# ANNUAL REPORT 2018

TOM TAILOR GROUP

# KEY FIGURES OF THE TOM TAILOR GROUP

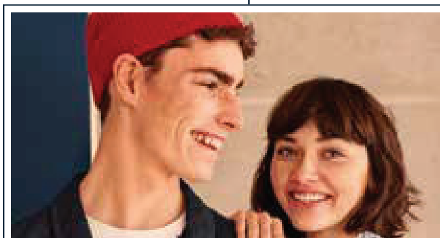
| EUR million | 2018 | 2017 | Change relative |
|---|---|---|---|
| Revenue | 843.8 | 921.8 | –8.5 % |
| TOM TAILOR Retail | 283.0 | 304.0 | –6.9 % |
| TOM TAILOR Wholesale | 335.1 | 350.1 | –4.3 % |
| BONITA | 225.7 | 267.7 | –15.7 % |
| Share of revenue (in %) | | | |
| TOM TAILOR Retail | 33.5 | 33.0 | |
| TOM TAILOR Wholesale | 39.7 | 38.0 | |
| BONITA | 26.8 | 29.0 | |
| Gross profit | 489.9 | 537.7 | –8.9 % |
| Gross profit margin (in %) | 58.1 | 58.3 | |
| EBITDA | 25.7 | 83.1 | –69.0 % |
| EBITDA margin (in %) | 3.0 | 9.0 | |
| EBIT | –216.2 | 43.9 | >100 % |
| EBIT margin (in %) | –25.6 | 4.8 | |
| Net income for the period | –179.5 | 17.1 | >100 % |
| Earnings per share (in EUR) | –4.77 | 0.37 | >100 % |
| | | | |
| Cash generated from in operations | 23.7 | 83.4 | –71.6 % |
| Cash flows from investing activities | –30.7 | –13.2 | >100 % |
| Free cash flow | –14.2 | 56.9 | >100 % |
| | **31/12/18** | **31/12/17** | |
| Total assets | 469.4 | 646.3 | –27.4 % |
| Equity | 47.7 | 213.0 | –77.6 % |
| Equity ratio (in %) | 10.2 | 32.9 | |
| Cash funds | 25.1 | 24.2 | 3.8 % |
| Financial liabilities | 164.4 | 137.5 | 19.6 % |
| Net debt | 139.3 | 113.3 | 23.0 % |
| Gearing (in %) | 292.2 | 53.2 | |
| | | | |
| Employees (reporting date) | 6,158 | 6,071 | 1.4 % |

# OUR BRANDS, LINES AND LICENCES

TOM TAILOR
EST. 1962

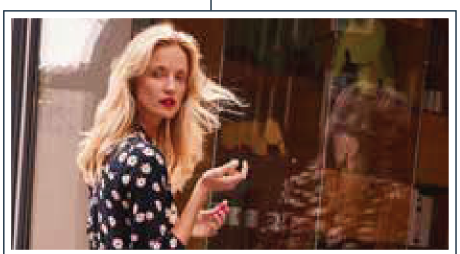
TOM TAILOR
EST. 1962

CASUAL FASHION,
MIDDLE PRICE SEGMENT,
MEN AND WOMEN AGED 35 – 45



TOM TAILOR
Denim

HIP AND TRENDY,
MIDDLE PRICE SEGMENT,
MEN AND WOMEN AGED 25 – 35

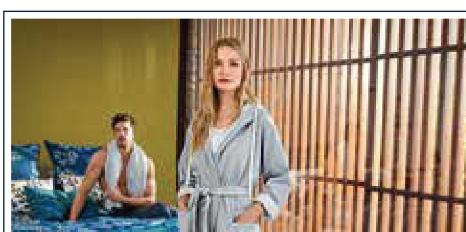


mine to five
TOM TAILOR

SMART CASUAL WEAR
MIDDLE PRICE SEGMENT
WOMEN AGED 35 – 45

MY TRUE ME
TOM TAILOR

PLUS SIZE FASHION
MIDDLE PRICE SEGMENT
WOMEN AGED 35 – 45



LICENSED PRODUCTS

CHILDREN AGED 0 – 14,
ACCESSOIRES,
HOME TEXTILES

BONITA

STYLISH FASHION,
MIDDLE PRICE SEGMENT,
WOMEN OVER 50 AND ACCESSOIRES

# TO OUR SHAREHOLDERS

# LETTER TO SHAREHOLDERS

Karsten Oberheide, BONITA | Liam Devoy, COO | Dr. Heiko Schäfer, CEO | Thomas Dressendörfer, CFO

## DEAR SHAREHOLDERS, BUSINESS PARTNERS AND EMPLOYEES,

The 2018 financial year that is now behind us was one of the most challenging ever for the entire European consumer goods industry. While the European economy contracted by 0.5% overall, revenue in the textile industry fell by 0.4%, with the decline even reaching 0.8% in women's apparel. This sector was particularly adversely affected in Germany, where cross-sector revenue dropped by 2% year-on-year. According to preliminary data from the Federal Statistical Office, consumer spending on clothing by private households in Germany declined by 0.4% compared to the previous year – a painful downturn that brought with it immediate consequences. According to accountancy firm Ernst & Young, 83% of wholesalers and retailers missed their forecasts in 2018. In addition, three trends continue to dominate the market:

a) consolidation among retailers, such as the merger of Karstadt and Kaufhof and a total of 18 insolvency filings in the German textile and clothing market,

b) digital transformation: the share of e-commerce in retail rose from 9.5% in 2017 to an estimated 10.2% in 2018 (HDE), and

c) increasing pressure on average prices caused by the growing discount sector. The discount textile segment has expanded by more than 20% in the last five years alone. Prices in this sector are between 20% and 30% lower than the market average.

This environment is causing pressure to mount in our market segment. The TOM TAILOR Group felt the full impact of this in 2018 – yet the picture is by no means consistent. Our TOM TAILOR brand held its ground despite the negative market trend. In particular, the positive development of the gross margin at TOM TAILOR from 53.7% to 56.6% in 2018 is a great success.

Within the Company, the consistent expansion of our digital activities dominated the agenda in 2018. We continued to professionalise the TOM TAILOR online shop and made significant progress in using algorithms to personalise the ranges displayed and using CRM measures for sector-specifically addressing customers. The SAP implementation that has been ongoing since 2016 also reached its last major 'go live' milestone.

The BONITA brand's results painted a different picture. We cannot be satisfied with the 2018 financial year in this area. The industry's 'best ager' market segment faced a disproportionate decline in revenue of 10% year-on-year. Despite all our efforts, for example by modernising the product and collection message or investing in new, modern shopfitting concepts, BONITA recorded a drastic drop in revenue of 11.5%, less the decline in revenue due to closure effects. The decline in reported EBITDA was even more pronounced: Driven above all by falling average prices and the necessary recognition of provisions for loss-making stores, reported EBITDA fell to EUR -38.2 million after a positive EUR 15.6 million in the previous year.

Our aim for the past year was to modernise the BONITA brand. As announced, we are focusing our efforts on the product and the store portfolio. The effects of the successful closure of numerous unprofitable stores, for example, deserve positive mention in this context. However, a look at the bigger picture suggests that our measures have not had a sufficiently satisfactory effect, as BONITA is performing very poorly. As a result, we were forced to adjust our profit forecast in September, stop the reorganisation of additional stores and carry out a EUR 184.5 million write-down of the brand's value. We once again intensified and pushed ahead with our comprehensive cost reduction and restructuring measures already implemented in the fourth quarter of 2018 after the attempt to sell BONITA was abandoned in May 2019.

