn
Moderate	Some negative effects on business activities, financial position, results of operations and cash flows; effect on EBIT between EUR 2 mn and EUR 5 mn
Material	Significant negative effects on business activities, financial position, results of operations and cash flows; effect on EBIT between EUR 5 mn and EUR 10 mn
Severe	Damaging negative effects on business activities, financial position, results of operations and cash flows; effect on EBIT between EUR 10 mn and EUR 20 mn
Very severe	Very damaging negative effects on business activities, financial position, results of operations and cash flows; effect on EBIT > EUR 20mn

Classification of Opportunities: Positive Effects

As at 31 December 2016	
Insignificant	Limited positive effects on business activities, financial position, results of operations and cash flows; effect on EBIT <= EUR 1 mn
Relevant	Some positive effects on business activities, financial position, results of operations and cash flows; effect on EBIT between EUR 1 mn and EUR 5 mn
Substantial	Significant positive effects on business activities, financial position, results of operations and cash flows; effect on EBIT between EUR 5 mn and EUR 10 mn
Significant	Decisive positive effects on business activities, financial position, results of operations and cash flows; effect on EBIT > EUR 10 mn

Assessment Matrix for Risks and Opportunities

Probability of Occurrence

Low	Moderate	Material	Severe	Very severe		Insignificant	Relevant	Substantial	Significant
M	MH	MH	H	H	Very probable	Mi	Me	Ma	Ma
M	MH	MH	H	H	Probable	Mi	Me	Ma	Ma
M	M	MH	MH	H	Not that probable	Mi	Me	Me	Ma
L	M	M	MH	H	Improbable	Mi	Mi	Me	Me
L	L	M	M	MH	Very improbable	Mi	Mi	Mi	Me

Risk Effect (Low – Very severe) / **Opportunity Effect** (Insignificant – Significant)

L	M	MH	H
Low risk	Medium risk	Medium-high risk	High risk

Mi	Me	Ma
Minor opportunity	Medium opportunity	Major opportunity

Risk control encompasses all measures that reduce either the probability of occurrence and/or the extent of the losses of a risk situation. Unacceptable risks are avoided wherever possible, or at the very least contained to a large degree by introducing countermeasures or transferred to third parties. Opportunities are leveraged as much as possible. Monitoring the measures implemented and their effectiveness is a key success factor. Risk reporting ensures comprehensive presentation of the results of the preceding phases of the risk management process in a way that is relevant to the Company.

This process runs continually so that changes in business conditions can be reflected in risk reporting. This comprehensive risk management system is the foundation particularly for enabling the Company to identify developments that threaten the continued existence of the Company at an early stage and allowing the Management Board to manage these by taking appropriate measures.

RISKS AND OPPORTUNITIES

The individual risks relevant to the TOM TAILOR GROUP are combined in risk categories and presented below together with the opportunities in the same categories. Only material risks are outlined. These are defined as risks with an expected value exceeding EUR 100,000 and/or classified at least in the medium category.

The TOM TAILOR GROUP applies the negative impact of a risk or positive effect of an opportunity to planned EBIT and additionally looks at relevant risks that could harm the Company or its reputation. This breakdown uses a condensed form of the same risk and opportunity categories as those used in the internal risk management system: financial, Company-related, operational, strategic and external risks and opportunities. Unless specified otherwise, all risks and opportunities relate to all of the TOM TAILOR GROUP's segments. The occurrence of risks is estimated as realistically as possible. Nonetheless, other negative or positive effects on the net assets, financial position and results of operations of the TOM TAILOR GROUP cannot be ruled out completely.

YEAR-ON-YEAR CHANGES

The effect of potential losses on EBIT has been assessed since the second half of 2016 for 2017 (previous year: EBITDA). This resulted in deviations in the case of some risks, mostly within categories.

Our credit risk has grown, so it has therefore been moved up from the medium to the medium-high category. On the whole, the probability of default in the textile industry was assessed by commercial credit insurers to be higher than in 2015. Due to the reorientation, the effect of the risk associated with long-term competitive positioning and brand image are also estimated to be more pronounced than in the previous year. This risk has therefore been moved from the medium to the medium-high category.

FINANCIAL RISKS AND OPPORTUNITIES

Liquidity Risks

Liquidity risk is the risk that payment obligations cannot be met or cannot be met on time because insufficient cash funds are available or the Company cannot comply with financial covenants. The Company prepares a revolving liquidity plan and daily liquidity reports to document cash inflows and outflows in both the short and medium term. If the TOM TAILOR GROUP were unable to comply with the covenants, access might be lost to existing credit lines (either in whole or in part). If this risk were to occur, the loss would be very severe. Such an occurrence has become slightly more probable than in the previous year, but is nonetheless considered very unlikely. This risk is therefore classified in the medium-high category.

Risks of Impairment in the Consolidated Financial Statements

A deterioration in the profitability or the business prospects for individual segments or business units may lead to higher impairment losses on the assets reported in the consolidated balance sheet. A failure to meet the projections for the development of business in the BONITA segment to a significant extent could lead to the impairment of intangible assets. In 2017, this risk continues to be classed as medium-high.

Credit Risks

Currently, credit risks exist only with respect to key accounts in the Wholesale segment due to the granting of payment terms and the associated customer credit risk. The Finance department therefore regularly and continually reviews and monitors credit ratings and outstanding receivables for the Group. Moreover, the Company takes out credit insurance policies and obtains collateral to counter this risk. Identified risks are accounted for by recognising valuation allowances or provisions. On account of the current market situation in the fashion industry, this is classified as a medium-high risk.

Currency Risks and Opportunities

Currency risk in the TOM TAILOR GROUP is the result of the international focus of the Group's business activities in connection with the procurement and distribution of merchandise in different currencies. This means that both risks and opportunities may arise as a result of exchange rate fluctuations. The majority of items procured by the TOM TAILOR GROUP are invoiced in US dollars. An increase in the value of the US dollar compared with the euro could have a significantly negative impact. A large part of the risk arising from exchange rate fluctuations can be minimised using currency forwards. This is therefore classified as a medium risk. The Russian ruble's devaluation against the euro reduces the purchasing power of TOM TAILOR customers in Russia. We are monitoring the market carefully and put this risk in the medium category. Currency risks arising from other currencies and currency opportunities are currently regarded as low and are therefore not explained in more detail.

COMPANY-RELATED RISKS AND OPPORTUNITIES

Compliance Risks

The TOM TAILOR GROUP defines compliance risks as all risks that might result in a lack of compliance with laws and/or internal guidelines as well as risks that could result directly from the compliance management system. Such risks could have financial consequences such as lawsuits and/or monetary fines for the TOM TAILOR GROUP. All individual risks are managed efficiently in the individual departments by the risk owner and controlled using suitable countermeasures. As a whole, compliance risks are classified as high with an improbable probability of occurrence and very severe extent of loss.

Personnel Risks

Personnel risks arise primarily from a lack of top performers, gaps in employee qualifications and the risk that employees will leave the Company. The Group is particularly dependent on the Management Board, certain managers and employees in key positions. A loss from among this group of people could have a negative effect on business performance. Restructuring could amplify this effect further. The TOM TAILOR GROUP addresses this risk by positioning itself as an attractive employer, thereby offering its employees good career prospects. This also enables the Company to recruit and retain staff. This risk is classified as medium-high.

IT Risks and Opportunities

The TOM TAILOR GROUP is dependent on the high availability and operability of its IT systems. These are essential for the management of business processes and effective cost control. The failure or disruption of these IT systems or an attack from the outside could significantly impact business processes. In order to counter the aforementioned risks, the TOM TAILOR GROUP will continue to make targeted investments in the expansion and enhancement of its IT systems in the future in order to ensure the continuous operability of its systems and the effectiveness of its processes. The risks associated with IT systems and performance are combined here and classified as medium.

Currently, the TOM TAILOR GROUP is implementing an ERP (enterprise resource planning) system and a new e-commerce platform. These systems will generate many opportunities such as process optimisation for the organisation, especially from 2018 onward. However, risks could also arise in 2017 in the event of delays and/or budget overruns. Systematic and effective project management is expected to minimise these risks during the project period and after the (partial) roll-out of the projects to prevent the risk of outages. The project risks overall are classified as medium. In 2017, the opportunities associated with the aforementioned projects are still considered low.

Risks Arising from Long-term Contracts

The TOM TAILOR GROUP has entered into long-term agreements with a number of lessors and with numerous wholesale contract partners and licensees. This means that, for example, leases for unprofitable stores could not be terminated early or renegotiated. All existing and new agreements are therefore reviewed and approved by the financial and legal department before signing. Nevertheless, there could be litigation, which could be costly and could damage the TOM TAILOR GROUP's reputation even if it were resolved in its favour. For this reason, this risk is classified as medium.

OPERATING RISKS AND OPPORTUNITIES

Risks and Opportunities Arising from the Company's Organisation

The TOM TAILOR GROUP operates in international markets with various brands. As a result, business processes are becoming increasingly complex. If coordination is lacking or insufficient, this can lead to inefficiencies. The Management Board has already approved various measures such as pulling out of the US, South African, French and Chinese markets to streamline processes. The TOM TAILOR GROUP will considerably simplify the Company's organisation and processes as a result. This risk is currently still classified as medium-high. However, there is a chance that the targets set may be exceeded thanks to restructuring efforts in 2017/2018. This opportunity is classified as medium.

Sales and Inventory Risks and Opportunities

The TOM TAILOR GROUP is exposed to a sales and inventory risk as long as the inventory remains the property of the TOM TAILOR GROUP until it is sold to the end customer. Mistakes when forecasting actual customer demand and sales as well as a loss of wholesale clients could decrease revenue in the future. The resulting inventory surpluses may lead to increased stocks and/or an impairment of the goods. The TOM TAILOR GROUP therefore applies detailed planning, conducts regular reviews and carries out targeted sales activities. On the whole, this risk is classified as medium-high. At the same time, there is a chance that stocks may be reduced more quickly than planned. This opportunity is classified as medium.

Logistics Risks

If natural forces, accidents or bankruptcies affect air and sea freight, deliveries of merchandise could be delayed or even destroyed. These risks could affect scheduled deliveries to customers and lead to increased claims for damages and reputational damage. This risk is almost entirely hedged by insurance that covers part of the loss of merchandise and earnings. Overall, this risk is classified as medium.

A disruption in inventory management systems or warehousing and logistics services outsourced to partners could result in problems with timely delivery and adversely affect revenue and profits. The Company has outsourced to third parties the management of the largest warehouse spaces for the TOM TAILOR brands and the e-commerce platform and therefore reduced this risk – but also its controllability. Close cooperation with the relevant partners allows the Company to identify possible problems or difficulties in good time and to develop suitable countermeasures. The risks associated with the outsourcing of processes continue to be categorised as medium.

Social and Environmental Risks

The TOM TAILOR Holding AG is committed to the principle of sustainable management and acknowledges the Company's responsibility to its stakeholders and society (corporate social responsibility). Nonetheless, social and environmental risks could exist, particularly at suppliers. All suppliers sign on to a Code of Conduct stating that the Group's products are manufactured under decent working conditions in their production facilities. Working conditions are additionally monitored internally and externally. The TOM TAILOR GROUP is also an active member of the Business Social Compliance Initiative (BSCI). On the whole, the TOM TAILOR GROUP classifies social and environmental risks as medium.

STRATEGIC RISKS AND OPPORTUNITIES

Risks Arising from Trend Identification and Pricing

The TOM TAILOR GROUP rapidly identifies current trends, implements them in new collections and distributes them promptly to the points of sale. If the Group is unsuccessful in rapidly identifying current trends, catering to the tastes of its target groups in the target markets it supplies, pricing its products appropriately, or successfully developing and launching new products, this could have a negative effect on the TOM TAILOR GROUP's competitive position and profitability. Market scouts are deployed in product development for the brands to identify and understand trends and translate them into products. Since the TOM TAILOR GROUP does not itself set trends, the risk of missing the mark with a trend is low. Moreover, feedback from end customers is analysed prior to designing subsequent collections. In 2017 the Company will concentrate on the core TOM TAILOR, TOM TAILOR Denim and BONITA brands to further reduce risk. This risk should therefore continue to be classified as medium-high.

Risks and Opportunities Associated with Long-Term Competitive Positioning and Brand Image

Among other things, the Group's economic success is based on the strength and on the long-term strong competitive positioning of the TOM TAILOR and BONITA brands. Deterioration in the image of the brands and the competitive positioning of these brands could negatively impact the profitability prospects of the Group in the long term. The TOM TAILOR GROUP focuses its marketing so as to strengthen its competitive position and brand image, and classes this risk as medium-high. At the same time, opportunities can arise if strengthening the TOM TAILOR GROUP brands has a greater positive impact than expected.

Divestiture, Investment and Cost Risks and Opportunities

The TOM TAILOR GROUP is currently focusing exclusively on its core business and core markets. The decision to withdraw from some countries and reduce the network of stores carries the risk that the costs incurred could be higher than planned. In order to minimise this risk, business plans are prepared for investments and divestitures, and closely coordinated with project management, controlling and the various departments, then regularly reviewed and adjusted. This risk is therefore classified as medium. Processes are being streamlined for purposes of reducing complexity. Under certain circumstances, this could reduce process costs more than planned. This opportunity is classified as low.

EXTERNAL RISKS AND OPPORTUNITIES

Competitive Risks and Opportunities

The markets in which the TOM TAILOR GROUP operates are largely dominated by fierce competition. The market's shift toward online sales is also continuing to accelerate. The TOM TAILOR GROUP invests in strengthening its brands and improving its online portal to reduce the risks of intense competition. New and existing global online and brick-and-mortar competitors could negatively influence the market share of the TOM TAILOR GROUP. This risk is classified as medium. However, the TOM TAILOR GROUP could also benefit from predatory competition if other brands or manufacturers drop out of the market. This opportunity is classified as medium.

Risks Arising from Economic Developments

Weak economic growth or a worsening economy, particularly in the Group's domestic market of Germany, could negatively affect overall consumer demand and hence also demand for TOM TAILOR GROUP products. This could result in declining sales and pressure on margins. Reports on the economy are analysed regularly to be able to react to changes in due time. The extent of potential losses for the Group from a negative economic trend is considered material, but they have a very improbable probability of occurrence at present due to the current positive economic indicators for 2017. This risk is classified as medium.

Weather Risks

Unfavourable weather conditions can reduce customer traffic and therefore negatively affect sales of TOM TAILOR and BONITA products. This seasonal risk is classified as medium.

Country-related Risks and Opportunities

The TOM TAILOR GROUP is exposed to various country risks. The general macroeconomic, political and legal environment in some of the procurement and sales countries of the TOM TAILOR GROUP is different to that in Western Europe. On the sales side, this concerns countries in South-Eastern Europe and Russia, for example. The situation in Western Europe could also develop less stably due to geopolitical risk. This risk is nevertheless still classified as medium. There is still potential in the markets in South-Eastern Europe and Russia. The TOM TAILOR GROUP generally views this as a chance to generate positive effects. This opportunity is classified as low.

OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF THE GROUP'S RISK AND OPPORTUNITY POSITION

Overall, there were no significant changes with regard to the Group's risk position in the 2016 reporting year compared to financial year 2015.

Not all future risks might have been included in this report. Creating organisational structures and processes makes early identification and assessment of risks possible and thus permits suitable countermeasures to be used.

Overall risk and overall opportunities are assessed based on information from the risk and the opportunity management systems along with the planning, steering and control systems in place. Risks are evaluated independently from the opportunities that could arise for the Company. Having determined the probability of occurrence and effects of all the risks described above, these risks, either individually or in the aggregate, do not at the time this management report was prepared represent a threat to the TOM TAILOR GROUP's continued existence over the next 12 months from the Management Board's perspective.

REPORT ON POST-BALANCE SHEET DATE EVENTS

In the period up to 9 March 2017, there were no other significant operational and structural changes or transactions within the TOM TAILOR GROUP that could have a material effect on the net assets, financial position or results of operations compared with 31 December 2016. Please refer to the disclosures in the notes.

REPORT ON EXPECTED DEVELOPMENTS

OUTLOOK – ECONOMIC ENVIRONMENT AND SECTOR DEVELOPMENTS

GLOBAL ECONOMY PICKS UP – STABLE UPSWING AND MAJOR RISKS FOR THE EURO ZONE

The International Monetary Fund (IMF) projects that economic activity will pick up pace. Global growth is expected to rise to 3.4% in 2017 (last forecast: 3.4%). The IMF believes that this will reflect a strong rebound in activity in the United States and also a perceptible upswing in the emerging market and developing economies.

However, there is general sentiment that risks have also increased. For example, geopolitical crises are unresolved and the raising of interest rates in the US could lead to problems in emerging market economies and to turmoil in the financial markets in the event of a sizeable appreciation of the US dollar. The policy stance of the new US administration is also unclear and there is a growing trend towards protectionism in many areas. Europe, too, is facing multiple challenges. These especially include Brexit, the upcoming elections in key EU member states and the strained national budgets in a number of countries as well as the banking crisis in Italy. Major uncertainties could therefore bring the economy to its knees once more.

Assuming the negative factors do not escalate, the euro zone should continue its robust upswing. The IMF anticipates growth of 1.6% for the monetary union in 2017, while the Institute for the World Economy (IfW) in Kiel forecasts an increase of 1.7%. Apart from a few exceptions, the growth momentum is being at least sustained in all European countries. The IfW expects to see higher growth in the Eastern and South-Eastern European countries of the euro zone and the EU in particular. By contrast, growth in the UK will perceptibly weaken as a consequence of the Brexit process, also putting a drag on the euro zone. The European Central Bank has announced that it will continue its loose monetary policy. In the euro zone, growth will continue to be propped up by domestic demand, though investments will provide increased stimulus. Owing to rising energy and fuel prices, inflation – as was already apparent in December 2016 – will keep rising throughout the year (IfW: 1.2%). The IfW is of the opinion that the positive trend in the euro zone's labour market will continue. This will lead to a 1.6% increase in consumer spending in EU countries during 2017.

2017: CONTINUED STRONG CONSUMER DEMAND IN THE CORE MARKETS FOR THE TOM TAILOR GROUP

The economic environment and the propensity of private households in Germany to consume are very important for the TOM TAILOR GROUP.

Germany:
Employment and household income figures continue to rise

The IMF raised its growth forecast for German gross domestic product (GDP) in 2017 marginally to 1.5% (January 2017 update). The IfW in Kiel is more optimistic and projects growth of 1.7% or, adjusted for the number of working days, by as much as 2.0%. Once again, the upturn will be fuelled by the domestic economy. Due to continued very strong growth in the construction industry, investments in equipment will gradually pick up as well. The IfW forecasts a sustained positive trend for the labour market. It estimates that the number of people in employment will rise by nearly 400,000 in 2017 and that unemployment will fall slightly in spite of immigration. Inflation will increase to 1.5% as fuel prices rise. According to projections by the IfW, the disposable income of private households will rise by 2.7%. Under these conditions, consumer spending will continue to expand by a robust 1.5% in 2017, albeit at a slightly slower pace than in recent years.

Consumer sentiment in Germany remained at a high level in early 2017. The GfK consumer confidence index stood at 9.9 points in January, 0.1 points up on the December figure and 0.5 points higher than the figure for the same month of the previous year. Income expectations were up year-on-year and the propensity to buy increased further. The GfK consumer confidence index is forecast to come in at 10.2 points for February 2017.

The core international markets for the TOM TAILOR GROUP are Switzerland, Austria, South-Eastern European EU countries and Russia. The economies of these countries are expected to develop as follows in 2017:

Economic activity in Switzerland is expected to pick up the pace a little. The Expert Group of the Federal Government / Swiss State Secretariat for Economic Affairs (SECO) forecasts that Swiss GDP will grow by 1.8% in 2017. A slight increase in employment of 0.4% is projected (SECO, KOF). The estimates for consumer spending in 2017 are mixed. According to SECO, the growth rate will stagnate at 0.9%. Economic researchers from the University of Zurich expect to see an increase of 1.3% and hence an uptick in consumer spending.

Tailwind for private consumption in Switzerland and Austria

In Austria, the overall economic upswing is gaining traction. Austria's central bank (OeNB) expects Austrian GDP to increase by 1.5%, buoyed by growth in exports and investments in construction. Inflation will accelerate to 1.5%. The OeNB also estimates that the trends in the labour market will continue in 2017, i.e. the level of employment will rise further, but the jobless rate will also increase due to the influx of workers. In this environment, the OeNB predicts that consumer spending will experience stable growth of 1.1% in 2017.

The economic prospects in Eastern Europe are still positive for 2017. For this region, the IMF forecasts aggregate GDP growth of 3.1% (2016: 2.9%). The IfW in Kiel expects growth in the South-Eastern European EU countries of Slovenia (+3.1%), Croatia (+2.7%), Bulgaria (+3.2%) and Romania (+4.0%) to outstrip that of the euro zone.

2017: The Environment for the Textile and Fashion Business Remains Challenging

The robust economy in 2017 and the positive economic data for consumer spending in the core sales markets for the TOM TAILOR GROUP provide an advantageous climate for retail in these countries. Rising employment and higher consumer spending point to strong sales growth. The mood of consumers in Europe is positive but differs greatly by region according to GfK. Consumers in Eastern and South-Eastern Europe in particular are upbeat.

The German Retail Federation (HDE) is feeling confident about the future. It anticipates overall revenue growth in German retail sales of 2.0% in nominal terms to EUR 491.9 billion in 2017. Online sales are expected to experience above-average growth again of 11% to just under EUR 49 million; this will lower the market share of the brick-and-mortar retail business.

Consumer preferences throughout Europe have recently focused mainly on other product ranges, however. A turnaround is not on the horizon for 2017, so the prospects for the textile and fashion business remain challenging. In the wake of the turbulences of recent years, one requirement for a broadly positive underlying trend is otherwise usual seasonal demand patterns. Competitive pressure in the industry will remain fierce. Manufacturers that are able to react to trends with flexibility, have lean structures and can reach customers in both the over-the-counter retail business and online have comparatively good opportunities for sound development in 2017 and beyond.

Prospects for the textile and fashion business remain challenging

EXPECTED COURSE OF BUSINESS

FOCUS ON THE HEALTHY CORE BUSINESS

In October 2016, the new Management Board of TOM TAILOR Holding AG set up an extended cost-cutting and process optimisation programme called RESET that goes far beyond the measures implemented to date. This programme was born out of TOM TAILOR's unsatisfactory performance in 2015 and 2016. The objective of this programme is to focus the Group's efforts on its healthy core business and discontinue all unprofitable business activities. In so doing, the Company will streamline its processes and purposefully reduce complexity. To do this, it will close more stores, discontinue brands and withdraw from markets. However, the TOM TAILOR GROUP will also invest in its brands, e-commerce and omnichannel sales as well as in its IT infrastructure to counter the effects of structural change in the textile industry. The complete strategy and the gamut of measures are explained in the section entitled "Strategic Focus". All measures are designed to clearly improve the business performance of the TOM TAILOR GROUP.

COMPLETION OF OPTIMISATION PROJECTS

In 2017, the TOM TAILOR GROUP plans to complete the measures it is implementing as part of the cost-cutting and process optimisation programme. Having already discontinued the TOM TAILOR POLO TEAM and TOM TAILOR CONTEMPORARY brands, the Group will take BONITA men off the market in summer 2017. In addition, the Group plans to withdraw from the Chinese market at the end of March, from the US market at the end of June and essentially from the French market by the end of 2017. The Company will also continue to optimise its network of stores and will close up to 300 stores by the end of 2018. Of these, 250 closures have already been initiated or are now completed.

STRENGTHENING OF THE BRAND PROFILE AND IMPROVEMENT IN PROCESSES IN THE RETAIL SEGMENT

The Group plans to sharpen the profile of its TOM TAILOR and TOM TAILOR Denim brands, making them more appealing for customers. Based on an in-depth analysis of customer data, the Group will be able to reach customers in a more targeted manner in the future. In addition, the Group is realigning its brand communication by making this bolder, more provocative and more emotive.

The brick-and-mortar retail business has been suffering reduced footfall for some time. In light of this situation, the TOM TAILOR GROUP is reorganising its retail operations to improve processes and customer service. Its aim is to enhance the shopping experience in the TOM TAILOR stores, boost customer loyalty and strengthen the connection with the brand's e-shop.

We are pushing ahead with RESET

MODEST GROWTH IN WHOLESALE PROJECTED

The Wholesale segment is expected to achieve modest growth in the 2017 financial year with a slight improvement in gross profit. Selective expansion of business activities with online partners is essential for further development. Furthermore, the Company plans to open between 100 and 150 new shop-in-shops and over 15 franchise stores in 2017. Business activities will be expanded primarily by way of existing and new partners only in the core markets without adding new regional markets, using a completely new, sophisticated store concept.

EXPANSION OF DIGITALISATION

Digitalisation has radically changed the structure of the textile market in a trailblazing manner and is therefore of key importance. With this in mind, TOM TAILOR intends to increasingly manage its own e-shop itself and develop it further in line with its objectives. The online sales channel will also continue to be connected to the physical stores through the introduction of the "order from store" feature in Germany. Furthermore, the Company will increase its budget for online marketing. In addition, powerful IT systems will be needed for the internal processes; TOM TAILOR will likewise invest in these and progressively roll out SAP.

CAPITAL EXPENDITURE ON LEVEL OF PREVIOUS YEAR

The TOM TAILOR GROUP has set aside a maximum of EUR 20 million for investment in its projects during the reporting period, a figure on a par with the previous year.

EXPECTED DEVELOPMENT OF THE GROUP'S POSITION

CONSOLIDATED REVENUE EXPECTED TO BE MODERATELY HIGHER THAN IN PREVIOUS YEAR

From today's perspective, the Management Board of TOM TAILOR Holding AG estimates that consolidated revenue in 2017 will be slightly higher than in the previous year.

The Management Board assumes that the revenue of the TOM TAILOR Wholesale segment will remain stable. In the TOM TAILOR Retail segment, the Management Board expects revenue to grow moderately in spite of the planned closure of shops. While most shop closures will take place in Germany, these will be offset by growth in the international markets. In this segment the gross margin is also expected to receive a boost. The Management Board anticipates a revenue decline at BONITA due to closures of BONITA stores and the discontinuation of the BONITA men brand and its stores. Moreover, the Management Board believes that the new BONITA collections will expand the gross margin. The forecast assumes stable conditions in the core markets for the TOM TAILOR GROUP and, generally speaking, a volatile textile market with fluctuations within the normal range.