We would then like to – and must – conduct a critical review of our performance in 2018. We have achieved strong results with our TOM TAILOR brand and demonstrated its strength in a difficult market. However, we cannot be satisfied with the TOM TAILOR Group's annual results, particularly in light of BONITA's performance, with total revenue falling by 8.5% year-on-year during the 2018 reporting period.

Our strategic priorities for the future remain unchanged. We are particularly focused on growing our core business, expanding our successful TOM TAILOR Women divisions and internationalising the Company further. In addition to continuing to develop the B2C and B2B online business, we are also forging ahead with the strengthening of our TOM TAILOR Denim brand. We have been working flat out to find a solution for BONITA that is satisfactory for all parties concerned.

Thank you very much on behalf of the TOM TAILOR Group to our customers, shareholders and business partners for your dedicated support and continuing loyalty. We would also like to thank our employees for their persistently strong motivation and untiring commitment to the Company. We will continue to follow this course and are confident of being able to return the Group to sustainable and profitable growth.

The Management Board team

Hamburg, October 2019

Dr. Heiko Schäfer | Thomas Dressendörfer | Liam Devoy | Karsten Oberheide

# THE MANAGEMENT BOARD

Dr Heiko Schäfer, CEO

Thomas Dressendörfer, CFO

## DR HEIKO SCHÄFER (*1972)

Dr Heiko Schäfer joined the TOM TAILOR Group as Chief Operating Officer (COO) in December 2015. After taking on the additional role of interim Chief Executive Officer (CEO) in September 2016, he was appointed as the CEO of TOM TAILOR Holding SE on a permanent basis in mid-March 2017. As CEO he is responsible for corporate strategy, sales, e-commerce, marketing and public relations.

Dr Schäfer was born in Minden in 1972. He studied business administration at the University of Saarbrücken and earned a doctorate degree at the University of Mannheim with a dissertation on cross-selling.

Dr 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. He later worked for over six years as a senior executive for the adidas Group, where his last position was Senior Vice President with responsibility for product development, sourcing and logistics for the four lifestyle / fashion labels of the adidas umbrella brand. Before joining the TOM TAILOR Group, Dr Schäfer served as a director for private equity firm Kohlberg Kravis Roberts (KKR) in London.

## THOMAS DRESSENDÖRFER (*1958)

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

Mr Dressendörfer was born in Baghdad in 1958 and holds a degree in business administration and economics from the University of Erlangen-Nuremberg. He 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 and technology firm Uster Technologies AG, also based in Switzerland. Both companies are listed on the Swiss SIX stock exchange. During the course of his career, Thomas Dressendörfer has also held senior finance positions at Randstad, The Nielsen Company and Procter & Gamble. Before joining the TOM TAILOR Group, he advised companies on complex business projects and turnarounds as an independent consultant.

Liam Devoy, COO

Karsten Oberheide, BONITA

## LIAM DEVOY (*1962)

Liam Devoy has been with the TOM TAILOR Group since 1 August 2017. As Chief Operating Officer (COO), he is the Management Board member responsible for operations with a focus on purchasing, logistics and IT.

Liam Devoy has logged more than 20 years of experience in the fashion and sportswear industry. He studied English and Politics at Bridgewater State University and then worked in a series of operations roles for companies including Quiksilver, Marc Jacobs, The Children's Place and Reebok.

Most recently, Mr Devoy was responsible for the strategic focus of the worldwide supply chain of the adidas Group as Vice President Global Supply Chain Strategy. His responsibilities in earlier roles with adidas and Reebok also included setting up the global warehouse network.

## KARSTEN OBERHEIDE (*1967)

Karsten Oberheide has been the Management Board member responsible for BONITA since 1 January 2019. He previously was in charge of the company's operating business in his role as Chief Sales Officer for BONITA from September 2018.

As an experienced sales and purchasing expert, he has extensive knowledge of how to optimise operating structures and processes. Mr Oberheide gained this experience from roles including his time as Managing Director Retail at Gerry Weber, where he was responsible for managing sales in the company's own channels since 2015. After completing his studies, Mr Oberheide got to know the fashion business from the ground up at SinnLeffers. After joining what was then Sinn AG as a trainee, he gradually progressed via several roles including department head before becoming a managing director at SinnLeffers AG after its merger in 1997. From 2002 onwards, he was also managing director of the company's Textil Vertrieb brands. He then oversaw the company's sales and purchasing from 2003 onwards before becoming a member of the Management Board in 2007. He was appointed as Director of Purchasing and Marketing after the company was acquired by Wöhrl in 2013.

# TOM TAILOR ON THE CAPITAL MARKET

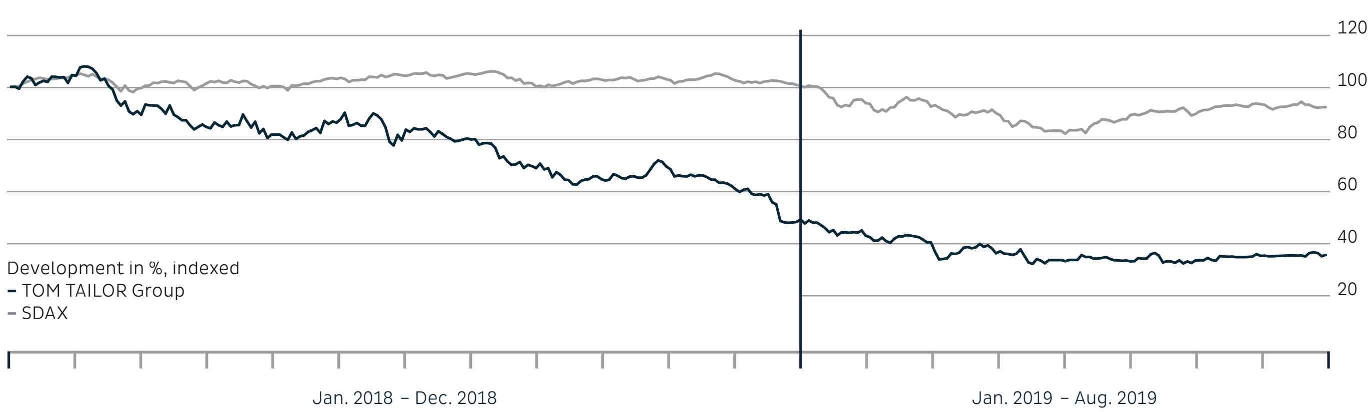
## TOM TAILOR SHARE PRICE PERFORMANCE

TOM TAILOR's shares started 2018 at a high level of EUR 10.80, reaching its annual peak of EUR 11.92 shortly afterwards on 24 January. The share price was primarily bolstered by the operating success of the RESET programme in the previous year. On 20 March 2018, the Company published its figures for the full 2017 financial year and reported the best post-tax profit in its history. The closing price on this date was EUR 9.50. After the publication of the first-quarter results on 8 May 2018, which showed positive results for the TOM TAILOR brand but a disappointing revenue and earnings performance for BONITA, the share price steadily fell over several weeks, however. Pressure on the stock intensified after the Company was forced to announce a revised full-year revenue and earnings guidance on 19 September 2018. Like many fashion companies and retailers, the TOM TAILOR Group also suffered as a result of the unusually long, hot summer, which resulted in low demand and a delayed start to the important autumn / winter collections. The share price dropped below EUR 5.00 for the first time and fluctuated between EUR 4.99 and EUR 2.52 until mid-December 2018. After the Company announced that a write-down of the brand value of BONITA was necessary on 12 December 2018, the TOM TAILOR share fell even further and ended the year at EUR 2.20, down 79.80% on a year-on-year basis.

TOM TAILOR's shares started 2019 up slightly at EUR 2.44. On 18 February 2019 the Management Board, with the approval of the Supervisory Board, agreed to carry out a 10% capital increase in return for cash contributions utilising a portion of authorised capital. The 3,849,526 new registered shares at a price of EUR 2.26 per share were exclusively and directly allocated to Fosun International Limited as part of a private placement and excluded the subscription rights of existing shareholders, increasing the Fosun Group's share of voting rights from 28.29% to 35.35%. The Company's share capital also increased from EUR 38,495,269.00 to EUR 42,344,795.00. The shares closed at EUR 2.16 on the day of the announcement.

On 19 February 2019, the TOM TAILOR Group learned of the voluntary public takeover offer made by Fosun International Limited at a price of EUR 2.31 per no-par value share. The capital markets reacted positively to this announcement, resulting in a closing price of EUR 2.40. The shares continued to climb over the next few weeks to a high of EUR 2.58 on 22 March 2019. However, the stock lost value again during the two subscription periods from 1 April to 6 June and from 13 June to 26 June 2019, moving in a range between EUR 2.22 and EUR 2.48. TOM TAILOR's shares recorded further losses after completion of the takeover offer on 12 June 2019 to close at EUR 0.97 on 18 July 2019, their lowest closing price since the IPO in 2010. As of 31 August 2019, the stock closed the day at EUR 1.69, down 23.08% in the first eight months of 2019.

**The TOM TAILOR share in the period from 1 January 2018 to 30 August 2019**



As of 31 December 2018, the market capitalisation of TOM TAILOR Holding SE was EUR 84.7 million after EUR 419.2 million at the end of the previous year (-79.80%) with a total number of shares of 38,495,269. Despite a higher number of shares of 42,344,795, the market capitalisation fell as of 31 August 2019 due to the lower share price, reaching just EUR 71.6 million as of that date.

## SHAREHOLDER STRUCTURE

The shareholder structure of TOM TAILOR Holding SE* changed as follows:

***As of 31 December 2018:***
- Fosun Group (China): 28.89%
- DORVAL Asset Management (France): 9.83%
- Farringdon (The Netherlands): 5.50%
- Polygon Global Partners (United Kingdom): 5.02%
- DUMAC (USA): 3.70%
- Free float: 47.06%

***As of 21 February 2019:***
- Fosun Group (China): 35.35%
- DORVAL Asset Management (France): 9.83%
- Farringdon (The Netherlands): 5.50%
- Polygon Global Partners (United Kingdom): 5.02%
- DUMAC (USA): 3.70%
- Free float: 40.60%

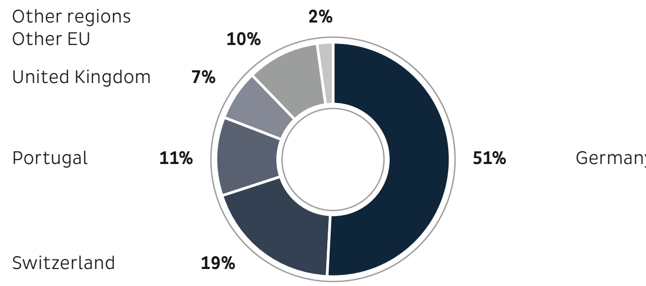
***As of 31 August 2019:***
- Fosun Group (China): 76.75%
- Free float: 23.25%

* pursuant to voting rights notifications in accordance with section 33 (1) of the Wertpapierhandelsgesetz (WpHG – Securities Trading Act)

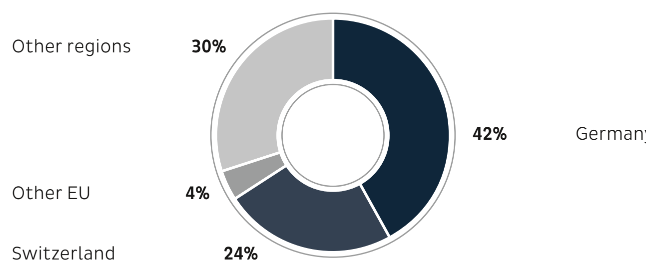
## INVESTOR RELATIONS

Dialogue with the capital market is of paramount importance for the TOM TAILOR Group. The Group's investor relations activities are therefore designed to provide comprehensive, regular and timely information to the capital market. In order to achieve this, the Investor Relations team has a direct reporting line to the Management Board. Together with the Management Board, Investor Relations maintains a regular and intensive dialogue with capital market participants at roadshows and investment conferences, on conference calls marking the publication of the interim and annual reports as well as current events. All publications such as quarterly and annual reports, the financial calendar, presentations and audio recordings of conference calls, as well as stock-related information, are also published in the Investor Relations section of the website, www.tom-tailor-group.com.

### Regional Shareholder Structure – 31 December 2018




### Regional Shareholder Structure – 31 August 2018



## 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 | M.M. WARBURG & CO (AG & CO.) KGaA |

## TOM TAILOR's Share Performance

| | | 31 August 2019 | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|
| Shares in issue as at reporting date | Shares | 42,344,795 | 38,495,269 | 38,495,269 |
| Share capital | EUR | 42,344,795 | 38,495,269 | 38,495,269 |
| High (Xetra closing price) | EUR | 2.58 | 11.92 | 11.00 |
| Low (Xetra closing price) | EUR | 0.97 | 2.00 | 4.71 |
| Price at reference date (Xetra closing price) | EUR | 1.69 | 2.20 | 10.89 |
| Free float at reference date | in % | 23.25 | 71.11 | 71.11 |
| Market capitalisation at reference date | EUR million | 71.6 | 84.7 | 419.2 |
| Average daily trading volume (Xetra) | Shares | 136,354 | 235,304 | 218,104 |
| Reported earnings per share | EUR | n/a | -4.77 | 0.37 |
| Operating cash flow per share | EUR | n/a | 0.61 | 2.17 |

# SUSTAINABILITY AND RESPONSIBILITY

## *SEPARATE NON-FINANCIAL REPORT PURSUANT TO SECTIONS 289, 315 HANDELS-GESETZBUCH (HGB – GERMAN COMMERCIAL CODE)*

### LEGAL REQUIREMENTS AND COMPLIANCE WITH STANDARDS

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. The TOM TAILOR GROUP is committed to sustainable corporate development and is fully aware of its special role and responsibility for addressing various stakeholder needs along the entire value chain. In addition to the financial performance of the Company, non-financial factors are also critical.

In order to create transparency and meet the specific information needs of all stakeholders, the TOM TAILOR GROUP has prepared this report for the Group on the relevant non-financial aspects (separate non-financial report) in accordance with the CSR-Richtlinie-Umsetzungsgesetz (CSR Directive-Implementation Act – Act to Strengthen Non-financial Corporate Disclosure in Management Reports and Group Management Reports). The reporting period for this separate non-financial report is the 2018 financial year (1 January to 31 December 2018).