The operating margin will improve considerably

LARGE TARGET INCREASE IN REPORTED EBITDA MARGIN

In October 2016, the TOM TAILOR GROUP initiated the RESET cost and process optimisation programme implementing a wide range of measures, with profitability more firmly the centrepiece of its strategy. The largely non-cash extraordinary charges of nearly EUR 81 million associated with these activities were recognised in the 2016 financial year. Initial tangible effects will start to become apparent in the course of 2017. In this respect, 2017 will be viewed as a year of transition. The Management Board of TOM TAILOR Holding AG estimates that these far-reaching measures will sustainably improve the Group's operating ratios in the medium term, giving its profitability a boost.

Against this backdrop, the Management Board of TOM TAILOR Holding AG expects a considerable year-on-year increase in the reported EBITDA margin of the Group in 2017. This forecast includes the assumption that the measures introduced can be implemented to the extent and according to the schedule planned, that the planned introduction of SAP will go forward without any serious start-up difficulties and that TOM TAILOR Retail will perform as planned, especially in Germany.

NET DEBT REDUCTION AND EQUITY RATIO INCREASE

The TOM TAILOR GROUP intends to further reduce net debt and to use cash flow from operations and free cash flow for this purpose. Net debt will also be lowered, among other things, through the annual scheduled repayment of EUR 15 million of the long-term loan.

In the medium term the TOM TAILOR GROUP also aims to reduce the ratio of net debt to reported EBITDA to below 2.0. Furthermore, the TOM TAILOR GROUP intends to lift its equity ratio above 30% in the medium term.

TOM TAILOR GROUP:
Key Data for the Company Forecast for 2017

in EUR million	Forecast for 2017
Consolidated revenue	Slight increase year-on-year
Gross margin (in %)	Moderate increase year-on-year
Reported EBITDA	Strong increase year-on-year
Reported EBITDA margin (in %)	Strong increase year-on-year
Reported EBIT	Strong increase year-on-year
Reported EBIT margin (in %)	Strong increase year-on-year

OVERALL ASSESSMENT OF EXPECTED DEVELOPMENTS BY THE MANAGEMENT BOARD

The Management Board of TOM TAILOR Holding AG assesses the Group's current situation as mildly positive. In the 2016 reporting period, the Company was able to moderately increase consolidated revenue by a single-digit percentage of 1.3% in a competitive market as anticipated and substantially expanded the optimisation programme it had introduced at the end of 2015. For this reason, the Company had to adjust expectations for the originally forecast operating result.

In October 2016, the TOM TAILOR GROUP expanded the cost-cutting and efficiency programme it had already initiated. The measures taken aim to focus the Group's efforts on its strong core business, streamline processes and reduce complexity in a market environment that has undergone structural change. The objective of these measures is to sustainably improve profitability while releasing funds for capital expenditure, particularly in brands and digital sales channels. At the same time, the TOM TAILOR GROUP has begun to systematically divest its loss-making activities, which includes withdrawing from unprofitable international markets, closing additional retail stores and discontinuing product lines. Consequently, the Group's future activities will focus on the TOM TAILOR, TOM TAILOR Denim and Kids lines, as well as BONITA Women.

BONITA introduced a strict cost management discipline in 2016 under its new management, further trimming its cost base. In addition, the style of the collections was updated and the collections were gradually brought onto the market. BONITA opened over 51 vertical wholesale shop-in-shops (concession) in the 2016 financial year that will make a full-year contribution to revenue and earnings for the first time in 2017.

The TOM TAILOR Wholesale segment performed encouragingly again in the reporting period, lifting its revenue by 3.2% and raising the number of shop-in-shops by 94 to 3,050. In the TOM TAILOR Retail segment, the Group will continue its expansion only in the fast-growing South-Eastern European and Russian markets. The TOM TAILOR GROUP will continue to focus squarely on these rapidly expanding markets as well as on the Germany-Austria-Switzerland region, the Company's most important sales market, in 2017.

In view of this situation, the Management Board of TOM TAILOR Holding AG is making every effort to implement the cost optimisation and efficiency enhancement measures promptly so as to stabilise the Company's business development and enhance profitability. As a result, the Management Board expects the Group's results of operations, financial position and net assets to improve in financial year 2017.

The following points are essential for the future development of the TOM TAILOR GROUP:

- successful implementation of the extended cost-cutting and efficiency programme in line with planning to reduce complexity and reinforce the Group's strong core business;
- selective expansion of the digital infrastructure; and
- strengthening of the brand profiles and product expertise of both umbrella brands in line with customers' needs.

The forecast for the 2017 financial year takes into account all currently known occurrences and events that could influence business developments. However, it is possible that the Company's actual business performance could differ from the forecasts due to political, economic or structural developments or the impact of the weather – factors that the Group cannot influence, predict or plan for in any way.

Hamburg, 9 March 2017

The Management Board

Dr Heiko Schäfer
(CEO)

Thomas Dressendörfer
(CFO)

Uwe Schröder
(Member of the Management Board)

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CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement from 1 January to 31 December 2016

in EUR thousand	Note	2016	2015
Revenue	1	**968,519**	**955,878**
Other operating income	2	32,312	38,990
Cost of materials	3	–441,042	–420,582
Personnel expenses	4	–220,158	–208,643
Depreciation, amortisation and impairments	5	–83,145	–50,269
Other operating expenses	6	–329,375	–298,068
Profit from operating activities		**–72,889**	**17,306**
Financial result	7	**–16,314**	**–14,860**
Result before income taxes		**–89,203**	**2,446**
Income taxes	8	16,203	–2,375
Net income for the period		**–73,000**	**71**
thereof: Shareholders of TOM TAILOR Holding AG		–77,232	–4,583
Non-controlling interests		4,232	4,654
Earnings per share	9		
Basic earnings per share (EUR)		–2.95	–0.18
Diluted earnings per share (EUR)		–2.95	–0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income from 1 January to 31 December 2016

in EUR thousand	2016	2015
Net income for the period	**−73,000**	**71**
Other comprehensive income from the remeasurement of pensions and similar obligations	−112	−18
Tax effect	35	6
Items that will not be reclassified subsequently to profit or loss	**−77**	**−12**
Exchange differences on translating foreign operations	1,246	1,575
Change in fair value of cash flow hedges	674	−1,845
Tax effect on change in fair value of cash flow hedges	−247	536
Items that may be reclassified subsequently to profit or loss	**1,673**	**266**
Other comprehensive income	**1,596**	**254**
Total comprehensive income, net of tax	**−71,404**	**325**
thereof: Shareholders of TOM TAILOR Holding AG	−75,756	−4,753
Non-controlling interests	4,352	5,078

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet as at 31 December 2016

in EUR thousand	Note	31/12/2016	31/12/2015
Assets			
Non-current assets			
Intangible assets	10	295,168	312,187
Property, plant and equipment	11	104,221	152,328
Other assets	13	19,940	24,476
		419,329	**488,991**
Current assets			
Inventories	14	159,084	194,512
Trade receivables	15	41,209	49,204
Income tax receivables		2,660	2,632
Other assets	13	35,259	37,215
Cash and cash equivalents	16	38,123	50,525
		276,335	**334,088**
Total assets		**695,664**	**823,079**

Consolidated Balance Sheet as at 31 December 2016

in EUR thousand	Note	31/12/2016	31/12/2015
Equity and liabilities			
Equity			
Subscribed capital	17	28,630	26,027
Capital reserves	17	294,175	283,473
Consolidated net accumulated losses	17	–176,185	–98,953
Accumulated other comprehensive income		11,380	9,904
Attributable to shareholders of TOM TAILOR Holding AG		**158,000**	**220,451**
Non-controlling interests		4,892	5,029
		162,892	**225,480**
Non-current provisions and liabilities			
Provisions for pensions	21	1,533	1,064
Other provisions	22	20,027	10,073
Deferred tax liabilities	23	63,974	82,854
Non-current financial liabilities	24	196,220	222,682
Other non-current liabilities	26	1,154	1,941
		282,908	**318,614**
Current provisions and liabilities			
Other provisions	22	50,673	30,994
Income tax payables		6,477	8,959
Current financial liabilities	24	36,618	45,235
Trade payables	25	128,276	168,755
Other current liabilities	26	27,820	25,042
		249,864	**278,985**
Total equity and liabilities		**695,664**	**823,079**

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

Consolidated Statement on Changes in Equity for the Financial Year from 1 January to 31 December 2016

EUR thousand, if not stated otherwise	Number of shares in thousand	Subscribed capital	Capital reserves
Balance at 1 January 2016	**26,027**	**26,027**	**283,473**
Change in basis of consolidation	–	–	–
Changes in ownership interests in subsidiaries without change of control	–	–	–
Total comprehensive income, net of tax	–	–	–
Cash capital increase	2,603	2,603	10,151
Costs of raising equity capital	–	–	−453
Dividends paid	–	–	–
Other changes	–	–	1,004
Balance at 31 December 2016	**28,630**	**28,630**	**294,175**

Consolidated Statement on Changes in Equity for the Financial Year from 1 January to 31 December 2015

EUR thousand, if not stated otherwise	Number of shares in thousand	Subscribed capital	Capital reserves
Balance at 1 January 2015	**26,027**	**26,027**	**293,078**
Change in basis of consolidation	–	–	–
Changes in ownership interests in subsidiaries without change of control	–	–	−10,273
Total comprehensive income, net of tax	–	–	–
Cash capital increase	–	–	–
Costs of raising equity capital	–	–	–
Dividends paid	–	–	–
Other changes	–	–	668
Balance at 31 December 2015	**26,027**	**26,027**	**283,473**

	Accumulated other comprehensive income					
Consolidated net accumulated losses	Currency translation differences	Cash flow hedge reserve (IAS 39)	Remeasurement of pensions and similiar obligations reserve	Attributable to shareholders of TOM TAILOR Holding AG	Non-controlling interests	Total
−98,953	**−1,609**	**11,730**	**−217**	**220,451**	**5,029**	**225,480**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
−77,232	1,126	427	−77	−75,756	4,352	−71,404
–	–	–		12,754	–	12,754
–		–		−453	–	−453
–	–	–	–	–	−4,489	−4,489
–	–	–	–	1,004	–	1,004
−176,185	**−483**	**12,157**	**−294**	**158,000**	**4,892**	**162,892**

	Accumulated other comprehensive income					
Consolidated net accumulated losses	Currency translation differences	Cash flow hedge reserve (IAS 39)	Remeasurement of pensions and similiar obligations reserve	Attributable to shareholders of TOM TAILOR Holding AG	Non-controlling interests	Total
−94,370	**−2,760**	**13,039**	**−205**	**234,809**	**4,405**	**239,214**
–	–	–	–	–	14	14
–	–	–	–	−10,273	−432	−10,705
−4,583	1,151	−1,309	−12	−4,753	5,078	325
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	−4,036	−4,036
–	–	–	–	668	–	668
−98,953	**−1,609**	**11,730**	**−217**	**220,451**	**5,029**	**225,480**

CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flows for the Financial Year from 1 January to 31 December 2016

in EUR thousand	2016	2015
Net income for the period	**−73,000**	**71**
Depreciation, amortisation and impairment losses	82,882	49,522
Income taxes	−16,203	2,375
Interest income / expense	16,314	14,860
Change in non-current provisions	10,409	62
Change in current provisions	17,901	4,949
Proceeds from disposal of intangible assets and items of property, plant and equipment	3,310	−4,826
Change in inventories	35,259	−34,478
Change in receivables and other assets	15,274	−3,607
Change in liabilities	−37,129	22,995
Income taxes paid / refunded	−5,493	−3,091
Other non-cash changes	797	427
Cash generated from operations	**50,321**	**49,259**
Interest paid	−15,872	−11,276
Interest received	17	28
Net cash provided by operating activities	**34,466**	**38,011**
Payments to acquire intangible assets and items of property, plant and equipment	−16,352	−33,083
Additions due to change in basis of consolidation	–	14
Proceeds from disposal of intangible assets and items of property, plant and equipment	1,899	8,132
Net cash used in investing activities	**−14,453**	**−24,937**
Cash capital increase by issuing new shares	12,956	–
Costs of raising equity capital	−453	–
Dividend payment to non-controlling interest shareholders	−4,489	−4,036
Payments for the acquisition of consolidated entities	–	−8,804
Proceeds from financial liabilities	3,818	208,139
Repayments of financial liabilities	−44,539	−195,067
Net cash provided by / used in financing activities	**−32,707**	**232**
Effect of exchange rate changes on cash and cash equivalents	292	286
Net change in cash and cash equivalents	−12,402	13,592
Cash and cash equivalents at beginning of period	50,525	36,933
Cash and cash equivalents at end of period	**38,123**	**50,525**
Composition of cash and cash equivalents		
Cash funds	**38,123**	**50,525**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL DISCLOSURES

The TOM TAILOR GROUP in an international, vertically integrated fashion and lifestyle company focused on offering casual wear in the mid-range price segment. An extensive range of fashionable accessories augments its product portfolio. The Company covers the different segments of the fashion market (age groups of the target customers) with the TOM TAILOR umbrella brand and the BONITA brand.

The ultimate parent of the TOM TAILOR GROUP is TOM TAILOR Holding AG, which is domiciled in Hamburg / Germany, and entered in the commercial register of Hamburg Local Court under the number HRB 103641. Its registered office is at Garstedter Weg 14, 22453 Hamburg.

The application for entry in the commercial register required for TOM TAILOR Holding AG's planned conversion to a European Company (SE) was filed before the reporting date. The entry had not yet been made during the preparation of the consolidated financial statements.

BASIS OF PREPARATION

The consolidated financial statements of TOM TAILOR Holding AG ("the consolidated financial statements") were prepared in accordance with the International Financial Reporting Standards (IFRSs) effective as at the reporting date, as adopted by the EU. The applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) for financial year 2016 were also applied.

The consolidated income statement was prepared using the nature of expense method. The consolidated balance sheet, the consolidated income statement and the consolidated statement of comprehensive income are presented in accordance with the classification requirements of IAS 1 Presentation of Financial Statements.

The consolidated financial statements were prepared in euros. All amounts are shown in thousands of euros (EUR thousand) unless otherwise stated. Discrepancies may arise from the addition of these amounts due to rounding. The consolidated financial statements were prepared using the historical cost convention. Exceptions to this rule relate to certain financial instruments, which are measured at fair value.

With the following exceptions, the accounting policies applied correspond in general to those applied in the previous year.

a) Changes applicable in 2016

The TOM TAILOR GROUP applied the following new or amended standards and interpretations in financial year 2016:

Future New Regulations and Amendments in Financial Reporting

	Effective date	Date of EU endorsement
Amendments to standards		
Amendment to IFRS 10, IFRS 12, IAS 28: Investment entities	01/01/2016	22/09/2016
Amendment to IAS 1: Disclosure Initiative	01/01/2016	18/12/2015
Amendment to IAS 27: Equity Method in Separate Financial Statements	01/01/2016	18/12/2015
Amendment to IAS 16, IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/2016	02/12/2015
Amendment to IAS 19: Defined Benefit Plans: Employee Contributions	01/01/2016	17/12/2014
Amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	01/01/2016	24/11/2015
Annual Improvements (2010–2012 Cycle):	01/01/2016	17/12/2014
Annual Improvements (2012–2014 Cycle):	01/01/2016	15/12/2015

The new accounting requirements do not affect or have no material effect on the presentation of the Group's net assets, financial position and results of operations.

b) Standards, interpretations and amendments to published standards approved by the IASB, but not yet applicable nor adopted by the EU as at 31 December 2016

In financial year 2016, the TOM TAILOR GROUP did not apply the following new or amended accounting standards that have already been approved by the IASB, as they were not yet required to be applied:

Future New Regulations and Amendments in Financial Reporting

	Effective date	Date of EU endorsement
New standards/interpretations		
IFRS 9: Financial Instruments	01/01/2018	22/11/2016
IFRS 15: Revenue from Contracts with Customers	01/01/2018	22/09/2016
IFRS 16: Leases	01/01/2019	H2 2017
Amendment to IAS 1: Disclosure Initiative	01/01/2018	H2 2017
IFRIC 22: Foreign Currency Transactions and Advance Consideration		H2 2017
Amendments to standards	01/01/2018	
Clarifications of IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers	postponed	Q2 2017
Amendment to IFRS 10, IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01/01/2017	postponed
Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	01/01/2017	Q2 2017
Amendment to IAS 7: Statement of Cash Flows	01/01/2018	Q2 2017
Amendment to IAS 2: Clarification of Classification and Measurement of Share-based Payment Transactions	01/01/2018	H2 2017
Amendment to IAS 40: Classification of Unfinished Property	01/01/2018	H2 2017
Annual Improvements (2014–2016 Cycle):	01/01/2018 01/01/2017	H2 2017

Provisions that are relevant in principle for the Tom TAILOR Group are presented below:

IFRS 9: Financial Instruments

In July 2014, the IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement with the issue of the final version of IFRS 9 Financial Instruments. IFRS 9 introduces a uniform approach to classification and measurement of financial assets. In the future, subsequent measurement of financial assets will be based on three categories with different measures of value and different ways of recording fair value changes. The assets will be categorised based on the contractual cash flows of the instrument and also the business model in which the instrument is held. For financial liabilities, on the other hand, IFRS 9 essentially took over the categorisation guidance in IAS 39. IFRS 9 provides for a new impairment model based on expected credit losses. IFRS 9 also includes new guidance on the application of hedge accounting aimed at presenting an entity's risk management activities better, especially in relation to the management of non-financial risks. Moreover, IFRS 9 requires additional disclosures to be made in the notes.

IFRS 15: Revenue from Contracts with Customers

The new standard replaces IAS 18 Revenue and IAS 11 Construction Contracts, as well as the related interpretations. IFRS 15 defines a comprehensive framework for determining whether, in which amount and at which point in time revenue must be recognised. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers. This core principle is implemented in a five-step model within the scope of this standard. In this model, the first steps are to identify the relevant contracts with the customer and the performance obligations in the contracts. Revenue is then recognised in the amount of the consideration expected for each distinct performance obligation satisfied at a point in time or over time. IFRS 15 also contains detailed application guidance on a number of individual topics including contract modifications, sale with a right of return, accounting for contract costs, renewal options, licensing, principal versus agent, bill-and-hold arrangements and consignment arrangements. Additional information must also be included in the notes to the financial statements.

The objective of the new disclosure requirements is for an entity to disclose information on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Based on the first verification, the Group does not currently expect the first-time application of IRFS 15 to have a material effect on the presentation of its net assets, financial position or results of operations. Immaterial effects are primarily expected to relate to items such as customer return shipments, customer loyalty programmes, advertising subsidies and revenue from granting licenses to third parties for using the brands.

IFRS 16 Leases

IFRS 16 eliminates the existing distinction between operating and finance leases in the financial statements of lessees. For all leases, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is depreciated over the lease term in accordance with the requirements for intangible assets. The lease liability is accounted for in accordance with the requirements for financial instruments in IAS 39 or, in future, IFRS 9. Depreciation of the asset and interest on the lease liability are presented separately in the income statement. There are exemptions for short-term leases and leases of low-value assets.

The disclosures in the notes to the financial statements will become more extensive and are intended to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

For lessors, on the other hand, the requirements in the new standard are similar to the existing requirements in IAS 17. Leases will continue to be classified as either finance or operating leases.

Application of the new standard will have a considerable impact on the consolidated financial statements, as the leases standard requires the recognition of right-of-use assets and lease liabilities. Due to the significant volume of leases held by the TOM TAILOR Group through its retail business, applying the new standard in the consolidated financial statements will result in a sharp increase in assets and liabilities. In addition to a significant increase in total assets and liabilities in the hundreds of millions and the related reduction in the equity ratio, there will also be some movements between operating profit and the financial result, as depreciation charges on right-of-use assets and interest expense on lease liabilities will be reported in future, rather than the operating lease expenses presented thus far. The precise extent of the changes in the consolidated financial statements due to the initial application of IFRS 16 Leases is currently being examined, as a result of which the management will not be able to give a reliable estimate of the amount of the effect until the review has been completed.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses a question about the application of IAS 21 The Effects of Changes in Foreign Exchange Rates. It clarifies when to determine the exchange rate for the translation of foreign currency transactions that include the receipt or payment of advance consideration, specifying that the exchange rate for the related asset, income or expenses should be determined at the date on which the asset or liability resulting from the advance payment is initially recognised.

BASIS OF CONSOLIDATION

The basis of consolidation of the TOM TAILOR GROUP comprises TOM TAILOR Holding AG as the ultimate parent and the following subsidiaries:

Direct Subsidiaries:
- Tom Tailor GmbH, Hamburg / Germany
- Tom Tailor (Schweiz) AG, Baar / Switzerland
- BONITA GmbH, Hamminkeln / Germany
- Tom Tailor Wien AG, Vienna / Austria

Indirect Subsidiaries:
- Tom Tailor Retail GmbH, Hamburg / Germany
- TOM TAILOR E-Commerce GmbH & Co. KG, Oststeinbek / Germany
- TOM TAILOR Verwaltungs-GmbH, Hamburg / Germany
- TOM TAILOR Gesellschaft m.b.H., Wörgl / Austria
- TOM TAILOR Retail Gesellschaft m.b.H., Wörgl / Austria
- TT RETAIL GmbH, Lindau / Germany
- Tom Tailor Benelux B.V., Almere / The Netherlands
- Tom Tailor (Schweiz) Retail AG, Dietikon / Switzerland
- TOM TAILOR FRANCE SARL, Paris / France
- TOM TAILOR Retail Kft., Budapest / Hungary
- TOM TAILOR South Eastern Europe Holding GmbH, Wörgl / Austria
- Tom Tailor Sarajevo d.o.o., Sarajevo / Bosnia-Herzegovina
- TOM TAILOR Beograd d.o.o., Belgrade / Serbia
- Tom Tailor Sofia EOOD, Sofia / Bulgaria
- Tom Tailor Zagreb d.o.o., Zagreb / Croatia
- TOM TAILOR Lesce d.o.o., LescevSlovenia
- TOM TAILOR DOOEL, Skopje / Macedonia
- TOM TAILOR Retail Poland Sp. z o.o., Warsaw / Poland
- TOM TAILOR Sourcing Ltd., Hong Kong / China
- TOM TAILOR Asia Ltd., Hong Kong / China
- TOM TAILOR Trading (Shanghai) Company Limited, Shanghai / China
- TOM TAILOR RUS LLC, MoscowvRussia
- TOM TAILOR Retail Slovakia s.r.o., BratislavavSlovakia
- TOM TAILOR VELEPRODAJA d.o.o., Lesce / Slovenia
- TOM TAILOR VELEPRODAJA d.o.o., BelgradevSerbia
- TOM TAILOR Italy SRL, Bolzano / Italy
- TOM TAILOR RETAIL RO SRL, Bucharest / Romania
- TT textiles GmbH, Hamburg / Germany
- TOM TAILOR Lizenzmanagement GmbH, Oststeinbek / Germany
- WHS Tom Tailor BH d.o.o, Sarajevo / Bosnia-Herzegovina
- Tom Tailor CND Inc., Montreal / Canada
- Tom Tailor USA Inc., Delaware / USA
- BONITA Deutschland Holding Verwaltungs GmbH, Hamminkeln / Germany
- BONITA E-commerce GmbH, Oststeinbek / Germany
- GEWIB GmbH, Hamminkeln / Germany
- GEWIB GmbH & Co. KG, Pullach / Germany
- BONITA SAS, Paris / France
- BONITA (Schweiz) Retail AG, Baar / Switzerland
- BONITA ITALIA S.R.L. UNIPERSONALE, Verona / Italy
- BONITA Österreich Handels GmbH, Salzburg / Austria
- BONITA Lesce d.o.o., Lesce / Slovenia

Indirect equity interests
- TT OFF SALE (NI) LTD., Belfast / United Kingdom

Except for the entities listed below, the parent company holds all shares in each subsidiary.

Subsidiaries included in the consolidated financial statements

in %	Equity interest 31/12/2016	31/12/2015
Subsidiaries included in the consolidated financial statements		
TOM TAILOR South Eastern Europe Holding GmbH, Wörgl / Austria	80.0	80.0
Tom Tailor Sarajevo d.o.o., Sarajevo / Bosnia-Herzegovina	80.0	80.0
TOM TAILOR Beograd d.o.o., Belgrade / Serbia	80.0	80.0
Tom Tailor Sofia EOOD, Sofia / Bulgaria	80.0	80.0
Tom Tailor Zagreb d.o.o., Zagreb / Croatia	80.0	80.0
TOM TAILOR Lesce d.o.o., Lesce / Slovenia	80.0	80.0
TOM TAILOR DOOEL, Skopje / Macedonia	80.0	80.0
TOM TAILOR Sourcing Ltd., Hong Kong / China	75.0	75.0
TT textiles GmbH, Hamburg / Germany	51.0	51.0
TOM TAILOR RETAIL RO SRL, Bucharest / Romania	90.2	90.2
BONITA Lesce d.o.o., Lesce / Slovenia	75.0	75.0
Subsidiaries not included in the consolidated financial statements		
TT OFF SALE (NI) Ltd., Belfast / United Kingdom	49.0	49.0
Tom Tailor CND Inc,. Montreal / Kanada	51.0	51.0
Tom Tailor USA Inc,. Delaware / USA	51.0	51.0

TT OFF SALE (NI) LTD., Belfast / United Kingdom, was formed in financial year 2008. As a founding shareholder, Tom Tailor GmbH holds 49.0% of the shares in TT OFF SALE (NI) LTD.

The interest in TT OFF SALE (NI) LTD. and its subsidiary TT OFF SALE (Ireland) LTD. have not been included in the consolidated financial statements because they are insignificant. For more details please see section D “12. Financial Assets”.

In the 2015 financial year, Tom Tailor GmbH increased its equity interest in TOM TAILOR South Eastern Europe Holding GmbH, Wörgl / Austria, from 75% to 80% for a purchase price of EUR 3.5 million. A purchase option that can be exercised from 1 January 2018 to 31 December 2019 is in place for the remaining 20% minority interest.

In 2011, TOM TAILOR established a joint venture with its long-standing partner Asmara International Ltd., domiciled in Hong Kong. TOM TAILOR held a 51% majority interest in TOM TAILOR Sourcing Ltd., Hong Kong, which was formed in December 2011. 49% of the shares were held by its partner, Asmara International Ltd. In financial year 2014, Tom Tailor GmbH, Hamburg, increased its interest from 51% to 63%. In the financial year 2015, Tom Tailor GmbH further increased its interest in TOM TAILOR Sourcing Ltd., Hong Kong, from 63% to 75%. The purchase price for the shares amounted to EUR 7.2 million. As a result of the acquisition of further shares, the profit distribution, which previously had not corresponded to the respective equity interests, was adjusted to reflect the respective equity interests. Tom Tailor GmbH, Hamburg, has a call option to acquire the remaining 25% non-controlling interest in TOM TAILOR Sourcing Ltd., Hong Kong. This option can be exercised on 1 January 2019 for the first time and has an indefinite term.