The TOM TAILOR GROUP complies with legal requirements in particular, taking into account their relevance for the Company. No widely recognised standard has been implemented to date, because the strategic focus of the TOM TAILOR GROUP's management has been on reinforcing the Company's operations and finances in a highly competitive environment and on restructuring the Company to ensure economic viability into the future. The TOM TAILOR GROUP intends to update the internal control and monitoring systems regarding material issues in the medium term and to link these more closely with the financial strategy overall.

For a description of diversity in the composition of the Management Board and Supervisory Board (section 289f of the HGB), please see the "Corporate Governance Declaration" contained in the Group management report that is combined with the management report (hereinafter: "combined management report").

### BUSINESS MODEL AND VALUE CHAIN

Detailed information on the Company's legal and organisational structure, business model, strategy and control is provided in the combined management report section entitled "Fundamental Information about the Group".

### SUSTAINABILITY PLAN AND RESPONSIBLE CORPORATE GOVERNANCE

In a global industry such as textiles, corporate responsibility towards employees, customers, suppliers and the environment is of particular significance. The TOM TAILOR GROUP embraces corporate responsibility: it is integral to all processes at the Company and is an underlying factor in the Company's long-term financial success. 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 TOM TAILOR GROUP places great emphasis on decent, safe and fair working conditions at our supplier operations as described in the section entitled "Responsible action in the supply chain", on reducing the environmental footprint in the production and procurement process as well as on high product quality.

The Management Board is responsible for sustainable corporate governance. Issues relating to material aspects of sustainability are reported directly to the Management Board, and the employees responsible work with the Management Board and the respective Executive Management Team to define the appropriate strategies.

In the markets where our products are manufactured, the TOM TAILOR GROUP has a team that through inter alia training programmes works directly with suppliers to achieve compliance with sustainability standards, e.g. the amfori Business Social Compliance Initiative (BSCI).

The TOM TAILOR GROUP's corporate responsibility includes, in particular, identifying and minimising the risks associated with business activities, products for third parties and the environment that arise along the supply chain. This is a continuous process for the TOM TAILOR GROUP, and the Company is engaging in dialogue with its stakeholders to address their needs and generate value for all stakeholders of the TOM TAILOR GROUP.

## RISKS ALONG THE SUPPLY CHAIN

As an international company, the TOM TAILOR GROUP systematically analyses risks that could adversely affect the Group's net asset, financial position and results of operations. Detailed information about this topic is provided in the "Risks And Opportunities" section in the combined management report.

However, the TOM TAILOR GROUP's business activities and/or products and services may give rise to events that additionally or exclusively have negative effects on employees, third parties or the environment. These risks are analysed while taking sustainable corporate responsibility into account, and targeted countermeasures are defined on the basis of the results.

The likelihood of serious adverse effects on the Group's employees, the community or the environment caused by the stages in the Group's supply chain that the TOM TAILOR GROUP can control directly – product development, logistics and warehousing, sales and administration – and in connection with its own products is very low due to the Group's business model. And this is true of our sales activities via established partners as well. These types of risk are therefore immaterial with regard to sustainability. Nonetheless, the TOM TAILOR GROUP also takes responsibility in this area by optimising measures to avoid the risks posed by its business operations. Responsibility to its employees is at the heart of these efforts. For example, the issue of industrial safety is continually reviewed at the Group's Hamminkeln warehouse. The Company also gives relevant briefings, issues instructions and conducts evacuation drills. In 2018, the TOM TAILOR GROUP invested in new safety footwear for warehouse staff and overshoes for visitors. In addition, environmentally friendly practices are being stepped up in logistics, warehousing, central administration and in the distribution facilities with initiatives such as the store lighting concept, for example.

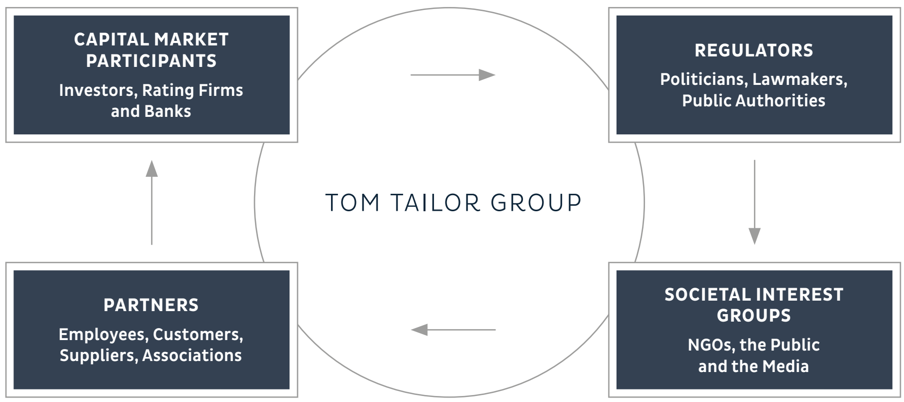
In contrast, the TOM TAILOR GROUP's business activities and products are associated with typical textile industry and fashion business risks arising in the production process. These include the risks associated with environmental and social issues in particular. Since the Company does not operate its own production facilities, but instead outsources product manufacturing to selected suppliers located primarily in Asia and Turkey, the Company only has indirect access and indirect opportunity to minimise and prevent these risks at this stage of the value chain. At the same time, occurrence of these risks could also have effects on the reputation, and on the net assets, financial position and results of operations of the TOM TAILOR GROUP. The TOM TAILOR GROUP therefore makes the utmost effort from its perspective to limit, and possibly, eliminate these risks for all parties involved.

In general, social and environmental risks may arise at suppliers, or suppliers' employees may experience serious negative effects, including on their health, for reasons including poor, inhumane working conditions or insufficient industrial safety measures. By recognising the amfori BSCI Terms of Implementation, all of the TOM TAILOR GROUP's suppliers commit to manufacturing products in their facilities under decent working conditions within the meaning of the amfori BSCI Code of Conduct. Working conditions are monitored by TOM TAILOR employees from our purchasing offices and external agencies accredited by amfori BSCI. The TOM TAILOR GROUP is an active member of the amfori BSCI. Furthermore, strict external and internal standards are in place governing the raw materials and supplies used to manufacture products for the TOM TAILOR GROUP – e.g. the REACH Regulation or AQL 1.5 (Acceptable Quality Limit) as defined by the ISO 2859 standard – and the impact of these products on human health and the environment. Strict quality control by employees of the TOM TAILOR purchasing offices and spot checks in our physical test department ensure that our products comply with the relevant standards and requirements. More detailed information about this topic is provided in the section entitled "Responsible Action in the Supply Chain".

## 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 Company engages in target group-oriented, regular dialogue offering the appropriate depth of information to improve transparency concerning corporate decisions and thus build trust. In addition, this dialogue helps the Company to identify trends early on and to align its sustainability activities with the material interests of stakeholders and enable them to participate in the Company's value creation.

### Stakeholder Dialogue



## FINANCIAL RESPONSIBILITY AND VALUE ADDED STATEMENT

Financial responsibility is a core component of corporate strategy and company management. Business success is what ensures the continued existence of the Company. Value can be created for all stakeholders of the Company only if the Company is successful in pursuing its profitable growth strategy. That in turn provides a solid foundation for the TOM TAILOR Group in the long term. The TOM TAILOR Group conducts its ongoing business and other activities as a company in the interests of its stakeholders, thereby generating direct value for them. The Company is an employer of executives and qualified employees in various areas. Moreover, the Company provides training and promotes continuing education, employee health and flexible working conditions. The TOM TAILOR Group makes considerable direct, monetary value contributions to its employees in the form of what it believes is fair and performance-focused remuneration. Based on its business performance, the TOM TAILOR Group also addresses lender requirements by making interest payments. Our long-term goal is to enable investors to share directly in the parent company's performance through dividend payments from sustainably positive income. TOM TAILOR also makes contributions to the government in the form of various corporate taxes, thereby indirectly contributing value to society. As the Group's earnings improve, the value contributed also automatically increases.

This business performance as a whole is measurable in a value added analysis. Exceeding the narrow view of purely financial parameters based on the financial key performance indicators mentioned in the combined management report, the value added statement measures the direct potential of the Company to create value for its stakeholders. Firstly, a value added analysis shows that the TOM TAILOR Group's operations have created value (output approach). This is calculated by subtracting all purchased inputs (including management and Supervisory Board remuneration) and depreciation, amortisation and impairment losses from the Company's total operating revenue (revenue plus other operating income). In the 2018 financial year, the TOM TAILOR Group generated value added of EUR 212.0 million.

Secondly, the analysis indicates which groups of stakeholders benefit from specific direct value added contributions. By far the largest share (87.9%) of the value generated by TOM TAILOR's business activities in 2018 was paid to employees as wages and salaries. Other value added contributions benefited investors and society (in the form of taxes). In the reporting year, 2.3% of the added value was reinvested in the TOM TAILOR Group to sustainably strengthen the Company.

### Value Added Analysis

| | 2018 | | 2017 | | YoY change | |
|---|---|---|---|---|---|---|
| **Generation** | **EUR million** | **in %** | **EUR million** | **in %** | **EUR million** | **in %** |
| Sales revenue | 843.8 | 96.4 | 921.8 | 96.0 | −78.0 | −8.5 |
| Other revenue | 31.7 | 3.6 | 38.2 | 4.0 | −6.5 | −16.9 |
| **Total operating revenue** | **875.5** | **100.0** | 959.9 | 100.0 | **−84.4** | **−8.8** |
| Cost of materials | 354.0 | 40.4 | 384.1 | 40.0 | −30.1 | −7.8 |
| Depreciation, amortisation and impairment losses[1] | 57.5 | 6.6 | 39.2 | 4.1 | 18.3 | 46.8 |
| Other expenses | 252.0 | 28.8 | 297.5 | 31.0 | −45.5 | −15.3 |
| **Inputs** | **663.5** | **75.8** | 720.7 | 75.1 | **−57.2** | **−7.9** |
| **Value added** | **212.0** | **24.2** | 239.2 | 24.9 | **−27.2** | **−11.4** |
| **Distribution** | | | | | | |
| Employees | 186.4 | 87.9 | 195.3 | 81.6 | −8.9 | −4.6 |
| Company | 4.8 | 2.3 | 17.1 | 7.1 | −12.3 | 71.9 |
| Lenders | 9.9 | 4.7 | 15.3 | 6.4 | −5.4 | −35.4 |
| Shareholders | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Government | 10.9 | 5.1 | 11.5 | 4.8 | −0.6 | 5.3 |
| **Value added** | **212.0** | **100.0** | 239.2 | 100.0 | **−27.2** | **−11.4** |

[1] Depreciation / amortisation and impairment losses is adjusted for the effects of the brand value write-down of BONITA.

## MATERIALITY AND DIMENSIONS OF RESPONSIBILITY:

In determining the content for the separate non-financial report, the TOM TAILOR Group identified and compiled the material issues required for understanding the course of business, the Company's business performance and situation of the Company as well as for understanding the effects on the non-financial aspects of the Company's activities. Based on this, and taking into account the business model and their relevance to the management of the day-to-day operations of a medium-sized textile company, the following focus areas of the sustainability dimensions for the TOM TAILOR Group have been determined:

- Ethical responsibility and compliance
- Responsibility to employees
- Responsible action in the supply chain

## ETHICAL RESPONSIBILITY AND COMPLIANCE

The TOM TAILOR Group aims to ensure that its employees comply with existing laws and internal Company requirements and demonstrate ethically sound behaviour at all times. For this reason, the TOM TAILOR Group is currently setting up and expanding a compliance management system.

As the Management Board of the TOM TAILOR Group considers compliance to be one of its most important responsibilities, the Compliance Officer reports directly to the CFO of the TOM TAILOR Group and regularly reports to the Audit Committee of the Supervisory Board.

The Group focuses on a broad package of measures to prevent compliance violations wherever possible. These measures are designed to enable employees to internalize the conduct expected of them by the TOM TAILOR Group, primarily by means of training sessions, guidelines and targeted communication initiatives.

Data protection was a particular compliance focal point in 2018 due to the introduction of the General Data Protection Regulation (GDPR) in May 2018. Employees who spend an above-average amount of time working with personal data, such as staff in the HR department and e-commerce business, completed in-person training sessions. All employees at the German head office were also required to complete a data protection e-learning course that provided basic data protection knowledge with the help of training videos. In these training videos, more than 40 employees, including the Management Board, re-enact relevant data protection scenarios.

Employees in the German stores received a specially prepared information brochure outlining the most important data protection information for these employees and highlighting relevant data protection situations. This brochure is also used as a basis in other European countries.

A gap analysis conducted by an external company in the TOM TAILOR Group's German companies during the year under review highlighted the data protection issues that still require improvement. Individual departments dealt with several of these points in 2018. The Group will continue to address any outstanding issues in 2019.

A separate team that all employees can contact via a central email address was set up to process data protection issues and data breaches. Another team was also established to process inquiries from affected parties.

In addition, central Group-wide policy management was introduced in 2018.

As data protection was given top priority in 2018, the completion of general compliance training and the introduction of the Code of Conduct were postponed.

As far as the TOM TAILOR Group is concerned, each employee is responsible for ensuring that legal and internal Company requirements are followed and ethical standards are maintained within their area of work.

The Compliance department is also using communication initiatives and other measures to raise awareness among employees. For example, guidelines and contributions to compliance-related issues are being published on the intranet and sent to staff by email. These emails are often sent by the CFO or another member of the Management Board to undercore the importance of these issues. As part of the Welcome Days held for new employees at the Company's head office in Hamburg, the Compliance Officer introduces himself, explains the importance of compliance for each individual employee and hands out information sheets listing key contacts (Compliance Officer, Ombudsman and Data Protection Officer). The Group is planning to continue and further extend these communication initiatives. Supervisors also make employees aware of compliance-related issues as part of their day-to-day activities.

Staff can contact the Compliance department if they have any questions concerning the legal and internal Company requirements or expected ethical behaviour. The Group has dedicated email addresses for this purpose.

Checks are carried out to determine whether employees are following legal and internal Company requirements. These checks are primarily conducted by each relevant supervisor. The Compliance and Internal Audit departments also have the option to generally review specific procedures and processes. These reviews can, but do not have to, be conducted as and when appropriate.

Employees and external staff have the option to use the whistleblower system established in 2018, which provides both internal and external contacts for reporting (suspected) compliance violations. These violations can be internally reported to supervisors as well as to the Compliance department. An independent lawyer acts as an ombudsman and external point of contact. Employees do not need to worry about sanctions on the part of the Company if they provide tip-offs in good faith.

The whistleblower system involves defined processes that help to protect the whistleblower and the (alleged) offender and preserve the confidentiality of the reports. A Group-wide directive governs the responsibilities and specific procedure for processing a report.