The purchase price payable for the two options to acquire the remaining shares in TOM TAILOR Sourcing Ltd., Hong Kong / China, and TOM TAILOR South Eastern Europe Holding GmbH, Wörgl / Austria will be based on the current fair value of the shares when the option is exercised. The fair value of the purchase options, whose strike price is oriented on the shares' market value, is negligible.

Changes in the basis of consolidation

TT Franchise AG, domiciled in Buchs / Switzerland, was liquidated in financial year 2016.

Subsidiaries with significant non-controlling interests

In the TOM TAILOR Group, the significant subsidiary TOM TAILOR Sourcing Ltd., whose registered office is in Hong Kong / China, has non-controlling interests of 25% (2015: 25%).

The table below shows the summarised financial information on the Group's subsidiaries in which significant non-controlling interests are held.

Subsidiaries with significant non-controlling interests

	TOM TAILOR Sourcing Ltd.		Gruppe TOM TAILOR South Eastern Europe Holding GmbH	
in EUR thousand	**31/12/2016**	**31/12/2015**	**31/12/2016**	**31/12/2015**
Revenue and income	29,470	30,022	42,999	38,162
Expenses	–12,881	–12,134	–42,052	–37,068
Net profit for the period	16,589	17,888	947	1,094
Net profit for the year attributable to non-controlling interests	4,147	4,472	189	219
Non-current assets	634	775	11,248	13,367
Current assets	17,363	18,075	22,521	16,759
Non-current liabilities and provisions	–	–	725	1,040
Current provisions and liabilities	452	490	22,937	19,908
Equity	17,545	18,360	10,107	9,178
Thereof:				
Owners of the parent	13,159	13,770	8,048	7,332
Non-controlling interests	4,386	4,590	2,059	1,846
Dividends paid to non-controlling interests	4,489	4,036	–	–
Cash flows from operating activities	17,208	20,749	–99	2,349
Cash flows from investing activities	–28	–218	–1,515	–4,936
Cash flows from financing activities	–17,956	–16,145	2,160	2,844

GROUP REPORTING DATE AND GROUP FINANCIAL YEAR

As in the previous year, the consolidated financial statements were prepared as at the Group reporting date, 31 December. The Group's financial year covers the period from 1 January to 31 December 2016 (2015: 1 January to 31 December 2015).

The Group reporting date and the Group's financial year correspond to the reporting date of the parent company and the financial year of all consolidated subsidiaries.

B. ACCOUNTING POLICIES AND CONSOLIDATION METHODS

GENERAL PRINCIPLES

The financial statements of the companies included in the consolidated financial statements are prepared using uniform accounting policies.

CONSOLIDATION METHODS

Acquisition accounting uses the acquisition method in accordance with IFRS 3. The proportionate share of the subsidiaries' assets acquired and liabilities assumed is measured at the acquisition date fair value. Transaction costs are expensed.

Any remaining excess of the cost of the investment over the share of the fair value of the net assets acquired is recognised as goodwill and tested for impairment regularly, and at least once a year. Negative goodwill is recognised as income immediately after the acquisition following a reassessment of the net assets acquired.

Profits and losses on intra-Group transactions are eliminated. Revenue, expenses and income, and intercompany receivables, liabilities and provisions are offset against each other. Intercompany profits and losses contained in non-current assets and inventories due to intra-Group deliveries are also eliminated.

Deferred taxes are recognised where required in respect of temporary differences arising from consolidation adjustments in accordance with IAS 12.

With the exception of the liquidation of TT Franchise AG, Buchs / Switzerland, the basis of consolidation did not change in the reporting year.

CURRENCY TRANSLATION

The TOM TAILOR GROUP's currency is the euro (EUR).

Financial statements of Group companies included in the consolidated financial statements that are prepared in foreign currencies are translated on the basis of the functional currency concept (IAS 21) using the modified closing rate method. The functional currency of the subsidiaries depends on the primary economic environment in which they operate and therefore corresponds to the local currency in each case. In the consolidated financial statements, expenses and income from the financial statements of subsidiaries that are prepared in foreign currencies are translated at the average exchange rates for the year, while assets and liabilities are translated at the middle rate on the reporting date. Foreign exchange differences from the translation of equity at historical cost are reported in accumulated other comprehensive income, as are translation differences from the income statement.

In the single-entity financial statements of the companies included in the consolidated financial statements, foreign currency receivables and liabilities are measured at cost on their addition. Foreign exchange gains and losses realised as at the reporting date are recognised in profit or loss. This does not apply to foreign exchange differences from loans receivable that represent part of a net investment in a foreign operation.

The exchange rates on which currency translation is based and which have a significant influence on the consolidated financial statements changed as follows:

Key Exchange Rates

	Closing rate		Average rate	
EUR versus	**31/12/2016**	31/12/2015	**2016**	2015
US dollars	1.05	1.09	1.11	1.11
Swiss francs	1.07	1.08	1.09	1.07
Russian rubles	64.30	80.67	74.14	68.07

RECOGNITION OF INCOME AND EXPENSES

Revenue from the sale of products is recognised when the title and risk passes to the customer, provided that a price has been agreed or is determinable and payment can be assumed. Revenue is reported net of discounts, markdowns, customer bonuses and rebates, and following the elimination of intra-Group sales.

In its retail business, the Group has a customer loyalty programme that allows customers to collect loyalty points for each purchase made via the online shop or in stores, depending on how much they spend. Once customers have collected a certain number of points, they can exchange them for a voucher. The purchase price received is broken down into the goods sold and the points issued, with the consideration being allocated to the points on the basis of their fair value. The consideration is only recognised as revenue when the customer has redeemed the voucher and the Company has discharged its obligation.

Royalties and other income are recognised on an accrual basis in accordance with the underlying contractual provisions.

Operating expenses are recognised when the underlying products or services are utilised, or at the time they are incurred.

Interest is recognised pro rata on the basis of the effective interest rate for the assets and liabilities.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method, in which the purchase price is offset against the remeasured proportionate share of the net assets of the acquiree (acquisition accounting). This is based on the values applicable at the acquisition date, which is defined as the date on which control of the acquiree was obtained. Differences are identified in full, i.e. recognisable assets, liabilities and contingent liabilities of the subsidiary are reported in principle at their fair value in the consolidated financial statements, independent of any non-controlling interests. The fair value of individual assets is determined, for example, using published quoted or market prices at the acquisition date or external appraisals. If no such quoted or market prices are available, the fair values are determined using the most reliable information available, based on market prices for comparable assets and transactions or appropriate valuation techniques. Intangible assets are recognised separately if they are clearly identifiable or separable, or if recognition is based on a contractual or other legal right. To this extent, they are not included in goodwill. No additional provisions for the costs of restructuring may be recognised during purchase price allocation. If the purchase price paid exceeds the remeasured proportionate share of net assets at the acquisition date, the positive difference is recognised as goodwill. After reassessment, any negative goodwill is recognised as income immediately.

GOODWILL

Goodwill from acquisition accounting is capitalised and tested regularly for impairment at least once a year, in accordance with IAS 36.

Impairment tests are also conducted in the case of triggering events that indicate that goodwill might be impaired.

OTHER INTANGIBLE ASSETS

In accordance with IAS 38, purchased and internally generated intangible assets are recognised if it is probable that expected future benefits will flow from their use and if the cost of the asset can be measured reliably. They are measured at cost and, in the case of finite-lived assets, are amortised using the straight-line method over their useful lives of between three and 17 years.

Indefinite-lived intangible assets are tested regularly for impairment at least once a year, and written down to their recoverable amount if an impairment has occurred. Write-downs are reversed up to cost if the reasons for impairment have ceased to apply.

Amortisation and impairment losses are reported under the “Depreciation, amortisation and impairment losses” item of the income statement.

Development costs are expensed since the conditions for capitalisation set out in IAS 38 are not met. They relate primarily to the costs of developing collections and of establishing new product lines.

PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16, all property, plant and equipment is measured at cost less depreciation and, if appropriate, impairment losses. Property, plant and equipment is depreciated over the assets' useful lives using the straight-line method. Items of finite-lived property, plant and equipment with different useful lives are depreciated separately.

Low-value assets costing less than EUR 150.00 are written off in full in the year of acquisition, due to materiality reasons.

Depreciation is based on the following standardised useful lives throughout the Group:

Useful lives of Property, Plant and Equipment

	Useful life Years
Buildings	25–50
Shop fittings and fixtures and leasehold improvements	5–10
IT and other technical equipment	3–10
Other equipment, operating and office equipment	1–5

Both the useful lives and the cost are tested periodically for conformity with the pattern of consumption of the economic benefits. Assets are tested for impairment if there are indications that their carrying amount might exceed the recoverable amount.

IMPAIRMENT OF ASSETS

The TOM TAILOR Group tests intangible assets and property, plant and equipment for impairment as soon as there are indications that the asset may be impaired. Impairment testing is performed by comparing the carrying amount with the recoverable amount. Recoverable amount is defined as the higher of fair value less costs to sell and the present value of the estimated future cash flows from the value in use of the asset. If the carrying amount exceeds the recoverable amount, the asset is written down by the difference. If the reasons for impairment recognised in previous years no longer apply, the impairment loss is reversed appropriately.

Annual impairment testing for goodwill from initial consolidation and other indefinite-lived intangible assets is performed at the level of the relevant cash-generating unit. Impairment testing is performed by comparing the carrying amount of the cash-generating unit, including the allocable goodwill or the carrying amounts of the other indefinite-lived intangible assets, with the recoverable amount. If the carrying amount exceeds the recoverable amount for the cash-generating unit, the resulting difference is charged to income as an impairment loss. Goodwill that has been written down is not reversed in subsequent years.

FINANCE LEASES

In accordance with IAS 17, the lessee is considered to be the beneficial owner of the leased assets if substantially all the risks and rewards incidental to ownership of the assets are transferred to the lessee (finance lease). Assets classified as being subject to a finance lease are recognised at their fair value or, if lower, at the present value of the minimum lease payments.

They are depreciated using the straight-line method over the shorter of the expected useful life or the lease term. Payment obligations resulting from future lease payments are recognised at their present value in the financial liabilities item.

The interest portion of lease liabilities is expensed over the lease term.

INVESTMENT SECURITIES

Shares in unconsolidated affiliates are measured at the lower of cost or fair value. Their value is less than EUR 1 thousand.

The 49% interest in the share capital of TT OFF SALE (NI) LTD. is recognised at amortised cost.

FINANCIAL INSTRUMENTS

a) General

Financial instruments are accounted for in accordance with IAS 39 and – to the extent that this is relevant for the TOM TAILOR GROUP – broken down into the following categories: at fair value through profit or loss, held to maturity, available for sale, and loans and receivables.

Classification depends on the purpose for which the financial instruments were acquired.

Financial instruments include both non-derivative and derivative assets and liabilities. Derivatives are used to hedge the fair value of balance sheet items or future cash flows.

Trade date accounting is used for all purchases and sales of financial assets. Financial assets are generally initially recognised as from the point when the Group enters into the contract.

Financial instruments are recognised at amortised cost or fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Financial assets are derecognised when the contractual rights to payment from the investment have expired or been transferred and the Group has transferred substantially all the risks and rewards incidental to ownership of the assets or, in the case of loans and receivables, on payment.

Fair value generally corresponds to the market or quoted market price. Where no active market exists, fair value is determined using accepted valuation techniques on the basis of the market inputs applicable on the reporting date in question plus confirmations from banks.

Financial assets and groups of assets are assessed for objective evidence of impairment at each reporting date.

Financial assets are initially recognised at fair value, plus transaction costs in the case of financial assets not at fair value through profit or loss.

Loans and receivables that are not held for trading, held-to-maturity financial investments and all financial assets for which there is no quoted market price in an active market and whose fair value cannot be reliably estimated are measured at amortised cost using the effective interest rate method, to the extent that they have a fixed maturity.

Financial assets with no fixed maturity are measured at cost.

In accordance with IAS 39, an assessment is made at regular intervals whether there is objective evidence that a financial asset or group of financial assets is impaired. Any impairment loss that has to be charged following impairment testing is recognised in profit or loss.

b) Derivatives and hedge accounting

In accordance with IAS 39, derivatives are initially recognised at their fair value on the date when the contract is entered into. Subsequent measurement is also performed using the fair value at the respective reporting date. In accordance with IAS 39, derivatives that are not part of a hedging relationship (hedge accounting) are required to be designated as at fair value through profit or loss. The method used to recognise gains or losses depends on whether the derivative concerned was classified as a hedge, as well as on the type of item hedged.

Derivatives may be embedded in other contracts ("host contracts"). If IAS 39.11 requires an embedded derivative to be separated, it is accounted for separately from the host contract and measured at fair value. Separable embedded derivatives are measured at a carrying amount of zero on initial recognition and are subsequently measured at fair value at the reporting date. Gains and losses from changes in fair value of derivatives that do not form part of designated hedging relationships are recognised in full in profit or loss for the period.

Derivatives were used at the Group in the reporting period to hedge interest rate and exchange rate risks from the operating business, and in particular to hedge actual and forecast purchases of goods in foreign currencies. TOM TAILOR Holding AG hedges cash flows on the basis of predefined minimum hedge ratios. At the level of the Company, highly probable forecast transactions that are expected to occur within a 24-month period are hedged against exchange rate risks using rolling budget planning. These hedges are reported as cash flow hedges in accordance with IAS 39.

Derivatives used in cash flow hedge accounting are recognised at their fair value. The intrinsic value and the time value of the hedging relationship are designated. Measurement gains and losses are broken down into an effective and an ineffective portion. Effectiveness is measured using the critical terms match method. The effective portion of the gain or loss on the hedging instruments is recognised in other comprehensive income after adjustment for deferred taxes, and is reclassified to profit or loss as soon as the hedged cash flows are also recognised in the income statement, or if a hedged future transaction does not materialise. Ineffective portions of the hedging relationship are recognised immediately in income.

DEFERRED TAXES

In accordance with IAS 12, deferred tax assets and liabilities are recognised for all temporary differences between the tax base and the IFRS carrying amounts ("balance sheet liability method"), with the exception of deferred tax liabilities arising from the initial recognition of goodwill or the initial recognition of an asset or liability from a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit, as well as in respect of certain consolidation adjustments.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off the current tax assets and liabilities and these assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax assets also comprise tax credits relating to the expected utilisation of existing tax loss carryforwards, in particular from interest-related losses. Deferred taxes are determined using the tax rates and tax laws that have been enacted or substantively enacted by the date of realisation in the countries in question.

The composite tax rate determined for deferred taxes in Germany was 31.0% (2015: 30.9%). This comprises the corporation tax rate of 15.0% (2015: 15.0%), the solidarity surcharge of 5.5% of the corporation tax rate (2015: 5.5%) and the average trade tax rate in the Group of 15.2% (2015: 15.1%). In the case of foreign companies, the relevant national tax rates are applied.

Deferred taxes are recognised as non-current and are not discounted.

Changes in deferred taxes in the balance sheet result in principle in deferred tax expense / deferred tax income. To the extent that accounting matters resulting in a change to deferred taxes are recognised directly in equity or in other comprehensive income, the corresponding change in deferred taxes is also recognised directly in equity or in other comprehensive income.

RECEIVABLES AND OTHER ASSETS

Receivables and other assets are recognised at cost. Appropriate valuation allowances are charged to reflect all identifiable risks. Non-interest-bearing and low-interest receivables with a term of more than one year are discounted; TOM TAILOR uses the effective interest rate method for this. The collectability of receivables is assessed on the basis of the probability of default. Specific valuation allowances are charged individually on receivables that are past due.

INVENTORIES

Inventories raw materials, consumables and supplies and merchandise are measured at average cost.

Where necessary, write-downs to their lower realisable selling prices less costs to sell were recognised.

Inventory risk associated with individual inventory items is accounted for using specific valuation allowances on the basis of obsolescence analyses and analyses of days inventory held.

CASH FUNDS

Cash funds are measured at their nominal value.

COSTS OF RAISING EQUITY CAPITAL

In accordance with IAS 32, costs directly attributable to capital raising are charged to capital reserves net of the related income tax benefit. Incremental costs that would otherwise have been avoided are expensed. Costs that are not clearly attributable to raising equity capital are reasonably broken down into costs to be directly charged to equity and costs to be expensed in the reporting period.

DIVIDEND DISTRIBUTION

Shareholder claims to dividend distributions are recognised as liabilities in the period in which the corresponding resolution was passed.

EMPLOYEE BENEFITS

Pension obligations

Provisions for pensions are recognised using the projected unit credit method in accordance with IAS 19, which was applied on the basis of a conservative estimate of the relevant inputs. The calculations are based on actuarial reports, taking biometric parameters into account. The present value of the defined benefit obligation is offset against the fair value of the capitalised surrender value of qualifying insurance policies (“plan assets”).

Actuarial gains and losses are recognised in other comprehensive income in the year concerned. The interest cost on expected pension obligations and the expected return on plan assets are reported in the financial result. All other expenses from the funding of pension obligations are reported in the personnel expenses item.

Other Long-term Employee Benefits
The Long-Term Incentive Programme, which is measured in accordance with IAS 19 as a defined benefit obligation, was granted to senior managers of the Group and is classified as other long-term employee benefits. The present value of the defined benefit obligation is calculated by discounting the benefit earned using the projected unit credit method. The payment obligation resulting from the programme is recognised to the extent that the beneficiaries perform their services in exchange for the payments expected to be made by TOM TAILOR in future reporting periods. The expenses are reported under personnel expenses with the exception of interest cost, which is recognised in the financial result.

SHARE-BASED PAYMENT

In accordance with IFRS 2, the obligations under the Matching Stock Programme (MSP) established for the Management Board are measured using valuation techniques based on option pricing models (Monte Carlo simulation).

The obligations under the stock option programme for management (hereinafter referred to as the Long-Term Stock Option Programme) are measured using option pricing models (Black-Scholes model), in accordance with IFRS 2.

The fair value of the management equity participation programme is measured using actuarial methods based on a binominal model in accordance with IRFS 2.

Equity-settled share-based payment transactions are measured at the fair value of the equity instruments as at the grant date. For further information on how the fair value of the equity-settled share-based payment transactions is calculated, please see section H. “Other Disclosures and Explanations”.

The fair value of the equity instruments is recognised ratably over the vesting period in personnel expenses, with a corresponding increase in equity, and is based on different inputs. The Group reviews its estimates regarding the number of equity instruments and the inputs on each reporting date. Differences between the initial recognition of the options and the amounts are allowed for and recognised in income. After this, a corresponding equity adjustment is made.

OTHER PROVISIONS

Other provisions are recognised where there is a legal or constructive obligation to third parties that will probably lead to an outflow of resources embodying economic benefits, where the amount of the provision can be measured with sufficient reliability. The provisions are measured at fully absorbed cost.

Provisions for onerous contracts are recognised if the unavoidable costs of meeting a contractual obligation exceed the economic benefits expected to be received under the contract.

An onerous lease contract exists if, based on past experience and site forecasts, an avoidable excess of obligations is expected over the period to the anticipated closure date. The underlying contracts have terms of up to five years.

Non-current provisions with a term of more than one year are recognised at their settlement amount discounted to the reporting date.

Unless the possibility of an outflow of resources embodying economic benefits is remote, contingent liabilities are disclosed in the notes to the consolidated financial statements.

FINANCIAL AND OTHER LIABILITIES

Financial liabilities are initially recognised at cost, which corresponds to the fair value of the consideration received. Transaction costs are taken into account. Subsequently, the liabilities – with the exception of derivatives – are measured at amortised cost using the effective interest rate method. Other liabilities are recognised at their repayment amount.

KEY DISCRETIONARY DECISIONS, ASSUMPTIONS AND ESTIMATES

Preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the amounts of reported assets and liabilities, income and expenses, and contingent liabilities. In particular, estimates and assumptions are used when identifying hidden reserves in the course of goodwill allocation during acquisition accounting, when performing impairment tests on intangible assets and property, plant and equipment, when determining standard useful lives for assets throughout the Group, when assessing the collectability of receivables, when recognising and measuring provisions, and when estimating the ability to realise future tax benefits. Particularly when accounting for business combinations, the assets acquired and liabilities assumed are recognised at their fair value. Discounted cash flow methods are commonly used here, the results of which depend on assumptions as to future cash flows and other factors. Although these estimates are made on the basis of management's current knowledge, actual results may deviate from these estimates. Changes resulting from new information within 12 months of initial consolidation are accounted for by adjusting goodwill. Changes above and beyond this are recognised in profit or loss at the point in time when the new information becomes available.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is manufactured over a considerable period of time are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

EVENTS AFTER THE REPORTING PERIOD

Events after the end of the reporting period that provide additional information on the Group's position on the reporting date (adjusting events) are reflected in the financial statements.

Where material, events after the end of the reporting period that are not reflected in the financial statements (non-adjusting events) are disclosed in the notes.

C. INCOME STATEMENT DISCLOSURES

1. REVENUE

Revenue comprises amounts charged to customers for goods and services, less sales allowances.

The classification of revenue by operating segments and region is based on the segment reporting.

2. OTHER OPERATING INCOME

Other operating income is composed of the following items:

Other operating income

in EUR thousand	2016	2015
Foreign exchange gains	7,443	9,675
Royalties	6,591	6,128
Rental income	4,564	4,485
Income from the reversal of provisions	2,573	207
Income from recharged marketing expenses	2,496	2,520
Insurance refunds	1,414	296
Income from disposal of non-current assets	1,150	5,791
Recharged freight and other costs	1,005	1,602
Onward charging of delivery costs of online business	481	732
Shopfitting commissions / bonuses	438	961
Reversal of impairment losses on non-current assets	264	763
Income from claims for compensation	–	2,000
Miscellaneous operating income	3,893	3,830
	32,312	**38,990**

EUR 2.2 million of the decrease in other operating income is attributable to lower foreign exchange gains from currency translation, while EUR 4.6 million is attributable to lower income from the disposal of assets. In the previous year, income from asset disposals in the amount of EUR 5.3 million mainly included income from the sale of the ERP software used at BONITA under a sale and lease-back transaction.

Royalties of EUR 6.6 million from the out-licensing of the TOM TAILOR brand and rental income of EUR 4.6 million from subletting space leased by the Group are further significant portions of other operating income.

3. COST OF MATERIALS

Cost of materials primarily comprises expenses for purchased merchandise. In the 2016 financial year cost of materials mainly includes one-off expenses for inventory write-downs totalling EUR 15.3 million.

4. PERSONNEL EXPENSES

Personnel expenses are composed of the following items:

Personnel expenses

in EUR thousand	2016	2015
Wages and salaries	187,818	176,635
Social security costs	18,535	19,569
Post-employment benefit costs	13,805	12,439
	220,158	**208,643**

The wages and salaries item includes expenses in the amount of EUR -321 thousand (2015: EUR 391 thousand) for the MSP share-based remuneration programme, as well as expenses in the amount of EUR 518 thousand (2015: EUR -31 thousand) and EUR 488 thousand (2015: EUR 293 thousand) for the LTI programme and Long-Term Stock Option Programme granted to managers.

In addition, personnel expenses included expenses of EUR 160 thousand (2015: EUR 160 thousand) arising from the management equity participation programme for the Management Board and selected executives. For a detailed description of the variable remuneration system, see the explanation under section D “19. Management Equity Participation Programme”.

The increase in personnel expenses compared with 2015 is due predominantly to expenses for severance payments and leaves of absence granted to employees and former members of the Management Board. The expenses in the amount of EUR 7.7 million comprise one-off and special charges related to the cost and process optimisation programme announced in the third quarter of 2016.

Excluding the Management Board and casual workers, the average number of employees was as follows:

Number of Employees (Average)

	2016	2015
Wholesale	818	801
Retail	6,065	5,889
	6,883	**6,690**

Wages and salaries include expenses for severance payments in the amount of EUR 12.9 million (2015: EUR 3.9 million). Together with additions to defined benefit plans in the amount of EUR 320 thousand (2015: EUR 0 thousand), personnel expenses also included defined contribution obligations in the form of employer contributions to statutory pension insurance in the amount of EUR 13.5 million (2015: EUR 12.4 million).

5. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

The composition of depreciation, amortisation and impairment losses is presented in the disclosures on intangible assets (note 10) and property, plant and equipment (note 11).

6. OTHER OPERATING EXPENSES

Other operating expenses are composed of the following items:

Other Operating Expenses

in EUR thousand	2016	2015
Distribution expenses	54,445	56,174
Administrative expenses	47,059	44,269
Operating and other expenses	227,871	197,625
	329,375	**298,068**

Distribution expenses mainly include EUR 30.4 million (2015: EUR 32.0 million) in marketing expenses and EUR 14.0 million (2015: EUR 12.8 million) in freight costs for deliveries to customers and the Company’s own retail stores.

The most significant expenses within the administrative expenses item are legal and consulting fees totalling EUR 10.9 million (2015: EUR 8.2 million), exchange rate losses totalling EUR 7.8 million (2015: EUR 8.0 million) and IT costs totalling EUR 7.8 million (2015: EUR 6.2 million).

The sharp increase in operating and other expenses of EUR 30.2 million is mainly the result of the first-time recognition in financial year 2016 of provisions for expected losses from store locations totalling EUR 16.4 million. These provisions were recognised if, based on past experience and site forecasts, further operating EBITDA losses are expected over the period to the end of the contractual minimum lease term or the anticipated closure date.

At EUR 134.5 million (2015: EUR 131.4 million), rent and incidental rental costs were the largest cost item of operating and other expenses. At EUR 5.4 million, the year-on-year increase in rental expenses and incidental rental costs is the result of provisions recognised in financial year 2016 for one-time payments to lessors to terminate leases early. In addition to rental expenses, remuneration for the fulfilment provider, which handles the online business, was the largest cost item in operating and other expenses.

7. FINANCIAL RESULT

Financial result

in EUR thousand	2016	2015
Financial income	17	28
Financial expense	–16,331	–14,888
	–16,314	**–14,860**

The financial result is largely attributable to bank loans taken out, transaction-related financing costs and the draw-down of other operating bank lines of credit.

The rise in financial expenses is due mainly to higher interest expense as a result of the increase in average net debt in the first nine months of financial year 2016 and a resulting increase in interest rate margins.

Bank commissions and consulting fees totalling EUR 3.8 million were paid in connection with the refinancing in 2015. Transaction-related financing costs are spread over the expected term of the loan of five years using the effective interest method. The transaction costs are recognised in profit or loss under interest expense in the subsequent periods.

Bank commissions and transaction costs of EUR 2.0 million relating to the renegotiation of the financial covenants as at 30 September 2016 were offset against liabilities to banks and are recognised in profit or loss under interest expense on a straight-line basis over the remaining term of the loans.