Even a functioning compliance management system does not rule out the possibility that isolated compliance violations will occur.

If such misconduct is identified or reported, the situation is investigated fairly and transparently.

If this investigation suggests that a compliance violation has been committed, the misconduct is penalised based on the zero tolerance principle applied within the Company. In the TOM TAILOR Group, the term "zero tolerance" means consistently following up on and appropriately penalising every violation of legal or internal Company requirements. The circumstances surrounding each individual case must be taken into account when determining an appropriate penalty, with the severity of the violation and the local legal situation used as the most important indicators. Specifically, the catalogue of measures available for penalising violations ranges from a warning to termination without notice and the filing of criminal charges. Claims for damages may also be asserted.

If possible, the Group carries out a review either during or after the investigation to see what action can be taken to prevent such a violation in future and thus improve the compliance management system.

At the time this report was prepared, neither the Compliance Officer nor the Internal Audit department were aware of any incidents of corruption or bribery involving TOM TAILOR Group employees in 2018.

## RESPONSIBILITY TO EMPLOYEES

### *Human Resources Strategy and Organisation*

A total of 6,158 employees provide daily support for the commercial success and ongoing development of the TOM TAILOR Group. 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.

In organisational terms, the personnel department manages and supervises the Group's human resources activities. Personnel management in operations in the business units and departments is the responsibility of each supervisor.

The HR department consists of four specialised teams who take care of talent acquisition, HR development, management advice and payroll and administration in Germany. This ensures that all aspects of modern HR are covered internally.

Strategically, the Company's HR work in 2018 focused on developing a leadership culture, modernising its talent acquisition efforts and integrating foreign subsidiaries into Group processes. The HR department also focused on training and continuing education to address the shortage of skilled labour.

### *Strategic HR issues*

#### *Leadership culture*

A leadership culture and the processes associated with this are very important tools in enabling innovative companies such as the TOM TAILOR Group to attract, promote and retain talent. In 2018, leadership was identified as a key strategic topic for the next three years. In several workshops, a concise 'leadership promise' was developed with 107 managers and employees across the Group to unify its cooperation requirements. Since 2018, it has been possible to measure managers against this leadership promise. Every new manager in the TOM TAILOR Group undertakes an executive development programme consisting of several different modules. The Company also offers managers additional training sessions to complement the development programme.

For many years, regular annual and performance reviews have been an important leadership tool for the TOM TAILOR Group. The TOM TAILOR Group aims to conduct a review with each employee to a uniform standard once a year. Employees and managers exchange feedback in these reviews and discuss other ways to improve their collaboration and promote the employee's strengths.

Managers were also offered communication skills training in 2018 to help reinforce this feedback culture, while the collegial advice method was established for all managers. Management staff can use this method to discuss everyday leadership challenges with other managers and obtain feedback.

#### *Talent acquisition*

During the 2018 reporting period, the TOM TAILOR Group adjusted its recruitment process to reflect changing conditions in the employment market. In an age of increasing digitalisation, it is vital to pursue innovative paths in order to attract the best talent and reinforce the TOM TAILOR employer brand. As a result, the TOM TAILOR Group is currently working on switching from the previous model of external recruitment to recruiting potential new employees internally. The aim here is to make direct contact with the best candidates, react more quickly to requirements, get a better overview of the market and lower external recruitment costs in the long term.

Generation Y – people born between the early 1980s and the late 1990s – place different demands on employers than older generations when it comes to the application process. Transparency, short application periods, steady and structured communications and quick feedback are particularly important to these potential employees. As a result, the TOM TAILOR Group has adapted its application process (candidate lifecycle) to meet these requirements. The process has been optimised to enabled faster and more direct communication with applicants.

*Integration of foreign subsidiaries*

During the year under review, steps were taken to integrate foreign subsidiaries more closely into the German head office's standard HR processes. This means that the countries are gradually integrated into the human resources strategy coordinated with the Management Board, reinforcing the idea of an international Group and ensuring that employees outside Germany benefit from the same quality of HR work. At the start of the reporting year, a gap analysis was conducted with the aim of demonstrating the different levels of development between the head office in Hamburg and the national companies with regard to core HR processes such as annual reviews and skills, job title structures, remuneration, target setting and onboarding. The annual reviews, target setting and onboarding processes were then implemented or adjusted while taking account of local market conditions. The international harmonisation of HR processes is an ongoing process that will continue in 2019.

## OTHER HR ISSUES

*Training and Continuing Education*

The TOM TAILOR Group strongly emphasises focused training and promotion of emerging talent in order to proactively address the shortage of skilled professionals. In conjunction with the Management Board, the training requirement for emerging talent is determined based on specified criteria one year before vocational training begins. 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 and employees who finished their vocational training. These programmes are continually updated. When applying for a vocational training spot, potential new trainees must participate in an assessment centre, trainees must take part in an interview and solve a technical task, and interns must take part in an interview. During training, all vocational trainees work in various areas of the relevant business in accordance with a schedule set up by the HR department along with executives.

Trainee programmes are offered in fashion design, sales, planning & allocation, graphic design and in products, while internships and working student positions are available in almost all company departments.

In the 2018 reporting period, 63 young talents (vocational trainees, other trainees, working students, interns) were employed at the TOM TAILOR Group. Out of the vocational trainees who finished their training in 2018, 100% were hired on permanently. A total of 17 interns were able to gain extensive experience in various departments throughout the Company. In addition, 20 working students and interns were able to gain their first practical experience in the Company.

*Key figures and codetermination*

The workforce was distributed as follows as at 31 December 2018:

### Employees

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Number of employees on 31 December** | **Retail** | **Wholesale** | **Total** | **Retail** | **Wholesale** | **Total** |
| Germany | 2,955 | 515 | **3,470** | 3,004 | 465 | **3,469** |
| Core markets outside Germany | 1,225 | 91 | **1,316** | 1,292 | 91 | **1,383** |
| Other countries | 1,210 | 162 | **1,372** | 1,067 | 152 | **1,219** |
| **Total** | **5,390** | **768** | **6,158** | **5,363** | **708** | **6,071** |

Of the total of 6,158 employees, 3,198 worked at TOM TAILOR and 2,960 at BONITA. TOM TAILOR Holding SE also had three Management Board members at the end of 2018 (2017: three Management Board members).

### *Codetermination*

The TOM TAILOR Group considers it very important to substantively include all employees in the decision-making process at the Company and to ensure active representation of their interests. TOM TAILOR and BONITA each have their own works councils. TOM TAILOR's Works Council consists of 11 members, seven of whom are women. BONITA's Works Council has nine members, of whom four are women. Another Works Council at BONITA Retail, which is made up exclusively of women, has 11 members. In addition TOM TAILOR Holding SE also has a works council with a total of 16 members from nine different countries. That committee has nine women.

## RESPONSIBLE ACTION IN THE SUPPLY CHAIN

### *Organisation and Concept*

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 Group's Procurement unit is responsible for implementing this concept and controlling its implementation.

The Company has maintained purchasing offices in Asia's most important procurement markets and in Turkey since 2011 via the Joint venture TOM TAILOR Sourcing Ltd. to ensure direct contact with its suppliers, regularly monitor these itself based on internally defined schedules and assist them. Bangladesh and Turkey are important procurement markets for the TOM TAILOR Group. In 2014, the TOM TAILOR Group opened its own purchasing office in Bangladesh to better control and safeguard local standards. 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. In 2018, the TOM TAILOR Group opened its own purchasing office in Turkey to better control local standards. The staff employed there are in close contact with the suppliers and are at factories mostly on a daily basis.