The financial result included financial expenses of EUR 1.6 million (2015: EUR 1.0 million) from the fair value measurement of financial liabilities.

As well as these effects, financial expenses included expenses of EUR 37 thousand (2015: EUR 30 thousand) from the unwinding of discounted pension provisions, as well as expenses of EUR 372 thousand (2015: EUR 184 thousand) from the unwinding of discounts on other provisions.

8. INCOME TAXES

Income taxes are primarily composed of the following items:

Tax Expenses

in EUR thousand	2016	2015
Current taxes		
Current income taxes for the financial year	–3,180	–3,176
Prior-period adjustments	285	269
	–2,895	**–2,907**
Deferred taxes		
Utilisation of loss carryforwards / interest carried forward	2,791	–845
Origination and reversal of temporary differences	16,307	1,377
	19,098	**532**
	16,203	**–2,375**

In financial year 2015, deferred tax assets totalling EUR 6.0 million were recognised in respect of cumulative interest carried forward (EUR 22.1 million) due to the probability that they can be offset against future taxable profit. The interest carried forward arose as a result of the earnings stripping rule, which limits the deductibility of interest expenses to a maximum of 30% of taxable profit before interest, taxes, depreciation and amortisation. In addition, in 2015 deferred tax assets totalling EUR 2.5 million were recognised for corporation tax loss carryforwards of EUR 15.0 million due to the probability that they can be offset against future taxable profit.

In financial year 2016, interest expense for the reporting period was only tax deductible in the amount of current interest income for the reporting period, as taxable EBITDA was negative. Interest expense for the reporting period over and above that amount increased the interest carried forward from the previous year, as a result of which cumulative interest carried forward amounted to EUR 28.5 million towards the end of 2016. In addition, deferred tax assets were recognised for corporation tax loss carryforwards in the amount of EUR 37.1 million and for trade tax loss carryforwards in the amount of EUR 16.4 million based on the extent to which it will be possible to offset these against future taxable profit.

Due to the extent to which it will possible to offset amounts against future taxable profit, deferred tax assets recognised for the aforementioned tax loss carryforwards now amount to a total of EUR 11.3 million, of which EUR 2.8 million was recognised in the reporting period.

Deferred taxes relating to the origination and reversal of temporary differences are attributable to differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and their tax base, as well as consolidation adjustments. The EUR 16.5 million added to deferred tax assets due to temporary differences arising and reversing in the reporting period is mainly attributable to the fact that provisions for onerous contracts recognised in the reporting period and impairment losses related to the cost and process optimisation programme are not allowable for tax purposes.

As at the reporting date, the Group's total tax loss carryforwards and interest carried forward amounted to EUR 114.7 million (2015: EUR 63.5 million) and EUR 28.5 million, respectively (2015: total of EUR 22.1 million).

No deferred tax assets were recognised for tax loss carryforwards in the amount of EUR 85.2 million (2015: EUR 48.5 million) and interest carried forward of EUR 8.9 million because it will not be possible to offset them against future taxable profit.

The reconciliation from expected to reported tax expense is presented in the following:

Tax Reconciliation

in EUR thousand	2016	2015
Average composite tax rate	–89,204	2,446
Expected income tax expense (in %)	31.0	30.9
Expected income tax	27,683	–755
Reconciliation		
Effects of tax rate differences	6,012	6,513
Effects of tax rate changes	–447	–
Non-recognition of deferred tax assets	–14,126	–4,335
Other tax effects from differences in the basis of tax assessment	–2,307	–3,791
Usable other loss carryforwards	–686	–845
Prior-period effects	–137	57
Effects from the use of deferred tax assets, for which no deferred taxes were recognized	–	249
Tax effect on operating income not recognised in profit or loss	–	503
Other effects	211	30
Reported income tax / expense	16,203	–2,375
Effective tax rate (in %)	18	97

Deferred taxes were calculated on the basis of a uniform tax rate of 31.0% (2015: 30.9%) for reasons of simplification. Please refer to our disclosures in section "B. Accounting Policies and Consolidation Methods" for information on how the tax rate is calculated.

Deferred tax assets were not recognised mainly for loss carryforwards of foreign subsidiaries and tax loss carryforwards in the consolidated income tax group in Germany because it will not be possible to offset them against taxable profit over the next five years.

The usable other loss carryforwards are primarily attributable to the reversal of deferred taxes on trade and corporation tax loss carryforwards and on tax interest carried forward due to the filing of changed tax returns.

Effects of tax rate differences are attributable to differences between the combined tax rate used to calculate deferred taxes and the different national tax rates for companies in the Group.

Tax effects from differences in the basis of tax assessment are mainly due to expenses that are not deductible for tax purposes and to trade tax add-backs.

The prior-period adjustments are attributable to additional tax payments and refunds for prior years and the recognition of deferred taxes and temporary differences from prior years.

9. EARNINGS PER SHARE

Earnings per share are calculated in accordance with IAS 33 by dividing the consolidated net income attributable to shareholders of TOM TAILOR Holding AG by the weighted average number of shares outstanding in the reporting period based on the assumption that all option rights with a potentially dilutive effect will be exercised. Shares with a potentially dilutive effect are taken into account in the calculation of diluted earnings per share if the vesting conditions of the stock option programme are fully met at the reporting date. Please refer to the disclosures under note 18 “Stock Option Programme”.

The vesting conditions for the stock options were not met at 31 December 2016, so there were no outstanding shares that could dilute earnings. Diluted earnings per share are therefore identical to basic earnings per share.

Earnings per share and the weighted average number of ordinary shares used to calculate earnings per share are presented in the table below.

Earnings per Share

	31/12/2016	31/12/2015
Total shares as at the reporting date	28,629,846	26,027,133
	2016	**2015**
Share of consolidated net income attributable to shareholders of the parent (in EUR thousand)	−77,232	−4,583
Weighted average number of ordinary shares (thousands of shares)	26,163	26,027
Basic earnings per share (in EUR)	−2.95	−0.18
Diluted earnings per share (in EUR)	−2.95	−0.18

TOM TAILOR Holding AG issued 2,602,713 new, no-par-value registered shares on 9 December 2016 as part of a cash capital increase from authorised capital. Following the cash capital increase, there were a total of 28,629,846 no-par-value shares.

D. BALANCE SHEET DISCLOSURES

10. INTANGIBLE ASSETS

Intangible assets are composed of the following items:

Intangible Assets

in EUR thousand	31/12/2016	31/12/2015
Hidden reserves identified in the course of initial consolidation		
Brands	246,675	249,953
Customer bases	14,246	17,003
Beneficial leases	1,228	7,060
Licensing agreements and similar rights	4,989	7,686
	267,138	**281,702**
Other		
Key money / store subsidies	7,254	8,459
Other rights of use	2,394	4,108
Software	6,594	6,478
	16,242	**19,045**
Software leased under finance leases	–	46
	283,380	**300,793**
Goodwill		
arising from the acquisition of a non-controlling interest in TOM TAILOR Gesellschaft m.b.H., Wörgl	3,361	3,361
arising from the initial consolidation of Tom Tailor GmbH by TOM TAILOR Holding GmbH	2,291	2,291
arising from the initial consolidation of TOM TAILOR South Eastern Europe Holding GmbH, Wörgl	2,025	2,025
arising from the initial consolidation of TOM TAILOR Retail Joint Venture GmbH, Bregenz	2,152	2,152
arising from the initial consolidation of TOM TAILOR RETAIL RO SRL, Bucharest	1,408	1,408
	11,237	**11,237**
Prepayments		
Licences	551	157
	295,168	**312,187**

Due to the planned discontinuation of the BONITA men brand, the brand value of EUR 3.3 million recognised under intangible assets was written down in full in financial year 2016. In addition, impairment losses on beneficial leases were recognised in the amount of EUR 1.4 million due to store closures carried out or agreed. There were no further impaired intangible assets.

Brands and goodwill are not amortised as there are no corresponding indicators. Brands, as significant intangible assets, and existing goodwill were tested for impairment at the reporting date by comparing the recoverable amount, which is determined on the basis of the net selling price (fair value less costs to sell), with the carrying amount in each case. In the absence of an active market, the net selling price was calculated using the discounted cash flow (DCF) method.

Intangible assets are allocated to the respective cash-generating units and tested for impairment at this level. In the TOM TAILOR Group, brands and goodwill are allocated to the TOM TAILOR Wholesale, TOM TAILOR Retail, BONITA men and BONITA cash-generating units.

EUR 44.8 million (2015: EUR 44.8 million) of the brands item is allocated to the TOM TAILOR Wholesale cash-generating unit in connection with impairment testing, EUR 17.4 million (2015: EUR 17.4 million) to the TOM TAILOR Retail segment and EUR 184.5 million (2015: EUR 184.5 million) to BONITA. Based on the impairment test the brand BONITA men (2015: EUR 3.3 million) was completely written off in financial year 2016. EUR 4.9 million (2015: EUR 4.9 million) of goodwill relates to the TOM TAILOR Wholesale cash-generating unit and EUR 6.3 million (2015: EUR 6.3 million) to the TOM TAILOR Retail cash-generating unit.

Impairment testing is based on corporate planning, with a five-year planning period followed by a terminal value, and thus Level 3 fair value measurement in accordance with IFRS 13. Following the three-year detailed planning period, the planning was updated for a period of two years using a constant annual growth rate of 1% (2015: 1% p.a.).

To calculate fair value less costs to sell, cash flows for the next five years are forecast on the basis of past experience, current operating results, management's best estimates of future performance and market assumptions. The parameters used in the measurement may differ from year to year due to inputs that are specific to the reporting date (e.g. interest rates, beta factors) and knowledge gained in relation to future developments.

Fair value is calculated based on different assumptions about revenue growth in the detailed planning period. From today's perspective, the Management Board of TOM TAILOR Holding AG expects consolidated revenue to see moderate, single-digit growth. The Management Board assumes that revenue in the TOM TAILOR Wholesale and TOM TAILOR Retail segments will grow moderately. In the TOM TAILOR Retail segment, the full-year effect of the net growth in new stores in 2016 and the intended increase in space productivity will have a positive impact. The Management Board expects BONITA to show a decline in revenue due to the planned store closures. Risk allowances for regional factors and Company-specific market share trends are applied to revenue in some cases. In addition to revenue growth, the fair value is also determined based on assumptions regarding the gross margin and cost trends, which were planned taking into account the implemented cost cutting measures.

Cash flow is extrapolated using a growth rate of 1% (2015: 1%) for the terminal value. The costs to sell were recognised at 1% of the enterprise value. The cost of capital used to discount future cash flows (weighted average cost of capital, WACC) is calculated on the basis of market data consistently with the previous year. As at 31 December 2016, the WACC before taxes for the BONITA and TOM TAILOR brands was 10.3 and 10.6%, respectively (2015: 8.0% and 9.3%), while the WACC after taxes for the BONITA brand and the TOM TAILOR brand was 7.11% and 7.34%, respectively (2015: 5.5% and 6.5%).

With the exception of the write-down in full of the BONITA brand value of EUR 3.3 million, there were no impairment losses required to be recognised on the basis of the impairment tests.

To validate the calculated fair values, sensitivity analyses were carried out for each material cash-generating unit covering the three significant measurement parameters, WACC, revenue and EBITDA margin. The sensitivity analyses were carried out in isolation for all material factors so that any change in the recoverable amount at one cash-generating unit was caused only by a reduction or increase of the respective factor. The sensitivity analysis for the revenue factor was carried out taking into account the following effects this change has on all other relevant variables used for measuring the recoverable amount, resulting in the assumption of a constant EBITDA margin.

Even significant and unexpected changes of the measurement parameters mentioned would not result in an impairment of the cash-generating units Tom Tailor Wholesale and Tom Tailor Retail.

The impairment test of the BONITA brand showed that the fair value less costs to sell exceeds the carrying amount by EUR 91.9 million. The fair value less costs to sell of the BONITA brand would correspond to the carrying amount if the WACC after tax for the BONITA brand was 10.60% instead of 7.11%, if a lump-sum discount of 26.4% per annum was applied to the revenue planned for the detailed planning period and the terminal value, or if a lump-sum discount of 3.3 percentage points per annum was applied to the EBITDA margin in the detailed planning period and to the terminal value.

Customer bases, which relate to recurring customers (useful life of 17 years), franchise partners, shop-in-shop customers and multi-label customers (each with a useful life of six years), beneficial leases (useful life of five years) and licensing agreements (useful life of 14 years) are amortised over their useful life. With the exception of the beneficial leases, there were no indications of impairment (triggering events) to these intangible assets as at the reporting date.

Intangible assets changed as follows in financial year 2016:

Changes in Intangible Assets in 2016

in EUR thousand	Brands	Goodwill	Customer bases	Licensing agreements and similar rights	Beneficial leases	Other	Prepayments	Total
Cost								
Balance at 1 January 2016	**249,953**	**11,508**	**67,074**	**32,596**	**21,994**	**66,070**	**157**	**449,352**
Foreign exchange differences	–	–	–	–	–	93	–	93
Additions	–	–	–	–	–	5,272	915	6,187
Reclassifications	–	–	–	–	–	505	–521	–16
Disposals	–	–	–	–	–	–6,385	–	–6,385
Balance at 31 December 2016	**249,953**	**11,508**	**67,074**	**32,596**	**21,994**	**65,555**	**551**	**449,231**
Amortisation and impairment losses								
Balance at 1 January 2016	**–**	**271**	**50,071**	**24,910**	**14,934**	**46,979**	**–**	**137,165**
Foreign exchange differences	–	–	–	–	–	72	–	72
Additions from amortisation	–	–	2,757	2,697	4,481	7,134	–	17,069
Additions from impairments	3,278	–	–	–	1,351	–	–	4,629
Disposals	–	–	–	–	–	–4,783	–	–4,783
Balance at 31 December 2016	**3,278**	**271**	**52,828**	**27,607**	**20,766**	**49,313**	**–**	**154,063**
Carrying amount								
Balance at 1 January 2016	**249,953**	**11,237**	**17,003**	**7,686**	**7,060**	**19,091**	**157**	**312,187**
Balance at 31 December 2016	**246,675**	**11,237**	**14,246**	**4,989**	**1,228**	**16,242**	**551**	**295,168**
of which leased	–	–	–	–	–	–	–	**–**

The customer bases with a carrying amount of EUR 14,246 thousand concern solely recurring customers.

Intangible assets changed as follows in financial year 2015:

Changes in Intangible Assets in 2015

in EUR thousand	Brands	Goodwill	Customer bases	Licensing agreements and similar rights	Beneficial leases	Other	Prepayments	Total
Cost								
Balance at 1 January 2015	**249,953**	**11,508**	**67,074**	**32,596**	**21,994**	**76,465**	**638**	**460,228**
Foreign exchange differences	–	–	–	–	–	953	–	953
Additions	–	–	–	–	–	5,518	1,415	6,933
Reclassifications	–	–	–	–	–	1,868	−1,896	−28
Disposals	–	–	–	–	–	−18,734	–	−18,734
Balance at 31 December 2015	**249,953**	**11,508**	**67,074**	**32,596**	**21,994**	**66,070**	**157**	**449,352**
Amortisation and impairment losses								
Balance at 1 January 2015	**–**	**271**	**47,314**	**22,213**	**10,453**	**55,989**	**–**	**136,240**
Foreign exchange differences	–	–	–	–	–	629	–	629
Additions from amortisation	–	–	2,757	2,697	4,481	7,419	–	17,354
Additions from impairments	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	−17,058	–	−17,058
Balance at 31 December 2015	**–**	**271**	**50,071**	**24,910**	**14,934**	**46,979**	**–**	**137,165**
Carrying amount								
Balance at 1 January 2015	**249,953**	**11,237**	**19,760**	**10,383**	**11,541**	**20,476**	**638**	**323,988**
Balance at 31 December 2015	**249,953**	**11,237**	**17,003**	**7,686**	**7,060**	**19,091**	**157**	**312,187**
of which leased	–	–	–	–	–	–	–	**46**

In the 2015 financial year, the customer bases with a carrying amount of EUR 17,003 thousand concerned solely recurring customers.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment mainly comprises shop fittings and fixtures as well as operating and office equipment. Property, plant and equipment changed as follows:

Changes in Property, Plant and Equipment in 2016

in EUR thousand	Land, buildings, including buildings on third-party land	Other equipment, operating and office equipment	Prepayments	Total
Cost				
Balance at 1 January 2016	**52,439**	**333,212**	**479**	**386,130**
Foreign exchange differences	133	576	44	753
Additions	1,547	15,977	275	17,799
Reclassifications	42	169	−195	16
Disposals	−37	−34,055	–	−34,092
Balance at 31 December 2016	**54,124**	**315,879**	**603**	**370,606**
Depreciation and impairment losses				
Balance at 1 January 2016	**22,319**	**211,483**	**–**	**233,802**
Foreign exchange differences	28	175	–	203
Reversal of impairment losses	–	−175	–	−175
Additions from depreciation	5,496	27,928	–	33,424
Additions from impairments		28,023	–	28,023
Disposals	−301	−28,591	–	−28,892
Balance at 31 December 2016	**27,542**	**238,843**	**–**	**266,385**
Carrying amount				
Balance at 1 January 2016	**30,120**	**121,729**	**479**	**152,328**
Balance at 31 December 2016	**26,582**	**77,036**	**603**	**104,221**
of which leased	–	–	–	**20,691**

The additions in financial year 2016 related mainly to investments in controlled spaces in the TOM TAILOR Retail, TOM TAILOR Wholesale and BONITA segments.

Property, plant and equipment also includes leased operating and office equipment; most of the leases have a remaining term of up to five years.

Non-current assets allocated to the stores were tested for recoverability in financial year 2016 due to indications that property, plant and equipment may be at risk of impairment. The impairment test was performed at the level of the individual stores as the smallest cash-generating unit. The carrying amounts were compared with the value in use determined using a DCF approach. Value in use is the present value of the future cash flows expected to be derived from continuing use of the asset or the cash-generating unit in the entity or from its disposal at the end of its useful life (residual value). If the value in use is less than the carrying amount of the asset being tested, impairment losses were recognised to reduce the asset to its value in use or, where the present value is negative, write it down in full.

The underlying inputs and planning assumptions are generally the same as those outlined under D. 10. INTANGIBLE ASSETS. In a departure from the procedure in the notes on intangible assets, future cash flows were not calculated using a terminal value.

Impairment losses on property, plant and equipment were recognised in all three of the TOM TAILOR Wholesale, TOM TAILOR Retail and BONITA segments in a total amount of EUR 28,023 thousand (2015: EUR 319 thousand) in the reporting period.

The Group entered into contracts to acquire property, plant and equipment in the amount of EUR 11.7 million.

Please refer to section 24. (c) "Disclosures on Collateral" for information on the provision of items of property, plant and equipment as collateral.

Changes in Property, Plant and Equipment in 2015

in EUR thousand	Land, buildings, including buildings on third-party land	Other equipment, operating and office equipment	Prepay-ments	Total
Cost				
Balance at 1 January 2015	**50,200**	**309,956**	**292**	**360,448**
Foreign exchange differences	−31	1,200	−14	1,155
Additions	1,384	33,625	2,408	37,417
Reclassifications	911	1,318	−2,201	28
Disposals	−25	−12,887	−6	−12,918
Balance at 31 December 2015	**52,439**	**333,212**	**479**	**386,130**
Depreciation and impairment losses				
Balance at 1 January 2015	**19,736**	**191,657**	**–**	**211,393**
Foreign exchange differences	5	1,026	–	1,031
Additions	−747	–	–	−747
Additions from depreciation	3,341	29,255	–	32,596
Additions from impairments	–	319	–	319
Disposals	−16	−10,774	–	−10,790
Balance at 31 December 2015	**22,319**	**211,483**	**–**	**233,802**
Carrying amount				
Balance at 1 January 2015	**30,464**	**118,299**	**292**	**149,055**
Balance at 31 December 2015	**30,120**	**121,729**	**479**	**152,328**
of which leased	–	–	–	23,642

Further information on minimum lease payments for leases classified as finance leases (including leases for non-current intangible assets) is presented in the following:

Future Minimum Lease Payments for Finance Leases

in EUR thousand	31/12/2016	31/12/2015
Minimum lease payments		
Up to 1 year	8,041	8,469
1 to 5 years	18,353	20,077
After 5 years	1,173	743
	27,567	**29,289**
Interest component		
Up to 1 year	915	1,125
1 to 5 years	1,408	1,643
After 5 years	111	101
	2,434	**2,869**
Present value of minimum lease payments		
Up to 1 year	7,126	7,344
1 to 5 years	16,944	18,434
After 5 years	1,062	642
	25,132	**26,420**

None of these leases can be cancelled before the end of their contractual term.

Operating Leasing

In addition to finance leases, leases and rental agreements were entered into that must be classified as operating leases in accordance with IAS 17 on the basis of their economic substance; this means that the leased asset concerned is allocated to the lessor. These primarily relate to rental agreements for properties used for the Group's retail activities, as well as for office space used by Group companies and parts of the vehicle fleet. In the 2015 financial year, the ERP software used at BONITA was sold in a sale- and lease-back transaction and leased again under an operating lease.

12. INVESTMENT SECURITIES

TT OFF SALE (NI) LTD., Belfast / United Kingdom, was formed in financial year 2008. As a founding shareholder, Tom Tailor GmbH holds 49.0% of the shares in TT OFF SALE (NI) LTD.

The contribution was paid in cash and amounted to GBP 100 (corresponding to EUR 104 at the time). In 2015, the company recorded revenue of GBP 627 thousand (corresponding to EUR 864 thousand) and a net profit for the year of GBP 110 thousand (corresponding to EUR 152 thousand). The share of earnings attributable to the Group was EUR 75 thousand. The cumulative share of losses (EUR 2,460 thousand) was not included in the consolidated financial statements. The financial statements for financial year 2016 are not yet available.

In its annual financial statements for year ended 31 December 2015, TT OFF SALE (NI) LTD. reported non-current assets in the amount of GBP 382 thousand (corresponding to EUR 474 thousand), current assets in the amount of GBP 299 thousand (corresponding to EUR 370 thousand), current liabilities in the amount of GBP 4,324 thousand (corresponding to EUR 5,364 thousand) and equity in the amount of GBP −3,643 thousand (corresponding to EUR −4,519 thousand).

Tom Tailor GmbH supplied TT OFF SALE (NI) LTD. with merchandise valued at EUR 657 thousand in the reporting period (2015: EUR 521 thousand).

There is no existing fair value for the equity interest.

13. OTHER ASSETS

Other assets are composed of the following items:

Other Assets

in T€	31/12/2016	31/12/2015
Fair value of currency futures	25,802	25,015
Refund entitlement	–	71
Creditors with debit accounts	3,842	6,067
Security deposits	8,465	8,183
Store subsidies	5,543	6,981
Receivables from online business	2,913	4,523
Claims for damages	–	2,000
Receivables arising from factoring	2,042	1,608
Prepaid rent	–	490
Procurement agent commissions	2,516	1,298
Receivables from personnel	42	718
Other assets	4,034	4,737
	55,199	**61,691**
of which non-current	19,940	24,476
of which current	35,259	37,215

Other assets include the fair value of the foreign currency derivatives acquired as part of the Group's hedging strategy in the amount of EUR 25.8 million (2015: EUR 25.0 million). Of these, EUR 5.9 million (2015: EUR 9.0 million) is shown under other non-current assets.

In the 2015 financial year, a factoring arrangement on the monthly revolving sale of current trade receivables with a term of 36 months was agreed as part of an active receivables management strategy. The contract stipulates a minimum overall purchase price of EUR 15.0 million (EUR 12.0 million up to 31 March 2016) and a maximum overall purchase price of EUR 25.0 million. Under the amending agreement dated 1 November 2016, the minimum total purchase amount is EUR 5.0 million, while a maximum total purchase amount of EUR 20.0 million was agreed. Since the material risks arising from the receivables under the factoring arrangement have been transferred to the buyer of the receivables, the receivables sold at the reporting date with a nominal volume of EUR 13.6 million were (2015: EUR 10.8 million) fully derecognised. Other assets in the current financial year include an ongoing commitment arising from the del credere risk, risk of dilution and moral hazard associated with the factoring arrangement in the amount of EUR 2.0 million (2015: EUR 1.6 million). Since all trade receivables sold have a term of less than one year, the carrying amount of the ongoing commitment is equal to its fair value. This also corresponds to the maximum exposure to loss. An exposure to loss can only arise from the receivables sold in connection with the factoring if these do not have actual legal validity or legal enforceability, if they were voluntarily reduced by the Company or the volume was reduced, or if they remain unsettled over the entire term of the factoring arrangement. The sale of the receivables led to EUR 192 thousand (2015: EUR 4 thousand) being reported as an expense under the financial result in the reporting period.

Other assets also include receivables from online business with a carrying amount of EUR 2,913 thousand (2015: EUR 4,523 thousand). These receivables are not reported as receivables from end customers, but as receivables from the service provider concerned due to contractual arrangements. The contractual right to receive the cash flows from the financial asset was transferred to the service provider, who is responsible for collecting the receivable and bears the full customer credit risk.

14. INVENTORIES

Inventories are composed of the following items:

Inventories

in EUR thousand	31/12/2016	31/12/2015
Raw materials, consumables and supplies	2,450	3,532
Merchandise	156,634	190,980
	159,084	**194,512**

Write-downs to the lower net realisable value rose by EUR 14.4 million compared with the previous year (2015: increase of EUR 1.1 million). The change was recognised in the cost of materials item in profit or loss. This included expected costs to sell that are still to be incurred. Write-downs reversed to profit or loss were recognised in connection with disposals of an immaterial amount.

The carrying amount of inventories, which were recognised at the lower of purchase costs and net realisable value, amounted to EUR 48.5 million as at the reporting date (2015: EUR 16.3 million). Inventories include goods in transit in the amount of EUR 29.5 million (2015: EUR 43.2 million). The decline in inventories is due mainly to special write-downs of EUR 15.3 million, increased measures to drive sales, particularly in the final quarter, and the year-on-year reduction in volumes purchased.

The inventories recognised in the cost of materials in financial year 2016 amounted to EUR 441.0 million (2015: EUR 420.6 million).

15. TRADE RECEIVABLES

As in the previous year, trade receivables amounting to EUR 41,209 thousand (31/12/2015: EUR 49,204 thousand) are due within one year. Their carrying amount corresponds to their fair value.