In terms of supply chain and suppliers, the TOM TAILOR Group's high external and internal standards, such as amfori BSCI, REACH and mandatory requirements for business partners as well as the strict controls applied ensure that risks are minimised locally. The Company's orders support capacity utilisation at suppliers and create jobs. As a result, the local community receives taxes and contributions.

### *Principles, Standards and Control*

With regard to its production process, the TOM TAILOR Group voluntarily adheres to the principles of the amfori BSCI, which includes all key standards of the International Labour Organisation (ILO) for the protection of employee rights, 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 starts working 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 amfori BSCI standards and standards defined by the Company. In 2018, the TOM TAILOR Group revised the Initial Factory Assessment and introduced IFA 2.0 throughout its sourcing markets after successful tests had been conducted. 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 the application of sandblasting in the production process.

Depending on the result of the amfori BSCI audit, employees from the TOM TAILOR purchasing offices and agencies accredited by the amfori BSCI will perform regular announced and unannounced supplier audits and checks over the course of the cooperation. 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 remediation plans with the supplier so that the standards are continually improved and complied with again. In the 2018 financial year, there were 46 amfori BSCI full audits (2017: 91) and 20 amfori BSCI follow-up audits (2017: 73). In the production markets, 106 regular audits (2017:88) and 40 unannounced audits (2017: 65) were carried out. All suppliers essentially met the requirements of the TOM TAILOR Group.

In 2018, 24% of the suppliers who work for the TOM TAILOR Group succeeded in improving their audit results. The target of 20% set for 2018 was therefore exceeded. Further improvements to the audit results for suppliers of the TOM TAILOR Group are planned for 2019. The final percentage and scope had not yet been determined at the time of preparing the report.

As CSR is of crucial importance to the TOM TAILOR Group, it has been included as a key factor in the Supplier Scorecard developed in 2018. The results of IFA CSR 2.0 and the BSCI audit also make up a fixed percentage of the suppliers' overall score. After the introduction of the Supplier Scorecard, it became clear that additional factors are required to assess a supplier's performance with regard to CSR. The Supplier Scorecard is currently being revised and will be implemented in 2019.

### *Animal Welfare*

In an environment where veganism plays an increasingly significant role, more animal-friendly products and those that do not contain any animal products are also becoming ever more important. The TOM TAILOR Group has refrained from using real fur since 2015 and has been a member of the Fur Free Retailer Programme since 1 December 2015. Use of the following materials is also forbidden: Down obtained from live plucking or moult harvesting, exotic or threatened species, wool from mulesing, angora and leather from Indian cows.

From 2019, the TOM TAILOR Group will refrain from using mohair after reports from animal welfare organisation PETA highlighted the appalling shearing conditions suffered by mohair sheep. As vegan materials are a key issue across the entire fashion industry, the TOM TAILOR Group took part in a roundtable discussion hosted by PETA in 2018 where vegan materials were presented. Participants concluded that vegan alternatives must meet the requirements of all stakeholders and that these alternatives must also be scalable. In order to continue promoting the use of animal-friendly or vegan alternatives, the TOM TAILOR Group is exploring possibilities for collaborating with other companies in the fashion industry on this issue.

### *Environmental Issues in the Supply Chain*

Environmental protection and good stewardship of resources are important issues for the TOM TAILOR Group. As a textile and apparel company, the Company focuses its environmental activities on its products and the supply chain, because this is where significant risks arise. At the same time, the TOM TAILOR Group can exert a positive influence. Key factors here are the use of chemicals by our suppliers in providing services and manufacturing products, the use of sustainable materials, the durability of our products and compliance with local laws.

As the vast majority of the TOM TAILOR Group's products are produced in Asia and Turkey, transport from these procurement countries to each distribution centre is a key factor in polluting the environment with $CO_2$ emissions. To reduce the $CO_2$ emissions of these shipments in the long term, the processes were optimised in 2018. Moving our shipments to another service provider has enabled us to improve container utilisation and thus reduce $CO_2$ emissions.

In 2018, shipments from the procurement countries made by our new service providers produced 12,437 tonnes of $CO_2$ emissions.

Further emission reductions are to be achieved in 2019 by switching shipments to other modes of transport. In addition, the Group plans to analyse the energy and $CO_2$ emissions used in the production process in 2019 to identify any potential next steps and develop all necessary processes and measures.

### *Strict Thresholds for the Use of Chemicals*

As early as 2015, the TOM TAILOR Group launched its own DETOX initiative to eliminate chemicals that are harmful to the environment from production and gradually replace them with more ecologically sustainable alternatives. This is an issue that is relevant to the entire textile industry. Over the years, the TOM TAILOR Group has developed and introduced various guidelines of its own for the use of chemicals by suppliers. The rules for the use for certain substances in end products were tightened by the TOM TAILOR Group. In some cases, the permitted thresholds are even lower than those defined by 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. In 2018, 9.7% of orders were spot checked for compliance across all supplier companies based on extended audit requirements. In addition, suppliers are prohibited from using PFCs (perfluorinated compounds) and APEOs (alkylphenol ethoxylates)/NPEOs (nonylphenol ethoxylates). Compliance is ensured by spot checking.

In the interest of refining chemicals management, the TOM TAILOR Group introduced additional measures in 2018. Teams were established in each of the TOM TAILOR Group's sourcing offices and taught by an internationally recognised laboratory about how to introduce chemicals management to the Group's suppliers. A Chemical Handbook has been developed and introduced, and 100% of the Group's suppliers have signed the handbook and accompanying chemical compliance letter. Sixty-nine percent of Tier[1] suppliers have carried out and completed a self-assessment. Fifty-eight percent of suppliers had their results verified in a cross-examination carried out by TTS Chemical Compliance staff, and action plans and improvement measures were set out. In 2019, the TOM TAILOR Group plans to complete the self-assessment and cross-examination process for all Tier[1] suppliers and conduct a self-assessment for all Tier[2] wet process suppliers. Training sessions are planned for selected suppliers as part of continuing efforts to develop chemicals management within the Group.

### *Increasing the Use of Organic Cotton*

Since August 2016, the TOM TAILOR Group 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. The initiative aims to not only reduce pesticide use, but also to ensure the efficient use of water and soil resources and fair working conditions. In financial year 2018, the TOM TAILOR Group increased the share of its own BCI cotton products to 46%, thus effectively more than doubling it compared with 2017. The 2018 target of a 25% increase was therefore met in full. This positive result was achieved by the TOM TAILOR Group through close partnerships with the sourcing offices and suppliers as well as by systematically following up on defined targets and measures. The goal is to further increase this share to around 50% in 2019 inter alia by involving the Group's licensing partner in this process.

### *Product Durability*

Product quality is key to the Company's business success. 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, which depending on product quality may occur sooner or later – this makes a key contribution to protecting the environment. The TOM TAILOR Group offers consumers fashionable apparel with an attractive value proposition that also combines sustainability with what the TOM TAILOR Group considers to be good product quality. In order to meet this goal, the Company monitors the 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. Quality is always controlled by the local sourcing offices. The TOM TAILOR Group's products must meet an AQL of 1.5 with regard to workmanship and an AQL of 2.5 in terms of sizing. Goods are not shipped unless they satisfy the specified AQL standard.