Changes to valuation allowances on current receivables within financial assets measured at (amortised) cost are presented in the following table:

Valuation Allowances on Current Receivables

in EUR thousand	31/12/2016	31/12/2015
1 January	7,801	7,857
Additions recognised in profit or loss	2,783	1,236
Utilisation	–642	–1,292
Reversals	45	–
31 December	**9,987**	**7,801**

The trade receivables include amounts that are past due at the reporting date, but for which the Group has not recognised any impairment losses (see age structure analysis). This is because there were no material changes to customer credit quality and the outstanding amounts are still expected to be paid by the customer. This assessment is based on the collateral, instalment agreements and documents on financial position available to the Group in most cases, as well as its right of set-off against the counterparty.

The age structure of trade receivables as at 31 December is as follows:

Age Structure of Trade Receivables

				Past due but not impaired		
in EUR thousand	Total	Neither due nor impaired	Carrying amount of receivables impaired	< 30 days	30–90 days	> 90 days
2016	**41,209**	26,099	5,640	4,868	2,548	2,054
2015	**49,204**	29,040	3,797	6,380	3,855	6,132

Impairment testing of trade receivables takes into account all changes to credit quality since payment terms were granted until the reporting date. Supplier credits granted to customers are classified as not due. The broad customer base meant that there was no significant credit risk concentration as at the reporting date.

Expenses relating to losses on receivables and valuation allowances on receivables totalled EUR 6,212 thousand (2015: EUR 2,270 thousand).

16. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

in EUR thousand	31/12/2016	31/12/2015
Overnight funds and other bank deposits	33,718	47,998
Cash-in-hand	4,405	2,527
	38,123	**50,525**

Of the cash funds reported, bank deposits of EUR 9.2 million (2015: EUR 8.0 million) are pledged. Assuming collateral is furnished, these cash funds can be placed at the Company's disposal within a reasonable period of time.

17. EQUITY

Changes in equity are presented in the statement of changes in equity.

TOM TAILOR Holding AG issued 2,602,713 new, no-par-value registered shares on 9 December 2016 as part of a cash capital increase. The new shares were issued at a price of EUR 4.90 per share under the terms of a private placement with institutional investors using an accelerated bookbuilding procedure. The Company generated gross issue proceeds of approximately EUR 12.8 million.

The 2,602,713 new registered shares were issued by way of a capital increase from authorised capital.

The implementation of the capital increase was entered in the commercial register on 12 December 2016. Shareholders' pre-emptive rights were disapplied. The new shares carry dividend rights as from 1 January 2016.

The Company's subscribed capital after the cash capital increase amounts to a total of EUR 28,629,846 and is composed of 28,629,846 no-par-value shares.

The capital reserves contain the additional payments by the shareholders as well as the amounts in excess of the notional interest in the share capital received on issuance of the shares.

Accumulated other comprehensive income includes the reserve for currency translation differences and the hedge reserve after adjustment for tax effects.

Of the foreign currency derivatives recognised in equity at their fair value in financial year 2015 in the amount of EUR 17.0 million, net of the related deferred taxes of EUR 5.2 million, an amount of EUR 7.5 million was reclassified in its entirety to net income for the period in 2016 because the underlying hedged items were recognised in the income statement. The Group bought new foreign currency derivatives in the reporting period as part of its hedging strategy. In this context, a total of EUR 17.6 million was appropriated to the hedge reserve. Corresponding deferred taxes amounted to million EUR 5.4 million. After adjustment for deferred taxes and the amount recognised in net income for the period, the hedge reserve amounted to EUR 12.2 million as at 31 December 2016 (31 December 2015: EUR 11.7 million).

Consolidated net accumulated losses changed as follows:

Accumulated Loss (Development)

in EUR thousand	2016	2015
1 January	**–98,953**	**–94,370**
Consolidated net income attributable to shareholders of TOM TAILOR Holding AG	–73,000	71
Less non-controlling interests	4,232	4,654
After non-controlling interests	–77,232	–4,583
31 December	**–176,185**	**–98,953**

The foreign currency translation reserve in the amount of EUR -463 thousand (31 December 2015: EUR -1,609 thousand) includes exchange rate gains or losses from the translation of the financial statements of the consolidated foreign subsidiaries whose functional currency is not the euro. Furthermore, the reserve includes currency translation differences from loan receivables, which constitute part of a net investment in foreign operations.

At the Annual General Meeting on 3 June 2013, the Management Board was authorised to increase the Company's share capital in full or in part, with the consent of the Supervisory Board, on one or more occasions until 2 June 2018 by up to a total of EUR 7,262,710.00 by issuing new no-par-value registered shares in return for cash contributions (Authorised Capital 2013 I).

In addition, the Management Board was authorised at the Annual General Meeting on 3 June 2013 to increase the Company's share capital in full or in part, with the consent of the Supervisory Board, on one or more occasions until 2 June 2018 by up to a total of EUR 4,841,807.00 by issuing new no-par-value registered shares in return for cash and / or non-cash contributions (Authorised Capital 2013 II). In connection with the cash capital increase implemented in 2013, EUR 1,818,098.00 of that amount were utilised.

At the Annual General Meeting on 3 June 2015, the Management Board's authorisation to increase the authorised capital 2013 II by the remaining amount of up to EUR 3,023,709.00 was revoked and replaced as follows. The Management Board was then authorised to increase the Company's share capital in full or in part, with the consent of the Supervisory Board, on one or more occasions until 2 June 2020 by up to a total of EUR 5,205,426.00 by issuing new no-par-value registered shares in return for cash and / or non-cash contributions (Authorised Capital 2015). In connection with the cash capital increase implemented in financial year 2016, EUR 2,602,713.00 of that amount was utilised, resulting in remaining authorised capital 2015 of EUR 2,602,713.00 as at 31 December 2016.

18. STOCK OPTION PROGRAMME

On 3 June 2013, the Annual General Meeting of TOM TAILOR Holding AG resolved a Company stock option programme in order to be able to grant stock option rights to members of the Company's Management Board, members of the management of affiliated companies and selected employees below Management Board level of the Company, and below management level of affiliated companies (hereinafter referred to as the Long-Term Stock Option Programme or "SOP" for short). The associated performance targets are measured on the basis of a multi-year assessment and comply with the legal requirements of the Aktiengesetz (AktG – German Stock Corporation Act) and the German Corporate Governance Code.

For the purposes of granting shares to the holders of stock option rights under the Long-Term Stock Option Programme, the Annual General Meeting also resolved to contingently increase share capital by up to EUR 2,400,000.00 by issuing up to 2,400,000 no-par-value registered shares in the Company. Overall, 2,400,000 stock option rights can therefore be granted. A total of up to 1,200,000 stock option rights can be granted to members of the Company's Management Board, up to 600,000 to members of the management of affiliated companies, and up to 600,000 to employees of the Company and of affiliated companies. The stock option rights may be issued in four yearly tranches of up to 600,000 stock option rights each.

In the four issuing periods, the option beneficiaries will receive stock option rights with two different strike prices. For 75% of the issued stock option rights (type A stock option rights), the strike price corresponds to the issue price; for the remaining 25%, the strike price of the stock option rights issued (type B stock option rights) corresponds to 120% of the issue price.

The stock option rights may be exercised no earlier than four years after the date of issue (vesting period). The stock option rights have a maximum term of seven years from the date of issue. The stock option rights may only be exercised if (1) the closing price of the shares on the last five trading days of the vesting period exceeds the issue price by an average of at least 35%, whereby the issue price shall correspond to the average closing price of the shares on the last 30 trading days before the date of issue of the respective stock option right, and (2) diluted consolidated earnings per share (EPS) adjusted for special factors for the financial year ending prior to the end of the respective vesting period have increased by at least 50% compared with the EPS for the financial year ending prior to the issue of the respective stock option rights. The gain achieved by the option beneficiaries when exercising their options may not exceed three times the issue price (cap).

If the cap is exceeded, the strike price of the relevant option type will be adjusted in such a way that the difference between the market price on exercise and the adjusted strike price does not exceed three times the issue price.

During the reporting period, a total of 500,000 of the available 600,000 stock options were issued under the fourth tranche of the stock option programme on 8 June 2016 (23 June 2015: 450,000; 11 June 2014: 520,000; 26 August 2013: 485,000 stock options). The remaining 100,000 stock options available for this fourth tranche were not issued. None of the stock options are exercisable yet due to the vesting period. Of the originally granted stock options, 814,000 options were forfeited without compensation.

Fair value measurement was carried out based on the following parameters:

Fair Value Measurement

Fair value parameters	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Stock options issued (number)	485,000	520,000	450,000	500,000
Stock options forfeited (number)	299,500	263,000	236,500	15,000
Stock options outstanding (number)	185,500	257,000	213,500	485,000
Strike price Type A (EUR)	16.30	14.25	10.32	4.07
Strike price Type B (EUR)	19.56	17.10	12.38	4.88
Fair value Type A (EUR)	3.39	2.00	2.04	1.11
Fair value Type B (EUR)	2.77	1.51	1.73	1.02
250-day volatility (in %)	30.0	20.6	36.4	64.8
Expected dividend (in %)	1.83	1.57	3.54	1.14
Risk-free interest rate (in %)	1.77	1.40	1.09	0.12
Share price at grant date (EUR)	16.30	14.25	10.32	4.07
Share price hurdle (EUR)	22.00	19.23	13.93	5.49
Average expected exercise period (in years)	5.5	5.5	5.5	5.5
Fluctuation (in %)	3	5	5	10

The pay-out is capped at 400% for type A stock option rights and 420% for type B stock option rights.

During the reporting period, the expense for share-based payments to members of the Company's Management Board, members of the management of affiliated companies and selected employees below Management Board level of the Company and below management level of affiliated companies amounted to EUR 488 thousand (2015: EUR 293 thousand).

19. MANAGEMENT EQUITY PARTICIPATION PROGRAMME

In financial year 2014, members of the Management Board and selected executives of TOM TAILOR Holding AG were given the opportunity to acquire shares in FCM Beteiligungs GmbH in return for payment.

As part of a share transfer agreement, 6,028,050 shares of TOM TAILOR Holding AG (hereinafter “TT Shares”) held by Versorgungs- und Förderungsstiftung Vaduz were transferred in the 2014 financial year to Fidelidade Companhia de Seguros S.A. (4,036,681 TT Shares) and FCM Beteiligungs GmbH (1,991,369 TT Shares). Together, the two companies hold a 23% interest in TOM TAILOR Holding AG. The members of the Management Board and five other executives of TOM TAILOR Holding AG were able to acquire their own 45% interest in FCM Beteiligungs GmbH. The equity interest held by Management Board members and executives therefore constitutes an investment in TOM TAILOR Holding AG and aligns the interests of management with those of the shareholders.

Proceeds are generated from the equity interest when TT Shares are sold by FCM Beteiligungs GmbH. The gains from the equity interest are paid to participants in proportion to their interest in FCM Beteiligungs GmbH. This interest is reduced by what is known as a “performance ratchet” arrangement to a previously determined minimum of 15%, if the TT Share price does not amount to at least EUR 19 when shares are sold. In addition to the aforementioned proceeds, the Management Board members and executives are entitled to a performance bonus when TT Shares are sold. This is based on the share price exceeding EUR 25 within a fixed time period. TT Shares can be sold after expiration of the lock-up period on 11 August 2015. This requires prior consultation with the Management Board members and executives of TOM TAILOR Holding AG.

Upon leaving TOM TAILOR Holding AG, the participants in the management equity participation programme are generally entitled to retain their interest in TOM TAILOR shares. Their share of the investment is reduced to the ratchet minimum. Claims to any performance bonuses are thereby extinguished.

When the investment was made, the market value of the equity interest attributable to the members of the Management Board and selected executives of TOM TAILOR Holding AG was EUR 0.7 million. In financial year 2016, expenses of EUR 0.2 million (2015: EUR 0.2 million) associated with the management equity participation programme were recognised in profit or loss.

20. DIVIDEND PER SHARE

The syndicated loan agreement entered into in financial year 2015 provides for a restriction on future dividend payments in order to protect the consortium banks. The loan agreement provides for a maximum potential dividend of 50% of consolidated net income for the period if the financial ratio of net debt to EBITDA is less than 2.75.

21. PROVISIONS FOR PENSIONS

Provisions for pensions are recognised for obligations arising from pension entitlements. The beneficiaries are former senior executives and former managing directors / Management Board members and their surviving dependants. Pension plans are funded by provisions and are thus unfunded. For the pension commitments, whose present value is EUR 2.0 million (2015: EUR 1.8 million), reinsurance policies in the amount of EUR 0.5 million (2015: EUR 0.7 million) are in place which are offset against the pension commitments. From the Group’s perspective, both the amount of the obligations and assets and the resulting net inflow / outflow are immaterial. The Group therefore refrains from presenting the actuarial method for calculating the obligation and the changes in the obligations and assets in detail.

22. OTHER PROVISIONS / CONTINGENT LIABILITIES

Other provisions changed as follows:

Other Provisions in 2016

in EUR thousand	Employee-related Provisions	Customer bonuses	Returns	Outstanding Invoices	Restoration obligations	Other	Total
Balance at 31 December 2015	**16,311**	**7,948**	**3,695**	**–**	**10,512**	**2,601**	**41,067**
Additions	23,950	9,420	1,875	16,684	2,828	3,507	58,264
Reversals	2,835	537	–	–	–	103	3,475
Unwinding of discounts / changes in interest rates	2	–	–	–	372	–	374
Utilisation	14,085	7,291	1,639	–	445	2,070	25,530
Balance at 31 December 2016	**23,343**	**9,540**	**3,931**	**16,684**	**13,267**	**3,935**	**70,700**
Current	22,834	9,540	3,931	7,709	2,724	3,935	50,673
Non-current	509	–	–	8,975	10,543	–	20,027

Other Provisions in 2015

in EUR thousand	Employee-related Provisions	Customer bonuses	Returns	Restoration obligations	Other	Total
Balance at 31 December 2014	**13,865**	**6,572**	**3,599**	**9,806**	**1,676**	**35,518**
Additions	15,087	7,116	644	1,180	2,089	26,116
Reversals	74	2,250	320	19	3	2,666
Unwinding of discounts / changes in interest rates	2	–	–	–328	–	–326
Utilisation	12,569	3,490	228	127	1,161	17,575
Balance at 31 December 2015	**16,311**	**7,948**	**3,695**	**10,512**	**2,601**	**41,067**
Current	16,201	7,948	3,695	549	2,601	30,994
Non-current	110	–	–	9,963	–	10,073

Employee-related provisions largely relate to bonuses, the long-term remuneration system for Management Board members and managers, and outstanding holiday and over-time entitlements. Provisions for personnel expenses also include severance and leave of absence entitlements, which relate in particular to the RESET cost and process optimisation programme initiated in financial year 2016.

A Long-term Incentive Programme (LTI) was introduced in July 2010 for the TOM TAILOR GROUP's management. It serves to retain personnel and achieve the Company's long-term goals. This remuneration system runs for a period of eight years (starting in financial year 2010) and is based on a comparison of target and actual revenue and the operating result over a three-year observation period in each case. Any bonus is granted in tranches every financial year on an individual basis. Together with revenue and the operating result, share price performance is another component that is taken into consideration. The share price of the issued tranches was modelled at each reporting date using a Monte Carlo method, taking into account expected volatility (tranche 5: 39.54%; tranche 6: 34.15%; tranche 7: 30.75%), the risk-free interest rate (tranche 5: -0.38%; tranche 6: -0.46%; tranche 7: -0.49%), and the expected dividend distribution (2.5%). The programme is also open to the members of the Management Board. Tranche 4 under this remuneration system was paid out in 2016. Tranche 5 and tranche 6 can first be paid out in 2017 and 2018 respectively.

Provisions were recognised for leased stores kept in operation or not yet closed if, based on past experience and site forecasts, an unavoidable excess of obligations is expected over the period to the end of the contractual minimum lease term.

Provisions for restoration obligations relate to the expected expense of returning each store when the lease expires to its structural condition at the time the lease was entered into. The present value of the expected expense is recognised as a provision at the start of the lease; the amount of the provision is charged to other comprehensive income. The estimated expenses are recognised as non-current assets and amortised over the average term of the leases.

Provisions for customer bonuses comprise discounts that are conditional on order volumes and contractually agreed commission entitlements that had not yet been paid out as at the reporting date.

Provisions for returns are based on past experience of return rates and the time taken to receive them. Provisions are calculated on the basis of average margins and average return rates.

Provisions are expected to be settled within 12 months, with the exception of part of the provision for the Long-term Incentive Programme (LTI) for management, restoration obligations and onerous contracts.

There were no material contingent liabilities as at the reporting date.

Provisions for restoration obligations are uncertain with regard to the timing of the outflow of resources, as they are only incurred when the spaces are restored.

23. DEFERRED TAX LIABILITIES

Recognised deferred tax assets relate to the following items:

Deferred Tax Assets in the Reporting Period

in EUR thousand	31 December 2016 Basis of assessment	Deferred tax assets
Tax loss carryforwards and interest carried forward	49,055	11,317
Consolidation adjustments (consolidation of intercompany balances, elimination of intercompany profits / losses)	8,966	2,782
Impairment losses	23,825	7,393
Restoration obligations	3,011	933
Currency translation differences	3,175	985
Pension provisions	417	130
Provisions for onerous contracts	14,477	4,492
Other	3,160	953
	106,086	**28,985**
Set off against deferred tax liabilities	−106,086	−28,985
	–	–

Deferred tax assets relate primarily to the future usability of cumulative interest carried forward, as well as corporation and trade tax loss carryforwards. This led to total deferred tax assets of EUR 11.3 million.

In addition to deferred tax assets in respect of tax loss carryforwards and interest carried forward, deferred tax assets were recognised primarily for consolidation adjustments and measurement differences relating to the provisions for restoration obligations and for provisions for onerous contracts in connection with the RESET cost and process optimisation programme.

Deferred Tax Assets in the Previous Year

in EUR thousand	31 December 2015 Basis of assessment	Deferred tax assets
Tax loss carryforwards and interest carried forward	37,110	8,526
Consolidation adjustments (consolidation of intercompany balances, elimination of intercompany profits / losses)	6,435	1,987
Restoration obligations	4,555	1,406
Pension provisions	717	222
Other	2,952	962
	51,769	**13,103**
Set off against deferred tax liabilities	−51,769	−13,103
	–	–

As at 31 December 2016, recognised deferred tax liabilities were attributable to the following recognition and measurement differences:

Deferred Tax Liabilities in the Reporting Period

in EUR thousand	31 December 2016 Basis of assessment	Deferred tax liabilities
Intangible assets	266,350	82,648
Measurement of currency forwards	16,522	5,127
Leases	6,493	1,820
Treatment of transaction costs	4,377	1,358
Measurement of receivables	384	115
Other	6,393	1,890
	300,519	**92,958**
Set off against deferred tax assets	−106,086	−28,985
	194,433	**63,973**

Deferred tax liabilities in the amount of EUR 63.2 million were recognised on intangible assets in connection with the recognition of intangible assets in the course of the initial consolidation of BONITA Deutschland Holding GmbH, Hamminkeln/Germany, and its subsidiaries; these had a residual carrying amount of EUR 57.6 million as at the 2016 reporting date. Deferred taxes attributable to currency forwards are reported in other comprehensive income if they are part of an effective hedging relationship.

As at 31 December 2015, recognised deferred tax liabilities were attributable to the following recognition and measurement differences:

Deferred Tax Liabilities in the Previous Year

	31 December 2015	
in EUR thousand	**Basis of assessment**	**Deferred tax liabilities**
Intangible assets	281,703	86,783
Measurement of currency forwards	15,341	4,737
Leases	2,498	643
Treatment of transaction costs	3,407	1,052
Measurement of receivables	698	206
Currency translation differences	1,661	513
Other	6,549	2,023
	311,857	**95,957**
Set off against deferred tax assets	–51,769	–13,103
	260,088	**82,854**

24. FINANCIAL LIABILITIES

a) Composition

Current and non-current financial liabilities are composed of the following items:

Financial Liabilities in the Reporting Period

	31 December 2016			
in EUR thousand	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Liabilities to banks	17,006	178,214	–	195,220
Lease liabilities	7,126	16,944	1,062	25,132
Liabilities to third parties	12,486	–	–	12,486
	36,618	**195,158**	**1,062**	**232,838**

In the previous year, current and non-current financial liabilities were composed of the following items:

Financial Liabilities in the Previous Year

	31 December 2015			
in EUR thousand	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Liabilities to banks	35,006	203,553	–	238,559
Lease liabilities	7,344	18,434	642	26,420
Liabilities to third parties	2,885	53	–	2,938
	45,235	**222,040**	**642**	**267,917**

b) Disclosures

Liabilities to banks

The TOM TAILOR GROUP increased the volume of its syndicated loan to EUR 500.0 million in May 2015.

At the end of May 2013, TOM TAILOR Holding AG successfully issued a borrower's note loan totalling EUR 80 million to refinance short-term bank liabilities from the acquisition of the BONITA companies. The issue was placed mainly with institutional investors (banks) in Germany and other European countries. The borrower's note loan had three tranches with maturities of 2.6, 3.6 and five years, and bears both fixed and variable rates of interest. In the course of arranging the refinancing in 2015, the TOM TAILOR GROUP also redeemed the EUR 45.0 million variable-interest rate portion of the borrower's note loan ahead of time. A further EUR 20.0 million from the borrower's note loan were redeemed in the 2016 financial year. The remaining fixed-rate borrower's note loans in the amount of EUR 15.0 million fall due at the end of May 2018.

The coupons of the borrower's note loan reflect the present level of interest rates and are within the range of previously payable interest rates.

Continued loan finance as well as the syndicated loan are dependent on compliance with financial covenants (net debt / recurring EBITDA, net debt (incl. future rent) / EBITDAR and the equity ratio); these are to be calculated on the basis of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) at the end of the financial year.

Bank commission of EUR 0.6 million relating to the borrower's note loan has been amortised over the term of the liabilities to banks using the effective interest method and recognised in the interest expense item in profit or loss over the term of the loan.

The available bank lines of credit with a total volume of EUR 500.0 million comprise a current account overdraft facility of EUR 187.5 million, a guaranteed line of credit of EUR 187.5 million and bank loans of EUR 125.0 million.

The variable effective interest rate for the lines drawn down and the long-term loans is based on three-month and six-month EURIBOR plus a margin that ultimately depends on the ratio of net debt to EBITDA adjusted for one-off items.

A total of EUR 475.0 million of the loan refinancing has a term of five years, while EUR 25.0 million has a term of three years plus two options to extend the term by one year in each case. The current account overdraft facility and guaranteed line of credit are available to the TOM TAILOR Group for five years from the date of grant in 2015.

The EUR 25.0 million long-term loan falls due at the end of May 2018 providing an extension option has not been exercised beforehand. Taking into account the two extension options, the bank lines of credit would be due by the end of May 2020 at the latest. Until that date, scheduled repayments of EUR 45.0 million must be made in connection with the syndicated loan.

Liabilities from overdraft facilities amounted to EUR 80.2 million as at the reporting date (2015: EUR 87.4 million).

As at the 2016 reporting date, bank commissions and transaction costs of EUR 2.5 million (2015: EUR 3.3 million) relating to the refinancing are amortised over the term of the liabilities to banks using the effective interest method. The deferred commission will be recognised in the interest expense item in profit or loss over the term of the loans. Continued loan finance is dependent on compliance with certain financial covenants (net debt / recurring EBITDA, net debt (incl. future rent) / EBITDAR and the equity ratio); these are to be calculated on the basis of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) at the end of each quarter and at the end of the financial year. A violation of the financial covenants would give rise to an extraordinary right of cancellation for the lender. In this case, the lender would be entitled to call in the loans immediately.

As at 30 September 2016, the Group was unable to meet the financial covenants for existing credit lines. The financing institutions were notified in a timely manner – before 30 September 2016 – that the financial covenants were not expected to be met. In this context, the financial covenants as at 30 September 2016 and for the remaining term of the syndicated loan agreement were re-adjusted in favour of the TOM TAILOR Group after the reporting date and prior to the publication of the quarterly financial statements. Since the decision of the lenders was pending as at the interim reporting date for the third quarter of 2016, non-current financial liabilities of EUR 204.2 million had to be shown under current financial liabilities to account for this situation in the interim financial statements as at 30 September 2016.

As at 31 December 2016, these liabilities will again be shown under non-current financial liabilities. Bank commissions and transaction costs of EUR 2.0 million relating to the renegotiation of the financial covenants were offset against liabilities to banks and are recognised in profit or loss under interest expense on a straight-line basis over the remaining term of the loans.

c) Disclosures on Collateral

In connection with the overall financing of the TOM TAILOR Group, TOM TAILOR Holding AG, Hamburg / Germany, Tom Tailor GmbH, Hamburg / Germany, Tom Tailor Retail GmbH, Hamburg / Germany, TOM TAILOR E-Commerce GmbH & Co. KG, Oststeinbek / Germany, BONITA GmbH, Hamminkeln / Germany, GEWIB GmbH, Hamminkeln / Germany, Tom Tailor (Schweiz) AG, Baar / Switzerland, TOM TAILOR Retail Gesellschaft m.b.H., Wörgl / Austria and TOM TAILOR RUS LLC, Moscow / Russia, are jointly liable for the liabilities to banks.

d) Liabilities to Third Parties

Liabilities to third parties in the amount of EUR 12.5 million are the result of pre-financing liabilities to suppliers in order to optimise working capital. The liabilities are payable within one year and reported under current financial liabilities.

25. TRADE PAYABLES

As in the previous year, trade payables are due without exception within one year. Their carrying amount corresponds to their fair value.

Standard retention of title applies.

26. OTHER LIABILITIES

Other liabilities are composed of the following items:

Other Liabilities

in EUR thousand	31/12/2016	31/12/2015
Other taxes (mainly VAT)	16,037	12,114
Customer vouchers, prepayments and credits	4,678	4,226
Employee-related liabilities and social security contributions	2,611	2,353
Fair value of currency futures	1,207	1,641
Fair value of interest rate hedges	–	1,571
Contributions	266	604
Supervisory Board remuneration	461	442
Debtors with credit balances	574	415
Other liabilities	3,140	3,617
Carrying amount	**28,974**	**26,983**
of which non-current	1,154	1,941
of which current	27,820	25,042

The customer vouchers and credits item relates to vouchers issued to customers before the reporting date and approved credits that were only redeemed after the reporting period.

E. MANAGEMENT OF FINANCIAL RISK AND FINANCIAL DERIVATIVES

CAPITAL MANAGEMENT

The purpose of the TOM TAILOR GROUP's capital management is to safeguard its ability to continue as a going concern, guarantee an adequate return on equity and optimise the capital structure.

The Group manages its capital structure by borrowing and repaying debt, through the capitalisation measures indicated by investors and by using financial instruments to hedge future cash flows, while at the same time bearing in mind the economic and legal environment.

Loan finance granted by banks is dependent on compliance with certain financial covenants; these are to be calculated on the basis of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). They include a mandatory equity ratio and restrictions on distributions if the equity ratio is inadequate. The external minimum capital requirements have increased compared with the previous year.

The capital structure is monitored primarily using cash-flow-related indicators (net debt (including future rent)/EBITDAR, net debt/recurring EBITDA).

The Group's ability to pay interest and principal is therefore a key capital management tool.

Equity as at the reporting date amounted to EUR 162,892 thousand (2015: EUR 225,480 thousand).

The change in equity in the reporting period was influenced by the net loss for the period of EUR 73.0 million. The large net loss for the year is due mainly to high one-off items and special factors related to the implementation of the RESET cost and process optimisation programme.

The RESET cost and process optimisation programme is focused on boosting profitability. This will mainly involve systematic, long-term reduction of the Company's debt, which in turn will strengthen its equity base. The TOM TAILOR GROUP's financial strategy is to use the cash flow generated from operations to continue reducing its debt.

In financial year 2015, the TOM TAILOR GROUP arranged financing with the banks with a term of up to 2020 and is thus pursuing a clear financial strategy to strengthen its EBITDA and cash flow and to further improve its balance sheet structure. The Company's ability to finance its operating cash flow internally is pivotal here.

The TOM TAILOR GROUP seeks to generate a positive free cash flow that will be used to reduce its net debt and also the interest burden.

The Company is reiterating its objective of reducing the ratio of net debt to recurring EBITDA to below 2.0 in the medium term. The TOM TAILOR GROUP also endeavours to achieve net income for the period to strengthen the equity side of its balance sheet. The Group is aiming for an equity ratio of at least 30% in the medium term.

USE AND MANAGEMENT OF FINANCIAL INSTRUMENTS

In particular, financial liabilities comprise bank loans, finance leases and trade payables. The main purpose of these financial liabilities is to finance the Group's business activities. The Group has various financial assets such as trade receivables and cash funds that result directly from its business activities.

The Group also holds derivative financial instruments. These primarily include currency forwards. The purpose of these derivative financial instruments is to hedge currency risk resulting from the Group's business activities and sources of financing. The use of derivative financial instruments is subject to internal guidelines and control mechanisms.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of the financial instruments recognised in the consolidated financial statements:

Fair Values of Financial Instruments

in EUR thousand	Category under IAS 39	Carrying amount 2016	Carrying amount 2015	Fair value 2016	Fair value 2015
Financial assets					
Trade receivables and other assets	lar	62,547	77,602	62,547	77,602
Cash and cash equivalents	lar	38,123	50,525	38,123	50,525
Derivatives used to hedge interest rate and currency risk that are part of a hedging relationship	n. a.	25,802	25,015	25,802	25,015
Financial liabilities					
Liabilities to banks					
Acquisition loan	flac	113,123	149,093	113,123	149,093
Other liabilities to banks	flac	82,097	89,466	82,097	89,466
Finance lease liabilities	flac	25,132	26,420	25,132	26,420
Liabilities to third parties	flac	12,486	2,938	12,486	2,938
Derivatives used to hedge interest rate and currency risk that are not part of a hedging relationship	fvtpl	–	1,571	–	1,571
Derivatives used to hedge interest rate and currency risk that are part of a hedging relationship	n. a.	1,207	1,641	1,207	1,641
Trade payables and other liabilities	flac	132,451	173,230	132,451	173,230

Flac = financial liabilities measured at amortised cost;

Fvtpl = financial assets / financial liabilities at fair value through profit or loss;

LaR = loans and receivables

The fair values of the derivative financial instruments based on the notional amounts do not reflect offsetting changes in the value of hedged items. They are not necessarily the amounts the Group will generate or have to pay in the future under current market conditions.

With the exception of the derivatives entered into to hedge interest rate risk, the hedges existing at the reporting date meet the requirements for hedge accounting under IAS 39. All changes in the fair value of derivatives in an effective hedging relationship are recognised in accumulated other comprehensive income (EUR: 17.6 million; 2015: EUR 17.0 million). Derivatives that are not part of an effective hedging relationship are recognised in the income statement immediately.

The fair values of cash and cash equivalents, trade receivables, other receivables, trade payables, other current financial liabilities and revolving credit facilities correspond to their carrying amounts. This is due primarily to the short terms of such instruments.

Trade receivables in particular are measured by the Group mainly on the basis of the individual customer's credit quality. Based on this measurement, valuation allowances are recognised to account for any losses expected on these receivables. As at 31 December 2016 the carrying amounts of these receivables less valuation allowances did not differ significantly from their assumed fair values.

The TOM TAILOR GROUP generally determines the fair value of liabilities to banks and other financial liabilities, finance lease liabilities and other non-current financial liabilities by discounting the expected future cash flows at the rates applicable to similar financial liabilities with a comparable remaining maturity. Interest is paid on the syndicated loan granted by the banks at current market rates, as a result of which its carrying amount and fair value at the reporting date are largely the same. The fair value measurement also takes into account any collateral provided. No changes in the value of collateral are apparent.

For financial instruments that are measured at fair value and for which there are no quoted prices in an active market, fair value is determined using valuation techniques, primarily the discounted cash flow (DCF) method. This is based on management's forecasts and assumptions about future revenue and earnings, investments, growth rates and discount rates.

The Group only enters into derivative financial instruments with financial institutions with a good credit rating. The forward exchange contracts are measured using a valuation technique with inputs observable in the market. The most frequently used valuation techniques include forward pricing and swap models that apply present value calculations.

The models capture a number of variables, such as the credit quality of business partners, spot and forward exchange rates.

The Group applies the following hierarchy to the valuation techniques used to measure and present the fair values of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: techniques where all inputs that have a significant effect on the recognised fair value are observable either directly or indirectly

Level 3: techniques that use inputs that have a significant effect on the recognised fair value and are not based on observable market data

The following tables show the financial instruments for financial years 2016 and 2015 that are subsequently measured at fair value.

Fair Values of Financial Instruments

in EUR thousand	2016	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Hedging instruments designated as cash flow hedges (currency forwards)	25,802	–	25,802	–
	25,802	**–**	**25,802**	**–**
Financial liabilities at fair value through profit or loss				
Hedging instruments designated as cash flow hedges (currency forwards)	1,207	–	1,207	–
	1,207	**–**	**1,207**	**–**

in EUR thousand	2015	Stufe 1	Stufe 2	Stufe 3
Financial assets at fair value through profit or loss				
Hedging instruments designated as cash flow hedges (currency forwards)	25,015	–	25,015	–
	25,015	**–**	**25,015**	**–**
Financial liabilities at fair value through profit or loss				
Derivatives used as interest rate hedges (interest rate swap)	1,571	–	1,571	–
Hedging instruments designated as cash flow hedges (currency forwards)	1,641	–	1,641	–
	3,212	**–**	**3,212**	**–**

Net Gains and Net Losses on Financial Instruments

in EUR thousand	2016	2015
Loans and receivables	–6,853	–3,540
of which net interest income	–192	7
Financial liabilities measured at amortised cost	–8,618	–10,930
of which net interest income	–11,460	–10,992
Financial assets/liabilities at fair value through profit or loss	268	–1,133
of which net interest income	–1,303	–1,176

Net gains and losses on financial instruments comprise measurement gains and losses, changes in the value of premiums and discounts, the recognition and reversal of impairment losses, currency translation gains and losses, interest and all other effects of financial instruments on profit or loss. The financial assets / liabilities at fair value through profit or loss item only includes gains and losses on those instruments that are not designated as hedging instruments in a hedging relationship under IAS 39.

The significant risks to the Group arising from financial instruments comprise interest-rate-related cash flow risk as well as liquidity, currency and credit risk. The Company's management decides on strategies and methods for managing specific types of risk, which are presented in the following.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Due to its activities, the Group is mainly exposed to financial risk arising from changes in exchange rates (see Currency Risk below) and changes in interest rates (see Interest Rate Risk below). The Group's operations are also affected by credit risk (see Credit Risk below) and liquidity risk (see Liquidity Risk below).

Derivative financial instruments are entered into to manage existing currency risk. These include:

- currency forwards to hedge the foreign exchange risk that results from importing items of clothing produced mainly in Asia

The sensitivity analyses in the following sections refer in each case to the data as at 31 December 2016 and 2015.

The sensitivity analyses were prepared on the basis of the hedging relationships existing on 31 December 2016 and on the assumption that net debt, the ratio of fixed to variable interest rates on liabilities and derivatives, and the percentage of financial instruments in foreign currencies remain unchanged.

a) Credit Risk

The Group is exposed to counterparty credit risk as a result of its operating business and certain financing activities.

To minimise credit risk in the operating business, the outstanding amounts are monitored centrally and on an ongoing basis.

The Group only enters into business transactions with third parties with a good credit rating. Credit checks are run on all customers wanting to do business with the Group on a credit basis. In addition, the risk is mitigated by taking out credit insurance policies and obtaining collateral. Identifiable credit risks are accounted for by recognising specific valuation allowances.

The Group uses factoring to actively manage its receivables and improve working capital. Please refer to the disclosures under note 13. OTHER ASSETS.

In its financing activities, the risk of default by the counterparty concerned is limited by selecting financial institutions of good and very good credit quality.

The maximum exposure to credit risk is reflected in the carrying amounts of the trade receivables and cash and cash equivalents carried in the balance sheet.

b) Liquidity Risk

In order to both ensure that the Group remains solvent at all times and safeguard its financial flexibility, a revolving liquidity plan is created that shows the inflow and outflow of liquidity in both the short and medium term. If necessary, a liquidity reserve is held in the form of credit lines and cash funds.

The following tables show the maturity analysis of the financial liabilities, including the remaining contractual maturities and expected interest payments.

Analysis of Maturity in the Reporting Period

	Non-derivative financial liabilities			Derivative liabilities	
in EUR thousand	**Liabilities to banks**	**Finance leases**	**Other liabilities**	**Interest-rate hedges**	**Currency hedges**
Carrying amount at 31 December 2016	**195,220**	**25,132**	**144,937**	**–**	**1,207**
Cash flows 2017					
Interest payments	11,112	915	800	–	–
Principal repayments	17,006	7,126	144,158	–	1,098
Cash flows 2018 bis 2021					
Interest payments	5,110	1,408	3,200	–	–
Principal repayments	178,214	16,944	779	–	109
Cash flows 2022 f.					
Interest payments	–	111	–	–	–
Principal repayments	–	1,062	–	–	–

Analysis of Maturity in the Previous Year

	Non-derivative financial liabilities			Derivative liabilities	
in EUR thousand	**Liabilities to banks**	**Finance leases**	**Other liabilities**	**Interest rate hedges**	**Currency hedges**
Carrying amount at 31 December 2015	**238,559**	**26,420**	**176,168**	**1,571**	**1,641**
Cash flows in 2016					
Interest payments	7,332	1,125	–	1,571	–
Principal repayments	35,006	7,344	176,115	–	1,076
Cash flows 2017 to 2020					
Interest payments	19,040	1,643	–	–	–
Principal repayments	203,553	18,434	53	–	565
Cash flows 2021 f.					
Interest payments	–	101	–	–	–
Principal repayments	–	642	–	–	–

For reasons of simplification, a constant yield curve was assumed for the cash flows from expected interest payments.

The notional value of the forward exchange contracts amounts to USD 313.5 million and falls due ratably over a period up to and including 2018.

c) Currency Risk

The Group's exposure to currency risk results from its operating activities. The Group purchases some of its merchandise in US dollars. In the reporting period, currency forwards were entered into to hedge risks arising from changes in exchange rates.

In the same period, cash inflows from those currency forwards were allocated to specific expected cash outflows for merchandise purchases, as a result of which the currency forwards entered into were designated as cash flow hedges (hedges of cash flows from forecast transactions). In addition to the intrinsic value, the time value of the option is designated. At the reporting date, the currency forwards were measured at their fair value. The fair values were determined by banks using the exchange rates for hedges with matching maturities at the reporting date.

The fair value of the currency forwards existing at the reporting date in the amount of EUR 24.6 million (2015: EUR 23.4 million) was recognised net of deferred taxes in the amount of EUR 7.6 million (2015: EUR 7.2 million) in the hedge reserve outside profit or loss and / or included in the measurement of inventories if the hedging relationship was regarded as effective. Income and expenses from currency forwards are included in the purchase costs of merchandise and realised in the short term through cost of materials. The prior-year amounts were included in profit or loss for the period. The hedged future merchandise purchases and therefore the cash flows are expected to amount to USD 210.5 million in 2017 and to USD 103.0 million in 2018.

In financial year 2016, income of EUR 10.9 million (2015: income of EUR 14.6 million) generated when hedged items under currency forwards entered into in 2015 were realised was reclassified from other comprehensive income to profit or loss. Corresponding deferred taxes amounted to EUR 3.4 million (2015: EUR 4.5 million).

In addition, the Russian Group company and the Swiss Group companies are exposed to currency risk as a result of business relationships with TOM TAILOR that are accounted for in euros. The Group's trade receivables and payables denominated in foreign currencies (less cash and cash equivalents in foreign currencies) are primarily as follows:

Currency Risk in the Reporting Period

	31 December 2016					
in EUR thousand	**Amount in local currency TCHF**	**Closing rate CHF / EUR 1.07**	**Amount in local currency TUSD**	**Closing rate USD / EUR 1.05**	**Amount in local currency TRUB**	**Closing rate RUB / EUR 64.30**
Trade receivables	1,271	1,184	–	–	195,634	3,043
Trade payables	1,205	1,122	67,168	63,721	44,499	692
	66	**61**	**–67,168**	**–63,721**	**151,135**	**2,351**

In the previous year, the Group had the following trade receivables and payables denominated in foreign currencies:

Currency Risk in the Previous Year

	31 December 2015					
in EUR thousand	Amount in local currency TCHF	Closing rate CHF / EUR 1.08	Amount in local currency TUSD	Closing rate USD / EUR 1.09	Amount in local currency TRUB	Closing rate RUB / EUR 80.67
Trade receivables	1,193	1,101	–	–	282,286	3,499
Trade payables	1,242	1,146	72,078	66,206	74,231	920
	–49	**–45**	**–72,078**	**–66,206**	**208,055**	**2,579**

Comprehensive income from foreign exchange gains and losses (excluding derivatives) amounted to EUR -0.3 million in financial year 2016 (2015: EUR 1.7 million).

In accordance with IFRS 7, the Group prepares sensitivity analyses for currency risk, which it uses to determine the effects on profit or loss and equity of hypothetical changes in relevant risk variables. The periodic effects are determined by relating the hypothetical changes in the risk variables to the holdings of financial instruments at the reporting date. In doing so, it is assumed that the portfolio at the reporting date is representative of the year as a whole. The currency sensitivity analyses are based on the following assumptions:

- The majority of the non-derivative financial instruments (securities, receivables, cash and cash equivalents, liabilities) are denominated directly in euros, the functional currency. If these financial instruments are not denominated in euros, they are included in the sensitivity analyses.

- Exchange-rate-related changes in the fair values of currency derivatives affect equity (hedge reserve).

- Significant effects result from changes in the exchange rates for the US dollar, the Swiss franc and the Russian ruble versus the euro. Changes in the exchange rates of other currencies have only insignificant effects and therefore are not considered separately.

If the euro had risen (fallen) by 10% against the US dollar at the reporting date, the net exchange rate gain on liabilities recognised in US dollars would have been EUR 5.7 million higher or EUR 6.9 million lower, respectively (2015: EUR 5.1 million higher or EUR 6.3 million lower). By contrast, the hedge reserve recognised in equity for currency forwards entered into in US dollars would have been EUR 26.7 million lower or EUR 30.3 million higher, respectively (2015: EUR 38.1 million lower or EUR 42.8 million higher).

A 10% rise (fall) in the euro against the Swiss franc or the Russian ruble would have resulted in the currency translation reserve for financial statements not prepared in the reporting currency being EUR 0.1 million higher or EUR 0.1 million lower, respectively (2015: EUR 0.2 million higher or EUR 0.3 million lower).

d) Interest Rate Risk

The Group is mainly subject to interest rate risk in the euro area.

Until the end of financial year 2016, an interest rate swap was in place to limit interest rate risk. The term and the notional amount did not match the underlying bank loans. The Company received a variable rate of interest based on three-month EURIBOR and paid a fixed rate of interest of 2.33%.

The following table shows the aggregate notional amounts, carrying amounts and fair values of the interest rate hedging instruments used:

Interest Rate Hedges

in EUR thousand	2016	2015
Notional amount	–	50,000
Carrying amount	–	–1,571
Fair value	–	–1,571

In the reporting period, interest income of EUR 1,571 thousand (2015: interest income of EUR 997 thousand) on interest rate hedging instruments at fair value through profit or loss was reported in the financial result.

In accordance with IFRS 7, interest rate risk is presented using sensitivity analyses. These indicate the effects of changes in market interest rates on interest payments, interest income and expense, other components of profit or loss and, if applicable, equity. The interest rate risk sensitivity analyses are based on the following assumptions:

- Changes in market interest rates on fixed-rate non-derivative financial instruments only affect profit or loss if these are measured at fair value. Therefore, all fixed-rate financial instruments measured at amortised cost are not exposed to interest rate risk within the meaning of IFRS 7.

- Changes in market interest rates affect net interest income on variable-rate non-derivative financial instruments and are therefore included in the sensitivity calculations in relation to profit or loss.

- Changes in market interest rates on interest rate derivatives affect net interest income (gain or loss on the fair value remeasurement of financial assets and net interest income from interest payments in the reporting period) and are therefore included in the sensitivity calculations in relation to profit or loss.

If market interest rates had been 100 basis points higher (lower) at the reporting date, net interest income would have been EUR 2.7 million higher or EUR 0.7 million lower, respectively (2015: EUR 2.9 million higher or EUR 1.2 million lower).

e) Other Price Risk

The Group was not exposed to any significant other price risk in the reporting period or in the previous year.

F. CASH FLOW DISCLOSURES

The statement of cash flows shows how the Group's cash and cash equivalents change due to cash inflows and outflows over the course of the reporting period. IAS 7 Statements of Cash Flows distinguishes between cash flows from operating, investing and financing activities.

The cash and cash equivalents reported in the statement of cash flows include all of the liquid assets recognised in the balance sheet, namely cash-in-hand, cheques and bank balances, provided that they are available within three months without material changes in value.

The net cash provided by the Group's operating activities amounted to EUR 34.5 million in financial year 2016 (2015: EUR 38.0 million). Net income for the period was EUR 73.1 million lower year-on-year due mainly to non-cash special and one-off expenses related to the RESET cost and process optimisation programme. This is primarily reflected in non-cash depreciation charges and additions to provisions. The cash used to reduce trade payables was offset by the reduction in inventories and trade receivables.

Investing activities led to a cash outflow of EUR 14.5 million in the TOM TAILOR GROUP in financial year 2016 (2015: EUR 24.9 million). This decrease is due to the significantly lower level of investments in the further expansion of the controlled selling spaces in the three segments, TOM TAILOR Wholesale, TOM TAILOR Retail and BONITA.

Since they do not affect cash flows, the additions to leased intangible assets and items of property, plant and equipment classified as finance leases were offset against the change (also non-cash) in financial liabilities to which the liabilities under finance leases are assigned.

After generating a cash inflow in the previous year (EUR 0.2 million), the TOM TAILOR Group recorded a cash outflow from its financing activities in the 2016 financial year of EUR 32.7 million. The cash outflow primarily results from the scheduled repayment of the loans in the amount of EUR 15.0 million and from the repayment of a due borrower's note loan trance amounting to EUR 18.0 million.

As at 31 December 2016, financing activities also included unused lines of credit amounting to EUR 108.9 million (2015: EUR 103.6 million).

The effects of changes in cash and cash equivalents due to exchange rates were largely attributable to the Swiss subsidiaries and were reported separately as the "Effect of exchange rate changes on cash and cash equivalents".

G. SEGMENT REPORTING

Operating Segments 2016 (2015)

	Wholesale	Retail				
in EUR thousand	**TOM TAILOR**	**TOM TAILOR**	**BONITA**	**Total**	**Consoli-dation**	**Group**
Third-party revenue	351,928	313,622	302,969	616,591	–	968,519
	(340,950)	(289,080)	(325,848)	(614,928)	(–)	(955,878)
Intersegment revenue	216,648	–	–	–	−216,648	–
	(238,617)	(–)	(–)	(–)	(−238,617)	(–)
Revenue	**568,576**	**313,622**	**302,969**	**616,591**	**−216,648**	**968,519**
	(579,567)	(289,080)	(325,848)	(614,928)	(−238,617)	(955,878)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**25,542**	**8,217**	**−22,640**	**−14,423**	**−864**	**10,255**
	(32,935)	(20,307)	(18,024)	(38,331)	(−3,691)	(67,575)
Material non-cash expenses / income	**22,351**	**13,763**	**37,450**	**51,213**	**–**	**73,564**
	(13,516)	(3,909)	(7,175)	(11,084)	(–)	(24,600)

Information about Regions 2016 (2015)

in EUR thousand	**Germany**	**International markets**	**Group**
Revenue	**608,108**	**360,411**	**968,519**
	(616,329)	(339,549)	(955,878)
Non-current assets	**356,255**	**43,135**	**399,390**
	(403,095)	(61,419)	(464,514)

In accordance with the management approach under IFRS 8, the segments correspond to the TOM TAILOR GROUP's business activities. The TOM TAILOR GROUP's business activities are classified based on the distribution structure and by brands into the TOM TAILOR Wholesale, TOM TAILOR Retail and BONITA segments. This segmentation corresponds to the internal management and reporting and reflects the different risk and earnings structures of the business areas.

In the TOM TAILOR Wholesale segment, TOM TAILOR products are distributed by resellers through franchise stores, shop-in-shops and multi-label stores (B2B).

In the Retail segment, the collections of the different product lines are sold directly to end customers via own stores (centre stores, city stores, flagship stores and outlets) and an e-shop (B2C). The e-partnerships in the e-business, which reach end customers via a reseller, are the only exception. This business is assigned to the Retail segment based on internal management and reporting. In the Retail segment a distinction is made between the TOM TAILOR and BONITA brands.

In principle, the recognition and measurement methods used for the consolidated financial statements are also applied to the segment information.

TOM TAILOR's Management Board has specified the use of EBITDA and revenue, which are used for management and reporting, as performance indicators.

Impairment losses of EUR 4.6 million on intangible assets and EUR 15.4 million on property, plant and equipment were recognised in profit or loss in the BONITA segment in the reporting year. Impairment losses on property, plant and property recognised in profit or loss for the TOM TAILOR Retail segment and the TOM TAILOR Wholesale segment amounted to EUR 12.3 million and EUR 0.3 million respectively in 2016.

Net interest income and tax income and expenses are only considered at overall Group level for management purposes.

The assets and liabilities of each segment are not disclosed, in accordance with the management approach under IFRS 8, since this information is not reported at segment level.

Intersegment income, expenses and earnings are eliminated in consolidation.

Intragroup revenue is eliminated on an arm's length basis.

The non-cash items mainly comprise changes in provisions, and impairment losses on inventories and trade receivables.

The information on segment revenue by regions shown above is classified by customer location. Non-current assets by region are composed of intangible assets and items of property, plant and equipment.

H. OTHER DISCLOSURES AND EXPLANATIONS

RESEARCH AND DEVELOPMENT

Research and development costs reported under expenses amounted to EUR 16.5 million (2015: EUR 14.4 million). They relate to the development of the collections.

CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

a) Contingent Assets and Liabilities

As at the reporting date, there were no contingent assets and liabilities that have a material effect on the Group's net assets, financial position and results of operations.

b) Other Financial Obligations

The Group's other financial obligations mainly consisted of the following rental agreements and operating leases:

Other Financial Obligations in 2016

	31 December 2016			
in EUR thousand	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Leases	97,608	247,051	62,042	**406,701**
of which Nordport logistics centre	252	–	–	252
Receivables from sublease: Nordport logistics centre	–252	–	–	**–252**
Other operating leases	3,517	6,240	–	**9,757**
Other	21,100	99,356	48,800	**169,256**
	121,973	352,647	110,842	**585,462**

Other Financial Obligations in 2015

	31 December 2015			
in EUR thousand	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Leases	**108,539**	**298,283**	**96,062**	**502,884**
of which Nordport logistics centre	1,513	252	–	1,765
Receivables from sublease: Nordport logistics centre	**–1,513**	**–252**	**–**	**–1,765**
Other operating leases	**4,055**	**9,065**	**–**	**13,120**
Other	**28,350**	**69,417**	**64,900**	**162,667**
	139,431	**376,513**	**160,962**	**676,906**

Financial obligations from rental agreements were largely attributable to the leasing of retail and outlet stores.

Other financial obligations primarily consist of minimum purchase obligations under an existing logistics outsourcing contract and a new logistics outsourcing contract entered into in 2013 with a term until 2024.

As at 31 December 2016, the Group had obligations to purchase goods in 2017 amounting to EUR 77.9 million (2015: EUR 85.0 million) resulting from binding purchase orders placed with suppliers by the reporting date.

SUPPLEMENTARY DISCLOSURES ON RENTAL AGREEMENTS AND LEASES

The payments under leases recognised as an expense in the reporting period amounted to EUR 6.5 million (2015: EUR 5.6 million). These related solely to minimum lease payments. Contingent lease payments are largely revenue-based and amounted to EUR 1.3 million in the reporting period (2015: EUR 1.3 million). In addition, leases may contain escalation agreements (index-adjusted rents, graduated rent) and common industry lease prolongation options. There were no sublease payments with a material effect in either financial year 2016 or 2015.

Expenses for other operating leases of EUR 4.5 million were recognised in the reporting period (2015: EUR 4.6 million).

Excluding the lease obligation for the Nordport logistics centre, subleases were insignificant in both the reporting period and the previous year. Please refer to the disclosures under "b) Other Financial Obligations".

BORROWING COSTS

No borrowing costs were capitalised in the reporting period because there were no qualifying assets that take a substantial period of time to get ready for their intended use or sale.

RELATED PARTY DISCLOSURES

In accordance with IAS 24 Related Party Disclosures, relationships with persons who or entities that control the Group or are controlled by the Group must be disclosed, unless they are included in the consolidated financial statements as consolidated companies.

In principle, related parties of the TOM TAILOR GROUP may be members of the Management Board and the Supervisory Board, as well as those companies that are controlled or influenced by members of governing bodies. Joint ventures and associates may also be related parties.

Joint Ventures and Associates

TOM TAILOR GROUP holds an interest in a company in Northern Ireland; this relationship falls within the scope of normal business dealings.

The Northern Irish company is TT OFF SALE (NI) LTD., Belfast/United Kingdom, in which Tom Tailor GmbH directly holds 49% of the shares as part of a franchise partnership.

TT Off Sale (NI) LTD. is operated by the partner. The goods and services provided to the company amounted to EUR 657 thousand in the reporting period (2015: EUR 521 thousand). The receivables from the company (net of valuation allowances) amounted to EUR 0 thousand both at 31 December 2016 and at 31 December 2015. Valuation allowances on receivables from TT OFF SALE (NI) LTD. of EUR 210 thousand were recognised as expenses in financial year 2016 (2015: EUR 357 thousand).

Related Parties (Persons)

a) Management Board

Mr Dieter Holzer,
Businessman, Ravensburg / Germany (until 22 September 2016)
Dr Axel Rebien,
Businessman, Quickborn / Germany (until 15 June 2016)
Dr Heiko Schäfer,
Businessman, Munich / Germany (since 22 September 2016)
Mr Thomas Dressendörfer,
Businessman, Baar / Switzerland (since 15 June 2016)
Mr Uwe Schröder,
Businessman, Hamburg / Germany (since 22 September 2016)

Mr Schröder was appointed by the Company's Supervisory Board with effect from 22 September 2016 for the duration of one year in accordance with section 105 (2) of the German Stock Corporation Act to deputise for the CEO who had stepped down, Dieter Holzer.

Other Appointments of the Members of the Management Board

Mr Dressendörfer is also a member of the Supervisory Board of Pax Anlage AG in Basle / Switzerland as well as an operating partner at WP Management in Bad Homburg.

Furthermore, Uwe Schröder is the Managing Director of Schröder Consulting GmbH, Hamburg, the Chairman of the Board of the German Association of Non-Food Importers (VFI), Hamburg, and a member of the Advisory Board of Kassenhalle Restaurant GmbH & Co. KG, Hamburg.

Mr Holzer was a member of the Advisory Board of JW Germany Holding GmbH, Idstein / Taunus.

Management Board Remuneration

Share-based Remuneration System

On 20 January 2010, the Supervisory Board resolved to implement a share-based remuneration system (the Matching Stock Programme, or MSP) for the members of the Management Board. The MSP runs for a total of 14 years from the date of the initial listing and serves to align the mutual interests of the Management Board and the shareholders.

The MSP consists of a total of five tranches. The first tranche was allotted on the date of initial listing; the following tranches are each allotted one year after the respective preceding tranche. The members of the Management Board must have an ongoing service or employment contract with TOM TAILOR Holding AG and hold shares of TOM TAILOR Holding AG (MSP shares) at the time of allotment. Each MSP share conveys the right to 0.4 (Chief Executive Officer) or three (other members of the Management Board) phantom stocks per tranche. The phantom stocks are subject to a vesting period of four years from the date of allotment of the relevant tranche. They are automatically exercised during defined windows, provided the exercise threshold is reached, an MSP gain can be determined and the participant has not objected to the exercise in due time. The exercise threshold is reached if TOM TAILOR Holding AG's shares have outperformed the SDAX® since the allotment of the relevant tranche. On exercise, the members of the Management Board are paid the difference between the price at the time of exercise and the strike price of all of the phantom stocks exercised, less payroll tax and other deductions, in the form of TOM TAILOR Holding AG shares. The amount determined before payroll tax and other deductions is capped for each tranche at 2.5% of the EBITDA reported in the most recent consolidated financial statements of TOM TAILOR Holding AG.

The MSP was classified and measured as an equity-settled share-based payment transaction. Cash settlement is not permitted, with the exception of fractional shares. The fair value of the equity instruments has been estimated for all tranches based on a Monte Carlo model, taking into consideration the conditions in which the phantom stocks were granted. This includes modelling the exercise threshold and the simulation of future exercise prices and strike prices. Fair value measurement was carried out based on the following parameters:

Fair Value Parameters

	2010 tranche	2011 tranche
Dividend yield (in %)	2.50	2.50
Remaining term (in years)	7.5 – 11.5	7.5 – 11.5
Expected volatility (in %)	31.65 – 32.90	29.25 – 29.70
Risk-free interest rate (in %)	3.10 – 3.54	2.90 – 3.26
Share price at measurement date (in EUR)	12.85	13.91
SDAX® price at measurement date	3,832.91	5,466.82
Expected SDAX® volatility (in %)	19.23 – 19.56	19.05 – 19.46

The term in each case has been determined as the period from the measurement date until the maturity of the relevant tranche. The expected share price volatility has been determined based on comparable listed companies, due to the lack of historical data available. The expected volatility is based on the assumption that future trends can be predicted on the basis of historical volatility. Consequently, actual volatility may differ from the assumptions made. The Company reviews its estimates of the number of equity instruments and the parameters at each reporting date. Differences compared with the initial recognition of the options are adjusted and recognised in the income statement.

The weighted average fair value of the phantom stocks awarded in previous reporting periods and calculated based on these parameters was EUR 3.12, or EUR 3.14.

As part of the MSP, the members of the Management Board have contributed a total of 282,000 MSP shares to the programme. In 2010, 209,500 MSP shares with a strike price of EUR 13.00 were contributed, while the strike price of the 72,500 shares contributed in 2011 is EUR 13.63. These MSP shares convey the right to acquire a total of 925,000 phantom stocks.

Upon the departure of the two beneficiaries from the Management Board and the Group and their decision to waive the share-based remuneration system (Matching Stock Programme) in full under the severance agreements, the full remuneration, less payroll tax and other deductions, was allocated to capital reserves and recognised in profit or loss in financial year 2016. The portion attributable to payroll tax and other deductions was released to profit or loss.

The MSP thus gave rise to income for equity-settled share-based payment transactions of EUR 321 thousand in the reporting period (2015: expense of EUR 391 thousand).

With regard to the Long-term Incentive Programme (LTI), please refer to the disclosures under note 22 “Other Provisions”.

In June 2013, the Annual General Meeting resolved a stock option programme (SOP), which is described under note 18 “Stock Option Programme”. Under the SOP, up to 1,200,000 stock option rights can be issued to members of the Management Board of TOM TAILOR Holding AG. 300,000 stock option rights were issued to members of the Management Board in financial year 2016. Due to the departure of two members of the Management Board, the 100,000 stock options granted in financial year 2013 and the 150,000 stock options granted in financial year 2015 expired without them receiving compensation in 2016. The measurement of the issued stock option rights led to a ratable expense of EUR 32 thousand for 2016 (2015: EUR 74 thousand).

The following table shows the governing body remuneration recognised in profit or loss:

Governing Body Remuneration

in EUR thousand	2016	2015
Salaries and short-term benefits	3,476	2,457
Severance payments	3,043	–
Other long-term incentives (LTI)	45	19
Long-term share-based remuneration (MSP)	–321	391
Stock Option Programme (SOP)	32	64
Management equity participation programme	131	131
	6,406	**3,062**

In financial year 2016, the two former Management Board members, Dr Axel Rebien and Mr Dieter Holzer, were granted severance payments in total of EUR 1.7 million and EUR 1.3 million, respectively.

In the event of termination of an employment contract by the Company, one member of the Management Board is entitled to severance pay. Benefits in the maximum amount of two times the minimum annual salary were granted in case the director's contract is terminated prematurely.

The fixed and variable remuneration components were paid during the course of the year or will fall due shortly after the annual financial statements are adopted. The long-term benefits are variable. At the reporting date, they included Management Board entitlements under the SOP, the LTI programme totalling EUR 208 thousand (2015: EUR 605 thousand). These benefits will fall due for payment in 2017 and 2018 at the earliest. Details of the remuneration of the individual Management Board members in accordance with section 314(1) no. 6 a, sentences 5 to 8 of the Handelsgesetzbuch (HGB – German Commercial Code) are presented in the remuneration report in the Group Management Report.

Related Party Disclosures (Persons)

In accordance with IAS 19, a provision of EUR 583 thousand was recognised for pension obligations to former members of the management and their surviving dependants (2015: EUR 517 thousand).

As a related party of Mr Uwe Schröder, Schröder Consulting GmbH receives sponsorship payments from TOM TAILOR GmbH for TOM TAILOR's brand association with the sport of polo. Sponsorship payments of EUR 160 thousand were made in this connection in the reporting year. The sponsoring agreement was terminated in 2016. There is an employment contract between TOM TAILOR Holding AG and the son of Management Board member Uwe Schröder, Mr Oliver Schröder. Mr Oliver Schröder has been employed by the TOM TAILOR GROUP since 1998.

Shareholdings of Members of the Management Board

Dr Heiko Schäfer, Chairman of the Management Board, directly held 26,500 shares of the Company as at 31 December 2016. As at said date, Mr Uwe Schröder (member of the Management Board) indirectly held 680,000 shares of the Company via Morgan Finance S.A., Luxembourg.

b) Supervisory Board

In accordance with the Articles of Association, the Supervisory Board is composed of six members.

The members were / are:
Mr Uwe Schröder,
Businessman, Hamburg / Germany (until 22 September 2016)
Mr Jerome Griffith,
Businessman, New York / USA (Chairman since 22 September 2016)
Mr Thomas Schlytter-Henrichsen,
Businessman, Königstein / Taunus / Germany (Deputy Chairman)
Mr Andreas Karpenstein,
Lawyer, Düsseldorf / Germany
Mr Patrick Lei Zhong,
Senior Investment Director of the Fosun Group, Shanghai / China; Shanghai (until 31 August 2016)
Ms Carrie Liu,
Executive Director of the Fosun Group, Shanghai / China (until 23 August 2016)
Ms Joann Cheng,
Executive Director of the Fosun Group, Shanghai / China (since 21 September 2016)
Mr Han Wei,
Executive Director of the Fosun Group, Shanghai / China (from 21 September 2016 to 22 November 2016)

In accordance with the Articles of Association, the members of the Supervisory Board receive fixed annual remuneration of EUR 48 thousand (the Chairman receives EUR 165 thousand and the Deputy Chairman EUR 90 thousand), plus compensation for out-of-pocket expenses (plus VAT, if applicable). This remuneration is payable after the end of the Annual General Meeting that receives or resolves on the approval of the consolidated financial statements for the financial year in question.

Mr Thomas Schlytter-Henrichsen (Deputy Chairman) indirectly holds 68,944 shares in TOM TAILOR Holding AG through Capital Beteiligungsberatung GmbH.

Other Appointments of the Members of the Supervisory Board

Members of TOM TAILOR Holding AG's Supervisory Board are also members of a governing body of the following companies:

Jerome Griffith (Chairman of the Supervisory Board)
- Non-Executive Director of Samsonite International SA, Luxembourg
- Member of the Board of Directors of Vince, Inc., New York City / USA
- Member of the Board of Directors of Parsons, The New School for Design, New York City / USA

Thomas Schlytter-Henrichsen
(Deputy Chairman of the Supervisory Board)
- Managing Director of ALPHA Beteiligungsberatung GmbH & Co. KG, Frankfurt am Main / Germany
- Managing Director of ALPHA Management GmbH, Frankfurt am Main / Germany
- Managing Director of ACapital Beteiligungsberatung GmbH, Frankfurt am Main / Germany
- Managing Director of Agrippina S.à.r.l., Luxembourg / Luxembourg
- Managing Director of Bulowayo GmbH, Königstein im Taunus / Germany
- Member of the Supervisory Board of Nero AG, Karlsbad / Germany
- Member of the Advisory Board of Mustang Holding GmbH, Frankfurt am Main / Germany

Andreas Karpenstein
- Managing Director of Deloitte Legal Rechtsanwaltsgesellschaft mbH, Düsseldorf /Germany
- Member of the Supervisory Board (Deputy Chairman) of Trusted Advice AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf / Germany

Yun (Joann) Cheng
- CFO of China Momentum Fonds. Shanghai / China
- Deputy Chief Financial Officer of the Fosun Group, Shanghai / China

DISCLOSURES ON SHAREHOLDINGS IN TOM TAILOR HOLDING AG

Disclosures on shareholdings in TOM TAILOR Holding AG

Notifying party	Date on which the shareholding exceeded or fell below the threshold(s)	Reportable threshold	Attribution	Attribution acc. to WpHG	Interest in %	Interest in voting rights
FCM Beteiligungs GmbH, Hamburg / Germany	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	direct / indirect		23.16	6,028,050
			indirect	section 22 (2) WpHG [1]	15.51	4,036,681
Fidelidade-Companhia de Seguros, S.A., Lisbon / Portugal	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	direct / indirect		23.16	6,028,050
			indirect	section 22 (1), sentence 1, no. 1 WpHG [2] and section 22 (2) WpHG [3]	7.65	1,991,369
Longrun Portugal, SGPS, S.A., Lisbon / Portugal	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	indirect	section 22 (1), sentence 1, no. 1 WpHG [4] and section 22 (2) WpHG G [5]	23.16	6,028,050
Millennium Gain Limited, Hongkong, China	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	indirect	section 22 (1), sentence 1, no. 1 WpHG [6] and section 22 (2) WpHG G [7]	23.16	6,028,050
Fosun Financial Holdings Limited, Hongkong, China	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	indirect	section 22 (1), sentence 1, no. 1 WpHG [8] and section 22 (2) WpHG G [9]	23.16	6,028,050
Fosun International Limited, Hongkong, China	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	indirect	section 22 (1), sentence 1, no. 1 WpHG [10] and section 22 (2) WpHG G [11]	23.16	6,028,050
Fosun Holdings Limited, Hongkong, China	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	indirect	section 22 (1), sentence 1, no. 1 WpHG [12] and section 22 (2) WpHG G [13]	23.16	6,028,050
Fosun International Holdings Ltd., Road Town, Tortola / British Virgin Islands	8 August 2014	Exceeded 3 %, 5 %, 10 %, 15 %, 20 %	indirect	section 22 (1), sentence 1, no. 1 WpHG [14] and section 22 (2) WpHG G [15]	23.16	6,028,050
Farringdon Netherlands BV, Amsterdam / The Netherlands	29 September 2015	Exceeded 5 %	indirect	section 22 (1), sentence 1, no. 6 WpHG [16]	5.33	1,387,704

1 Held through the following shareholder (share of voting rights > 3 %): Companhia de Seguros, S.A.

2 Held through the following shareholder (share of voting rights > 3 %): FCM Beteiligungs GmbH

3 Held through the following shareholder (share of voting rights > 3 %): FCM Beteiligungs GmbH

4 Held through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

5 Held through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

6 Held through the following shareholder (share of voting rights > 3 %): Longrun Portgal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

7 Held through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

8 Held through the following shareholder (share of voting rights > 3 %): Millennium Gain Limited; Longrun Portgal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

9 Held through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

10 Held through the following shareholder (share of voting rights > 3 %): Fosun Financial Holdings Limited; Millennium Gain Limited; Longrun Portgal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

11 Held through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

12 Held through the following shareholder (share of voting rights > 3 %): Fosun International Limited; Fosun Financial Holdings Limited; Millennium Gain Limited; Longrun Portgal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

13 Held through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

14 Held through the following shareholder (share of voting rights > 3 %): Fosun Holdings Limited; Fosun International Limited; Fosun Financial Holdings Limited; Millennium Gain Limited; Longrun Portgal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

15 Held through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

16 Attributed through the following shareholder (share of voting rights > 3%): Farringdon I – SICAV

Disclosures on shareholdings in TOM TAILOR Holding AG

Notifying party	Date on which the shareholding exceeded or fell below the threshold(s)	Reportable threshold	Attribution	Attribution acc. to WpHG	Interest in %	Interest in voting rights
CASO Asset Management S.A., Senningerberg / Luxembourg	20 November 2015	Exceeded 5 %	indirect	section 22 (1), sentence 1, no. 6 WpHG [17]	7.08	1,841,425
Mr Guo Guangchang People's Republic of China	30 December 2015	Exceeded 25 %	indirect	section 25 (1), no. 2 WpHG [18]	29.47	7,669,271
Mr Guo Guangchang People's Republic of China	4 February 2016	Exceeded 25 %	indirect	section 22 (1), sentence 1, no. 1 WpHG in conjunction with section 22 (2) and section 25 (1) no. 2 WpHG [19]	29.47	7,669,271
Main First Holding AG, Zurich / Switzerland	4 February 2016	Fell below 3 %	direct			
Internationale Kapitalanlagegesellschaft mbH, Düsseldorf / Germany	22 June 2016	Exceeded 5 %	indirect	section 21 (1), sentence 1 WpHG	5.02	1,307,500
Mr Rudolf Bohli, Switzerland	13 December 2016	Exceeded 3 %	indirect	section 22 (1), sentence 1, no. 6 WpHG	3.13	895,500
Farringdon I Luxembourg / Luxembourg	23 February 2017	Fell below 5 %	direct		4.79	1,372,759
Carne Global Fund Managers S.A., Luxembourg / Luxembourg	23 February 2017	Fell below 5 %	indirect	section 22 (1), sentence 1, no. 6 WpHG [20]	4.79	1,372,759
Mr Bram Cornelisse, The Netherlands	3 March 2017	Fell below 5 %	indirect	section 21 (1), sentence 1 WpHG [21]	4.99	1,427,782

17 Attributed through the following shareholder (share of voting rights > 3 %): Farringdon I – SICAV

18 Attributed through the following shareholder (share of voting rights > 3 %): Fidelidade-Companhia de Seguros, S. A.; FCM Beteiligungs GmbH

19 Attributed through the following shareholder (share of voting rights > 3 %): Fosun International Limited; Fidelidade-Companhia de Seguros, S. A.; FCM Beteiligungs GmbH

20 Attributed through the following shareholder (share of voting rights > 3 %): Farringdon I – SICAV

21 Attributed through the following shareholder (share of voting rights > 3 %): Farringdon I – SICAV

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of Holding AG issued the declaration required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and made it available to the shareholders on TOM TAILOR Holding AG's website (http://ir.tom-tailor-group.com) in December 2016.

FEES OF THE AUDITORS (DISCLOSURE IN ACCORDANCE WITH SECTION 314 (1) NO. 9 HGB

The fees recognised as an expense in financial year 2016 amounted to EUR 371 thousand (of which EUR 31 thousand relate to 2015; 2015: EUR 333 thousand) for the audit of the financial statements (including expenses), EUR 28 thousand (2015: EUR 44 thousand) for other assurance services, and EUR 90 thousand (2015: EUR 85 thousand) for tax advisory services.

EVENTS AFTER THE REPORTING PERIOD

There were no events with a material effect on the net assets, financial position and results of operations of the Group after the reporting date.

EXEMPTING CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH SECTION 264 (3) AND SECTION 264 B HGB

The following consolidated German subsidiaries

- Tom Tailor GmbH, Hamburg / Germany
- Tom Tailor Retail GmbH, Hamburg / Germany
- TOM TAILOR E-Commerce GmbH & Co. KG, Oststeinbek/Germany
- BONITA GmbH, Hamminkeln / Germany
- GEWIB GmbH, Hamminkeln / Germany
- BONITA Deutschland Holding Verwaltungs GmbH, Hamminkeln / Germany
- BONITA E-commerce GmbH, Oststeinbek / Germany
- GEWIB GmbH & Co. KG, Pullach / Germany

plan to make use of the simplification options allowed by section 264 (3) and section 264 b HGB regarding the management report, as well as the publication of the documentation relating to their annual financial statements. The subsidiaries

- BONITA Deutschland Holding Verwaltungs GmbH, Hamminkeln / Germany
- BONITA E-commerce GmbH, Oststeinbek / Germany
- GEWIB GmbH & Co. KG, Pullach / Germany

also exercise the simplification options regarding the preparation of notes (including compulsory elective notes).

PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board approved the consolidated financial statements prepared in accordance with IFRSs for publication on 9 March 2017.

Hamburg, 9 March 2017

The Management Board

Dr Heiko Schäfer
(CEO)

Thomas Dressendörfer
(CFO)

Uwe Schröder
(Member of the Management Board)

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Hamburg, 9 March 2017

The Management Board

Dr Heiko Schäfer
(CEO)

Thomas Dressendörfer
(CFO)

Uwe Schröder
(Member of the Management Board)

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by TOM TAILOR Holding AG, Hamburg, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) German Commercial Code (HGB) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group, in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, complies with the legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 9 March 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Thomas Götze	**Tim Sichting**
Auditor	Auditor
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTION 289A OF THE HANDELSGESETZBUCH (HGB – GERMAN COMMERCIAL CODE)

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 OF THE AKTIENGESETZ (AKTG – GERMAN STOCK CORPORATION ACT)

The Management Board and the Supervisory Board of TOM TAILOR Holding AG submitted a declaration of compliance in accordance with section 161 AktG in December 2016.

Text of the Declaration by the Management Board and the Supervisory Board of TOM TAILOR Holding AG on the German Corporate Governance Code in Accordance with Section 161 AktG (Declaration of Compliance)
TOM TAILOR Holding AG, Hamburg
ISIN: DE000A0STST2

Since submitting its most recent Declaration of Compliance in December 2015, TOM TAILOR Holding AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection in the Federal Gazette, most recently in the version dated 5 May 2015, with the exception of section 5.1.2 (age limit for members of the Management Board), section 5.3.3 (formation of a nomination committee), and section 5.4.1 sentence 2 (age limit for members of the Supervisory Board). TOM TAILOR Holding AG intends to comply with the recommendations of the German Corporate Governance Code ("GCGC") in future as well – with the exception of the deviations listed below:

– In a departure from the recommendation contained in section 5.1.2 of the German Corporate Governance Code ("the Code"), the Supervisory Board has not currently specified an age limit for the members of the Management Board above and beyond the universal retirement age laid down in the Management Board employment contracts because it believes that a general age limit for Management Board members would restrict the Supervisory Board's options when selecting suitable members of the Management Board. Although the Supervisory Board has not seen a reason to specify such a limit to date, it intends to deal with this question when a concrete occasion arises.

– The Supervisory Board does not currently intend to form a nomination committee within the meaning of section 5.3.3 of the Code. Because it is composed of six members, the Supervisory Board considers itself to be in a position to appoint new members based on a suggestion by the full Board, should this become necessary.

– In a departure from the recommendation contained in section 5.4.1 sentence 2, no age limit has been specified for the Supervisory Board. TOM TAILOR Holding AG does not consider restricting possible nominations by implementing an age limit to make sense, as this would restrict the choice of experienced candidates in particular.

Hamburg, December 2016

This Declaration of Compliance and all previous Declarations of Compliance are published on TOM TAILOR Holding AG's website at http://ir.tom-tailor-group.com.

DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

RESPONSIBLE CORPORATE GOVERNANCE

TOM TAILOR Holding AG is the management holding company and parent of the TOM TAILOR GROUP. The various TOM TAILOR Holding AG subsidiaries conduct the operating business (the subsidiaries and TOM TAILOR Holding AG are also referred to jointly as "TOM TAILOR" or the "TOM TAILOR GROUP"). TOM TAILOR Holding AG and its governing bodies are committed to good, responsible corporate governance. This philosophy is shared by the entire TOM TAILOR GROUP.

In addition to compliance with these principles of good corporate governance, company specific guidelines and standards also contribute to good, sustainable business performance at TOM TAILOR.

WORKING PRACTICES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

TOM TAILOR Holding AG is a stock corporation established in accordance with German law. The legal framework for corporate governance is therefore primarily provided by German stock corporation law, and in particular by the provisions governing the Management Board and the Supervisory Board.

MANAGEMENT BOARD

The Management Board conducts TOM TAILOR Holding AG's business and represents the Company in dealings with third parties. It manages the Company on its own responsibility and in the Company's best interests with the aim of ensuring sustained value creation. The Management Board develops the corporate strategy, and manages and supervises its implementation. In addition, it ensures that all statutory provisions and applicable internal corporate guidelines are observed (compliance). The Management Board has also implemented an internal control and risk management system. This is an integral part of its business processes and a key element in corporate decisions. The planning system, internal reporting and risk reporting are key components of this.

The Supervisory Board has adopted by-laws for the Management Board, which set out the transactions and measures for which a resolution by the full Management Board is required, as well as the principles for decision-making within the Management Board as a whole. In addition, the Supervisory Board has listed a catalogue of transactions in the by-laws that may only be performed with the approval of the Supervisory Board. These include transactions and measures that have a material effect on the net assets, financial position and results of operations of the TOM TAILOR GROUP. As part of the implementation of the provisions of the by-laws, the full Management Board has adopted a schedule of responsibilities that assigns responsibility for specific areas of activity to individual members of the Management Board, without this affecting the overall responsibility of the Management Board.

The Management Board currently has three members. The members cooperate in a collegial manner and inform one another on an ongoing basis about important measures and events within their areas of responsibility. Generally speaking, the Management Board passes resolutions in regular meetings. Resolutions require a simple majority.

The members of the Management Board are Dr Heiko Schäfer (Chief Executive Officer, CEO), Thomas Dressendörfer and Uwe Schröder.

The former member of the Management Board Dr Axel Rebien (Chief Financial Officer, CFO) left the Company effective 15 June 2016 by mutual agreement. The Supervisory Board appointed Thomas Dressendörfer as his successor with effect from 15 June 2016.

In addition, the former Chief Executive Officer (CEO) Dieter Holzer stepped down with effect from 22 September 2016 for personal reasons. Rescission of the current contract was mutually agreed with the Company's Supervisory Board. In accordance with section 6 sentence 3 of the Company's Articles of Association, the Supervisory Board of the Company appointed Management Board member Dr Heiko Schäfer as the new CEO effective 22 September 2016. This is an interim appointment and will be effective until the selection process for the appointment of a new CEO by the Supervisory Board has been concluded, probably when the Company's next Annual General Meeting is held on 31 May 2017. Over and above this, the Supervisory Board appointed the Company's former Supervisory Board Chairman Uwe Schröder with effect from 22 September 2016 for the duration of one year in accordance with section 105(2) of the German Stock Corporation Act to deputise for the CEO who had stepped down, Dieter Holzer.

Uwe Schröder assumed responsibility on an interim basis for the Sales and Marketing Board department that Dieter Holzer had managed, especially for issues related to products, sales and the collections, but did not take over as CEO.

The members of the Management Board were appointed at different times.

Appointment of Management Board Members

	First Appointment		Current Appointment
Dr Heiko Schäfer Born in 1972	Since 22 September 2016	Chief Executive Officer of TOM TAILOR Holding AG	Until 30 November 2018
Chief Executive Officer (CEO) and Chief Operating Officer (COO)	From 2015 to 2016	Member of the Management Board of TOM TAILOR Holding AG	
Thomas Dressendörfer Born in 1958 Chief Financial Officer (CFO)	Since 15 June 2016	Member of the Management Board of TOM TAILOR Holding AG	Until 14 June 2019
Uwe Schröder Born in 1941	Since 22 September 2016	Member of the Management Board of TOM TAILOR Holding AG	Until 21 September 2017
Management Board member	From 2008 to 2016	Chairman of the Supervisory Board of TOM TAILOR Holding AG	

Dr Heiko Schäfer (CEO and COO, born in 1972) assumed the position of Chief Operating Officer (COO) in the TOM TAILOR GROUP with effect from 1 December 2015. In his new function, he is responsible for purchasing, logistics and IT, as well as project and process management. In accordance with section 6 sentence 3 of the Company's Articles of Association, the Supervisory Board additionally appointed him as the new Chief Executive Officer (CEO) with effect from 22 September 2016. This is an interim appointment and will be effective until the selection process for the appointment of a new CEO by the Supervisory Board has been concluded, probably when the Company's next Annual General Meeting is held on 31 May 2017. Dr Heiko Schäfer's term on the Management Board runs until 30 November 2018.

Dr Heiko Schäfer started his career at the Boston Consulting Group, where he advised clients for more than six years, mainly from the consumer goods and retail sectors, in sales/marketing and operations topics. Prior to that, he built up extensive experience parallel to his academic studies as a consultant in prestigious consulting companies. Dr Heiko Schäfer studied business administration at the University of Saarbrücken and subsequently earned a doctorate degree at the University of Mannheim with a dissertation on cross-selling.

Dr Schäfer joined the TOM TAILOR GROUP from the private equity firm Kohlberg Kravis Roberts (KKR) in London. Previously, Dr Heiko Schäfer worked for over six years as a senior executive for the adidas Group, where his last position was as Senior Vice President with responsibility for product development, sourcing and logistics for the four lifestyle / fashion labels of the adidas umbrella brand.

Thomas Dressendörfer (CFO, born in 1958) was appointed with effect from 15 June 2016 as the successor for CFO Dr Axel Rebien, who had left the Management Board. In this capacity he is responsible for finance and accounting, controlling, investor relations, human resources and legal affairs. His Management Board's appointment runs until 14 June 2019.

Thomas Dressendörfer has built up extensive experience as the CFO of exchange-traded companies and major corporate divisions and regions. He previously held CFO positions at Swiss implant manufacturer Institut Straumann AG, which is listed on the Swiss SIX stock exchange, and technology firm Uster Technologies AG, also based in Switzerland. During the course of his career he has also held senior finance positions at Randstad, The Nielsen Company and Procter & Gamble. As an independent consultant he recently advised companies on complex business projects and turnarounds.

Thomas Dressendörfer is also a member of the Supervisory Board of Pax Anlage AG in Basle/Switzerland as well as an operating partner at WP Management in Bad Homburg.

Thomas Dressendörfer has a master's degree in business administration from the University Erlangen-Nuremberg.

Uwe Schröder (member of the Management Board, born in 1941) was appointed by the Company's Supervisory Board with effect from 22 September 2016 for the duration of one year in accordance with section 105 (2) of the German Stock Corporation Act to deputise for the CEO who had stepped down, Dieter Holzer. Uwe Schröder assumed responsibility on an interim basis for the Sales and Marketing Board department that Dieter Holzer had managed, especially for issues related to products, sales and the collections, but did not take over as CEO.

Uwe Schröder is a co-founder of the TOM TAILOR Group. Mr Schröder began his career with the Company in 1965 as a trained textile engineer. He established and led the Company as Managing Director and as Chairman of the Management Board, respectively, until 2006. Since 2006 he has been a member of the Supervisory Board of TOM TAILOR Holding AG and its predecessor Tom Tailor Holding GmbH. He has been the Chairman of the Supervisory Board since January 2008.

Furthermore, Uwe Schröder acts as Managing Director of Schröder Consulting GmbH, Hamburg, as Chairman of the Board of the German Association of Non-Food Importers (VFI), Hamburg, and as a member of the Advisory Board of Kassenhalle Restaurant GmbH & Co. KG, Hamburg.

With the exception of the aforementioned duties, the Management Board members of the Company neither hold currently nor held during the past five years any board of directors, management or supervisory board seats or partnerships on comparable boards in Germany or abroad outside of the TOM TAILOR GROUP.

SUPERVISORY BOARD

The Supervisory Board of TOM TAILOR Holding AG advises and supervises the Management Board in the management of the Company. The Supervisory Board is also responsible for appointing the members of the Management Board, for approving the annual financial statements and the consolidated financial statements, and for engaging the Company's auditors.

The Management Board and the Supervisory Board of TOM TAILOR Holding AG work together closely and in an atmosphere of mutual trust for the benefit of the Company. The Management Board agrees the Company's strategic orientation with the Supervisory Board and regularly discusses the status of the strategy's implementation with it. The Management Board informs the Supervisory Board regularly, promptly and extensively on all issues related to strategy, planning, business development, the risk and opportunity position, the internal control and risk management system and compliance that are relevant for the Company. The Chief Executive Officer also regularly exchanges information with the Chairman of the Supervisory Board between the Supervisory Board meetings.

The Supervisory Board has adopted by-laws for itself. These contain, among other things, detailed procedural rules for its meetings and how they are to be chaired by the Chairman of the Supervisory Board, as well as rules on committee work.

In accordance with the Company's Articles of Association, the Supervisory Board consists of six members. As a general rule, their term of office is for a period of five years.

After elections for the members of the Company's Supervisory Board were held at the second-last Annual General Meeting of the Company on 3 June 2015, the Supervisory Board comprised the following members at the beginning of the 2016 financial year: Uwe Schröder (Chairman of the Supervisory Board), Thomas Schlytter-Henrichsen (Deputy Chairman of the Supervisory Board), Andreas Karpenstein, Lei (Patrick) Zhong, Liqun (Carrie) Liu and Jerome Griffith.

Lei (Patrick) Zhong and Liqun (Carrie) Liu have since stepped down as members of the Company's Supervisory Board for personal reasons, Liqun (Carrie) Liu with effect from 23 August 2016 and Lei (Patrick) Zhong with effect from 31 August 2016. By way of a resolution by the Hamburg Local Court, Yun (Joann) Cheng and Wei Han were appointed in their place as new members of the Supervisory Board with effect from 21 September 2016. The court stipulated that the two appointments would end on the date of the Company's next Annual General Meeting at which a new Supervisory Board member can be elected.

Wei Han retired from the Supervisory Board with effect from 22 November 2016 for personal reasons, necessitating a further replacement appointment by the court. The Hamburg Local Court appointed Dr. Junyang (Jenny) Shao in his place as a member of the Company's Supervisory Board with effect from 13 February 2017, stipulating that this appointment would end on the date of the Company's next Annual General Meeting at which a new Supervisory Board member can be elected. Dr. Junyang (Jenny) Shao has acted as Senior Director at the German unit of the Fosun Group in Frankfurt/Main since 2016. She has many years of experience from working at various management consulting firms and therefore has extensive finance expertise.

Uwe Schröder, former Chairman of the Supervisory Board, was appointed by the Company's Supervisory Board with effect from 22 September 2016 for the duration of one year in accordance with section 105 (2) of the German Stock Corporation Act to deputise for the CEO who had stepped down, Dieter Holzer.

The Supervisory Board of the Company elected Jerome Griffith as its new Chairman.

The Company's Supervisory Board therefore comprised the following members as at 31 December 2016:

Jerome Griffith
(Chairman of the Supervisory Board)
Former President and Chief Executive Officer of Tumi Holdings Inc., South Plainfield, New Jersey / USA

Jerome Griffith (born in 1957) acted as President and Chief Executive Officer of Tumi Holdings Inc., South Plainfield, New Jersey/USA, between 2009 and 2016 and as Executive Director, Chief Operating Officer and member of the Board of Esprit Holdings Limited between 2002 and 2009. From 1999 to 2002, he worked as President (Speciality & Flagship Retail) and Executive Vice President – Retail at TOMMY Hilfiger, USA.

From 1975 to 1979, Jerome Griffith did a Bachelor of Science degree in marketing at the State College of Pennsylvania State University.

Thomas Schlytter-Henrichsen
(Deputy Chairman of the Supervisory Board)
Managing Director of ACapital Beteiligungsberatung GmbH, Frankfurt am Main / Germany

Thomas Schlytter-Henrichsen (born in 1956) is the founder of Alpha Beteiligungsberatung GmbH & Co. KG in Frankfurt. He began his career as a financial controller at Preussag AG. In 1987 he moved to 3i Deutschland GmbH, where he was Managing Director from 1990 onward.

Mr Schlytter-Henrichsen studied economics at the University of Hohenheim, Stuttgart.

Andreas Karpenstein
Partner and Managing Director of Deloitte Legal Rechtsanwaltsgesellschaft mbH, Düsseldorf

Andreas Karpenstein (born in 1963) has been Partner and Managing Director at Raupach & Wollert-Elmendorff Rechtsanwaltsgesellschaft mbH, Düsseldorf (now: Deloitte Legal Rechtsanwaltsgesellschaft), since 2002. His career as a lawyer began in 1995 at Andersen Luther Rechtsanwaltsgesellschaft mbH.

Mr Karpenstein studied law at the Universities of Würzburg and Göttingen and was subsequently a lecturer in business and labour law at various universities.

Yun (Joann) Cheng
Chief Financial Officer of the China Momentum Fund, Shanghai/China

Yun (Joann) Cheng (born in 1976) has acted as Chief Financial Officer of the China Momentum Fund since 2016. Yun (Joann) Cheng has many years of experience in the financial sector. Between 2011 and 2015 she worked as Chief Financial Officer at various companies, namely DJI Innovation and the Allyes Group, prior to which she was a senior manager in the Auditing department at KPMG, among other things.

Yun (Joann) Cheng studied economics at Shanghai University of Finance & Economics from 1994 to 1998 before going on to do an Executive Master of Business Administration (EMBA) at the China Europe International Business School between 2011 and 2013.

Other Appointments of the Members of the Supervisory Board

Jerome Griffith
(Chairman of the Supervisory Board)
- Non-Executive Director of Samsonite International SA, Luxembourg
- Member of the Board of Directors of Vince, Inc., New York City / USA
- Member of the Board of Directors of Parsons, The New School for Design, New York

Thomas Schlytter-Henrichsen
(Deputy Chairman of the Supervisory Board)
- Managing Director of ALPHA Beteiligungsberatung GmbH & Co. KG, Frankfurt am Main/Germany
- Managing Director of ALPHA Management GmbH, Frankfurt am Main / Germany
- Managing Director of ACapital Beteiligungsberatung GmbH, Frankfurt am Main / Germany
- Managing Director of Agrippina S.à.r.l., Luxembourg
- Managing Director of Bulowayo GmbH, Königstein im Taunus/Germany
- Member of the Supervisory Board of Nero AG, Karlsbad/Germany
- Member of the Advisory Board of Mustang Holding GmbH, Frankfurt am Main / Germany

Andreas Karpenstein
- Member of the Supervisory Board (Deputy Chairman) of Trusted Advice AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf/Germany

Yun (Joann) Cheng
- Deputy Chief Financial Officer of the Fosun Group, Shanghai / China

Composition of the Supervisory Board

In December 2016 the Supervisory Board updated the objectives for its composition in accordance with section 5.4.1 (2) of the German Corporate Governance Code. Taking into account the following objectives, the Supervisory Board is to be composed in such a way that, taken as a whole, its members have the knowledge, skills and specialist expertise to duly carry out their tasks.

International Orientation

TOM TAILOR Holding AG is an international fashion company primarily active in the European market. The Supervisory Board takes this international orientation into account with respect to its composition.

For this reason, at least one member of the Supervisory Board should, if possible, be particularly qualified with respect to the Company's international activities. This means, for example, that he or she should have long-term experience, preferably gained outside Germany, of international business – in particular in TOM TAILOR's core markets (Austria, Switzerland, the Benelux countries).

Diversity, in Particular an Appropriate Degree of Female Representation

The composition of the Supervisory Board reflects the interests of the Company and must ensure effective supervision of and advice to the Management Board. Consequently, when determining its composition, the Supervisory Board focuses particularly on the knowledge, skills and specialist expertise required to duly carry out these tasks. Additionally, the Supervisory Board believes that as a whole, its composition should comply with the principles of diversity. In this connection, the Supervisory Board is aiming in particular for an appropriate degree of female representation in compliance with the provisions of the German Act on the Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector.

In line with this, the Supervisory Board laid down a target for the share of women in the Supervisory Board of 16.67% at its regular meeting on 10 December 2015. When examining potential candidates, the Supervisory Board should include qualified women in the selection process and take them into account appropriately when proposing candidates. Where multiple candidates are considered to be equally qualified, the Supervisory Board shall examine whether a female candidate should be preferred in order to facilitate an appropriate degree of female representation. The Supervisory Board considers this level of female representation to be appropriate with regard to the composition of the Company's other managers and in view of other companies in the industry.

Potential Conflicts of Interest

In selecting Supervisory Board members, the focus is on their knowledge, ability and specialist expertise; these qualities shall be given priority during the evaluation process. In addition, the Supervisory Board shall take potential conflicts of interest among its members into account when determining its composition. Therefore, no persons should be on the Supervisory Board who could probably have a material and more than temporary conflict of interest. In order to avoid from the start any potential conflicts of interest that could arise during their term of office, members of the governing bodies of the Company's major competitors should not be proposed.

Number of Independent Members of the Supervisory Board

A Supervisory Board member is not considered to be independent within the meaning of the Code as amended on 5 May 2015 in particular if he or she has personal or business relations with the Company, its governing bodies, a controlling shareholder, or an enterprise associated with a controlling shareholder, that could give rise to a material and more than temporary conflict of interest. In view of this and given the size of this governing body, the Supervisory Board should have at least two independent members.

The Supervisory Board currently considers two of its members to be independent within the meaning of the Code. Consequently, the independence of the Supervisory Board is sufficiently ensured.

Implementation of the Objectives

The Company's interests must always be given preference when implementing all of the objectives mentioned. The Supervisory Board considers all of the above-mentioned objectives to be met at this time.

The Supervisory Board has one female member, Yun (Joann) Cheng. This fulfils the target set for female representation in the Supervisory Board of 16.67%. The members of the Supervisory Board also include finance experts (Andreas Karpenstein and Yun (Joann) Cheng), a representative of the legal profession (also Andreas Karpenstein), as well as a representative of the fashion industry (Jerome Griffith).

The major shareholder Fosun International Ltd. is committed to the long-term strategy of the Company, and its interests are represented by Yun (Joann) Cheng, Chief Financial Officer of China Momentum Funds and Deputy Chief Financial Officer of the Fosun Group.

MANAGEMENT BOARD AND SUPERVISORY BOARD COMMITTEES

The Management Board has not currently established any committees.

The Supervisory Board has established an Executive Committee and an Audit and Finance Committee to efficiently perform its tasks. To date, both committees have performed only advisory and preparatory tasks. The committees, each of which comprises two members, do not have the authority to pass resolutions at present.

The Executive Committee is responsible for preparing the Supervisory Board meetings and supervises the implementation of resolutions adopted by the Supervisory Board or its committees, as well as preparing and conducting preliminary negotiations in connection with the signature, amendment and termination of contracts of service with Management Board members.

Members: Jerome Griffith (Chairman of the Executive Committee), Thomas Schlytter-Henrichsen

The Audit and Finance Committee is responsible for the preliminary examination of the documents relating to the annual financial statements and the consolidated financial statements. It prepares the resolutions on the annual financial statements and the consolidated financial statements to be passed by the full Supervisory Board as well as the Board's decision on the Management Board's proposed resolution on the utilisation of the net retained profits. The Audit and Finance Committee also prepares the Supervisory Board's proposal to the Annual General Meeting for the election of the auditors. If the committee has a quorum, it negotiates the fee with the auditors, issues the audit engagement and specifies the areas of emphasis of the audit. Furthermore, it monitors the independence of the auditors. It is also responsible for supervising the financial reporting process, the audit, any additional services performed by the auditors, the effectiveness of the internal control system, the risk management system, compliance and the internal audit system, as well as for discussing the quarterly and half-yearly reports with the Management Board.

Members: Andreas Karpenstein (Chairman of the Audit and wFinance Committee), Yun (Joann) Cheng

At least one independent member of the Supervisory Board has expertise in accounting or auditing, in the person of the Chairman of the Audit and Finance Committee.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Designing remuneration systems for the Management Board and the Supervisory Board members that provide incentives and reward performance in an appropriate manner is a key component of responsible corporate governance.

We refer to the detailed presentation in the management report on pages 41 ff.

SHAREHOLDINGS

SHAREHOLDINGS OF THE MEMBERS OF THE MANAGEMENT BOARD

CEO and COO Dr Heiko Schäfer directly held 26,500 shares of the Company as at 31 December 2016, corresponding to 0.09% of the Company's shares. As at said date, Mr Uwe Schröder (member of the Management Board) indirectly held 680,000 shares of the Company via Morgan Finance S.A., Luxembourg, corresponding to 2.38% of the Company's shares.

SHAREHOLDINGS OF THE MEMBERS OF THE SUPERVISORY BOARD

One member of the Supervisory Board, Mr Thomas Schlytter-Henrichsen (Deputy Chairman), held indirect interests in TOM TAILOR Holding AG as at 31 December 2016. As at said date, Mr Schlytter-Henrichsen indirectly held 68,944 shares of the Company via ACapital Beteiligungsberatung GmbH, corresponding to 0.24% of the Company's shares.

DIRECTORS' DEALINGS

In accordance with section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), the members of the Management Board and the Supervisory Board of TOM TAILOR Holding AG as well as certain employees with managerial responsibilities and any persons closely associated with these employees must disclose the acquisition and sale of TOM TAILOR shares and any related financial instruments. This duty of disclosure exists if the value of the transactions by a person belonging to the above-mentioned group of persons amounts to or exceeds EUR 5,000; further details as well as the individual transactions disclosed can be found at http://ir.tom-tailor-group.comtailor group.com.

SHAREHOLDERS

TOM TAILOR Holding AG received voting right notifications in accordance with section 21(1) of the WpHG from institutional investors in Germany, the United Kingdom, Luxembourg, the Netherlands, Switzerland and the United States, among other countries.

ACCOUNTING AND TRANSPARENCY

Information is regularly provided to the shareholders and the public, in particular via the annual report containing the consolidated financial statements, and the interim reports. Our Group financial reporting is prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, ensuring a high degree of transparency and international comparability.

REPORT OF THE SUPERVISORY BOARD

In financial year 2016, the Supervisory Board performed its duties in accordance with the law and the Articles of Association and advised and supervised the Management Board in its management of the Company. The Management Board informed the Supervisory Board regularly, comprehensively and promptly about the economic environment, the Company's situation and development, key financial figures, major transactions and risk management both orally and in writing. The timely provision of information to the Supervisory Board was ensured at all times. The Management Board regularly participated in Supervisory Board meetings and answered all of the Supervisory Board's questions fully and in depth. The Supervisory Board, and in particular the Chairman of the Supervisory Board, were also in close written and oral contact with the Management Board outside of the regular Supervisory Board meetings and discussed questions relating to strategy, planning, business development, the risk situation, risk management and compliance.

The Supervisory Board's work in the past year focused on the CORE and RESET cost-cutting and efficiency programmes, the new composition of the Management Board of TOM TAILOR Holding AG and the reorientation of the Company with the aim of reducing complexity and decreasing the Group's debt.

SUPERVISORY BOARD MEETINGS

The Supervisory Board addressed current business developments and approved significant individual transactions, examined the reports by the Management Board and discussed strategic corporate planning in four regular meetings. It also adopted resolutions and discussed topical issues in extraordinary Supervisory Board meetings and conference calls as necessary.

In an extraordinary Supervisory Board meeting on 1 March 2016, the Supervisory Board discussed new hires and personal matters in the first management level below the Management Board.

In its meeting on 16 March 2016, the Supervisory Board approved the annual and consolidated financial statements for 2015, thereby adopting the annual financial statements. The CORE cost-cutting and efficiency programme was another focal point of this meeting. In addition, the Supervisory Board discussed the employment contract for Managing Director Doris Strätker at BONITA GmbH and approved the agenda for the Annual General Meeting on 24 May 2016.

In a further extraordinary meeting held on 12 April 2016, the Supervisory Board voted to dismiss Dr Axel Rebien from his position as Chief Financial Officer (CFO) of TOM TAILOR Holding AG and to appoint Thomas Dressendörfer the new CFO of TOM TAILOR Holding AG.

The Supervisory Board discussed the figures for the first quarter and April 2016 in its meeting on 23 May 2016. The meeting also served as a preparatory meeting for the Annual General Meeting held on the next day.

In two extraordinary Supervisory Board meetings on 7 and 13 September 2016, the Supervisory Board addressed the Group's existing financing and human resources issues.

In the meeting on 22 September 2016, the Supervisory Board voted to dismiss Dieter Holzer from his position as Chief Executive Officer (CEO) of TOM TAILOR Holding AG. Uwe Schröder was appointed a member of the Management Board for a period of no more than one year in accordance with section 105 para. 2 of the Aktiengesetz (AktG – German Stock Corporation Act). Dr Heiko Schäfer was appointed the new Chief Executive Officer by the Supervisory Board. At the same time, the Supervisory Board elected Jerome Griffith as its new Chairman. The Supervisory Board also addressed the figures for the first half of the year. The performance of the BONITA sub-group and the planned restructuring of TOM TAILOR Holding AG into a European Company (SE) were also discussed at this meeting.

The topics covered at the Supervisory Board meeting on 8 December 2016 were the regularly scheduled discussion of the business situation in the third quarter of 2016 and the monthly financials for October 2016, approval of the budget for 2017 and three-year planning until 2019. Additionally, the Supervisory

Board extensively reviewed the planned and subsequently successfully implemented capital increase in December 2016. Another issue covered was the RESET cost and process optimisation programme aimed at reducing complexity and decreasing the Group's debt.

CORPORATE GOVERNANCE

In its meeting on 8 December 2016, the Supervisory Board approved the 2017 declaration of compliance in accordance with section 161 AktG following extensive discussion. In connection with this, the Supervisory Board addressed the future composition of the Supervisory Board in depth and updated its concrete objectives in accordance with section 5.4.1 of the German Corporate Governance Code in the version dated 5 May 2015. The declaration of compliance was made permanently available to shareholders on the http://ir.tom-tailor-group.com website.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board has established an Executive Committee and an Audit and Finance Committee, each comprising two members.

The Supervisory Board's Audit and Finance Committee held three regular meetings in 2016. The Audit and Finance Committee also held extraordinary meetings and conference calls in connection with the set of measures announced in October 2016. Its meetings primarily served to discuss the financial statements and management reports of the Company and of the Group, as well as the interim reports. To the extent that this was necessary or relevant, these meetings were also attended by representatives of the Company – usually the Chief Financial Officer and the Finance Director – the Chairman of the Supervisory Board, or the auditors.

The meetings on 5 February 2016 and 22 February 2016 focused on discussing the audit of the 2015 financial statements. A particular emphasis was placed focus of the audits and on the results of the audits of all single-entity financial statements and the key findings of the audit of the consolidated financial statements. In its meeting on 8 December 2016, the Audit and Finance Committee addressed the current status of the preliminary examination for the audit of the annual financial statements for 2016 and the areas of emphasis for the audit that had already been determined.

The Executive Committee met on 5 and 8 April 2016, 12 and 14 September 2016 and on 1 December 2016, immediately before the regular Supervisory Board meetings held on each of these dates. All meetings dealt with personnel, remuneration and strategy issues. Furthermore, the two members of the Executive Committee were in contact regularly.

COMPOSITION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

The members of the Supervisory Board are Mr Jerome Griffith, Mr Thomas Schlytter-Henrichsen, Mr Andreas Karpenstein and Ms Joann Cheng (as at 31 December 2016).

Carrie Liu stepped down as at 23 August 2016 and Patrick Lei Zhong resigned as at 31 August 2016. They were replaced by Wei Han and Joann Cheng with effect from 21 September 2016 by way of a court appointment as per section 104 AktG. Wei Han in turn stepped down as at 22 November 2016 and was replaced by Jenny Shao with effect from 13 February 2017.

The members of the Management Board are Dr Heiko Schäfer (Chief Executive Officer, CEO), Thomas Dressendörfer and Uwe Schröder.

Dr Axel Rebien was dismissed from his position as Chief Financial Officer (CFO) of TOM TAILOR Holding AG effective 15 June 2016. Thomas Dressendörfer was then named the new CFO of TOM TAILOR Holding AG.

Dieter Holzer's appointment as CEO of TOM TAILOR Holding AG was terminated with effect from 22 September 2016. Uwe Schröder was appointed a member of the Management Board for a period of no more than one year in accordance with section 105 para. 2 of the Aktiengesetz (AktG – German Stock Corporation Act). Dr Heiko Schäfer was appointed the new Chief Executive Officer by the Supervisory Board.

ACCOUNTING AND AUDITING

The annual financial statements and the accompanying management report of TOM TAILOR Holding AG are prepared by the Management Board in accordance with the Handelsgesetzbuch (HGB – German Commercial Code). The consolidated financial statements and the Group management report are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The annual financial statements, consolidated financial statements and the management reports are audited by the auditor and examined by the Supervisory Board.

The annual financial statements, consolidated financial statements and management reports of TOM TAILOR Holding AG were audited by Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft. The audits were conducted in accordance with German auditing regulations and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. The International Standards on Auditing were also observed as a supplementary measure. Unqualified audit opinions were issued for all audits.

The annual financial statements, consolidated financial statements and the accompanying management reports of TOM TAILOR Holding AG and the audit reports by the auditors were submitted to the Supervisory Board members for examination. All documents were discussed and examined in detail by both the Audit and Finance Committee and the full Supervisory Board. The auditors reported on the key results of the audit at the meetings of the Audit and Finance Committee and the full Supervisory Board on 8 March 2017 and 27 March 2017 respectively, and were available to answer questions from the members in attendance. In its meeting on 27 March 2017, the Supervisory Board approved the auditors' findings without restriction and, based on the final results of its own examinations, found that it had no reservations to make. The Supervisory Board approved the financial statements prepared by the Management Board. The annual financial statements are thus adopted.

The Supervisory Board would like to thank the Management Board and the employees for all their hard work.

Hamburg, March 2017

The Supervisory Board

FINANCIAL CALENDAR

Financial Calendar

Date	Current Events
28 March 2017	Annual Report 2016
2 May 2017	Quarterly management statement as at 31 March 2017
31 May 2016	Annual General Meeting, Hamburg / Germany
May 2017	Analyst Conference
10 August 2017	Half-yearly financial report
2 November 2017	Quarterly management statement as at 30 September 2017

FUTURE-ORIENTED STATEMENTS

This document contains forward-looking statements, which are based on the current estimates and assumptions by the management of TOM TAILOR Holding AG. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by TOM TAILOR Holding AG and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside TOM TAILOR Holding AG's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and others involved in the marketplace. TOM TAILOR Holding AG neither plans nor undertakes to update any forward-looking statements.

PUBLICATION DETAILS

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