These checks verify that our products are of sufficiently good quality, consumers can use our products for a long time and the TOM TAILOR Group can therefore do its part to conserve resources. Around 20% of all items were spot checked for quality at Company headquarters in Hamburg in 2018. If defective products are discovered, the problem is rectified on site by the supplier or, if the goods have already been delivered to the warehouse, by a third-party service provider. In both cases, the costs that arose were borne by the suppliers.

# COMBINED MANAGEMENT REPORT

## FOR THE TOM TAILOR GROUP AND TOM TAILOR HOLDING SE

# FUNDAMENTAL INFORMATION ABOUT THE GROUP

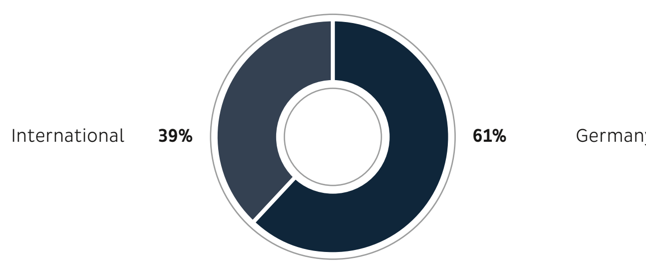
## *ORGANISATIONAL STRUCTURE AND BUSINESS OPERATIONS*

### CLEAR BRAND POSITIONING AND FOCUS ON CORE BUSINESS

As an international, vertically integrated fashion and lifestyle company, the TOM TAILOR Group focuses on offering fashionable clothing in the mid-range price segment. Its product portfolio is complemented by a diverse range of accessories and home textiles. The Company's two brands – TOM TAILOR and BONITA – cover all age groups from babies to best agers.

The fashion group was established in Hamburg in 1962; its regional core market traditionally has been Germany. As a company with international operations, the TOM TAILOR Group consistently pursues a sustainable and profitable growth course by concentrating on its core sales markets, which include Austria, Switzerland, South-Eastern Europe and Russia in addition to Germany. The Company today generates around 40% of consolidated revenue abroad. Altogether, the TOM TAILOR Group is represented internationally in over 35 countries.

**International presence of the TOM TAILOR Group by revenue (2018)**




**1,398 retail and franchise stores (31 / 12 / 2018)**

| Country | TOM TAILOR | BONITA |
|---|---|---|
| Germany | 198 | 543 |
| Austria | 97 | 90 |
| Switzerland | 24 | 31 |
| France | 2 | 0 |
| Benelux[1] | 11 | 88 |
| Poland | 7 | 0 |
| Russia | 117 | 0 |
| South-Eastern Europe[2] | 119 | 2 |
| Other | 69 | 0 |
| **Total** | **644** | **754** |

[1] Benelux comprises Belgium and the Netherlands only.

[2] South-Eastern Europe comprises Bulgaria, Croatia, Serbia, Slovenia, Kosovo, Romania, Bosnia-Herzegovina, Macedonia

## THE TOM TAILOR GROUP'S ORGANISATIONAL STRUCTURE

The TOM TAILOR Group is managed by TOM TAILOR Holding SE, 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 Holding SE is mainly responsible for the Group's strategic focus and development, corporate financing, risk management and the fundamental decisions relating to brand development. Other key tasks of TOM TAILOR Holding SE include internal and external communication as well as liaising with the capital market and with shareholders.

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 SE is the Chinese investment group Fosun, which held a 28.89% stake as at 31 December 2018. After completion of the voluntary public takeover offer on 12 July 2019, the Fosun Group holds 76.75% of the shares and is therefore the majority shareholder of TOM TAILOR Holding SE. All other shares are in free float (for more information, please see the section entitled "TOM TAILOR on the Capital Market" in the Annual Report and the report on post-balance sheet date events in the notes to the consolidated financial statements of the TOM TAILOR Group).

In the 2018 financial year, the TOM TAILOR Group was 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" in the Annual Report of the TOM TAILOR Group). The respective Group 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 SE, the Group comprises a total of 43 (2017: 44) direct and indirect subsidiaries, of which 40 were included in consolidation as at 31 December 2018. Most subsidiaries in Germany and abroad are held via TOM TAILOR GmbH, Hamburg, whose sole shareholder is TOM TAILOR Holding SE (a list of shareholdings can be found in the notes to the consolidated financial statements).

## 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 early on.

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 its 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 rapidly 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.

## WELL-POSITIONED BRANDS IN COMPLEMENTARY SEGMENTS

The TOM TAILOR brand is targeted at men and women aged 25 to 45. Its market presence is determined by the collections designed individually for each of the product lines. Up to 14 collections are released each year with a focus on ensuring high-quality production. The collections are sold retail through Company-owned brick-and-mortar stores and e-commerce, and wholesale primarily through shop-in-shops at major customers and franchise stores. The offer is complemented with a range of licensed products such as children's fashion, home textiles and accessories.

The BONITA brand has its own separate brand profile and caters to women over 50, thus complementing the range of TOM TAILOR 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.

### *TOM TAILOR*

The TOM TAILOR brand is firmly established in the fashion industry and enjoys a high degree of visibility in the mid-range price segment as well as strong brand awareness among customers. The established product portfolio has since been expanded to include two further lines focusing on women. The TOM TAILOR brand includes the following lines:

- *TOM TAILOR Men and TOM TAILOR Women*
  The collections are aimed at modern men and women aged 35 to 45 with a high affinity for lifestyle and fashion. The TOM TAILOR Men and Women lines embody a positive attitude to life. The product strategy and brand design are based on an integrated collection concept and capture the international zeitgeist. Since 2019, TOM TAILOR Men has also been available in sizes 2XL to 5XL under the Plus name.

- *TOM TAILOR Denim Male and TOM TAILOR Denim Female*
  The Group's lifestyle line has had a strong foothold in the market since 2007 and is targeted at men and women aged 25 to 35. The essence of the brand combines unconventional, attention-grabbing and casual looks. The line sees itself as a companion to our customers on their journey through their younger years. In doing so, it supports its target group's attitude to life: to seek out new challenges and follow their own rules. The line showcases new trends with high quality and cool silhouettes on a monthly basis, focusing on denim in all its washes, fits and detailing

- *MY TRUE ME*
  The first capsule collections in this plus-size product line for women have been available in sizes 44 to 54 since August 2019. The collections are inspired not by sizing but by smart looks that women feel comfortable in. The cuts, patterns and detailing in these collections are deliberately designed to help women skilfully emphasis their favourite features. From 2020 onwards, MY TRUE ME will offer reliable space management with eight collections a year and a NOS concept with a permanent additional delivery capability.

- *mine to five*
  With this line, TOM TAILOR strikes a resoundingly elegant balancing act between casual wear and business looks. The line enables self-sufficient professional women to look fashionable and confidently stylish in their office wear. Every style is the perfect companion to the day-to-day business of the modern woman – whether from 9 to 5 or from 5 to 9. With eight collections a year and a selection of permanently available products (NOS programme), the line covers a broad selection in the smart casual wear segment. The mine to five line will be on sale from February 2020.

### *TOM TAILOR ACCESSORIES / LICENSED PRODUCTS*

The TOM TAILOR world is complemented by a wide range of accessories and lifestyle products. With its TOM TAILOR Kids line, the Group expands its target groups to include babies and children up to the age of 14. The TOM TAILOR Polo Team license combines traditional polo style with modern influences. Functionality and comfort are the typical characteristics required to lead an active life through activities such as golf and tennis.

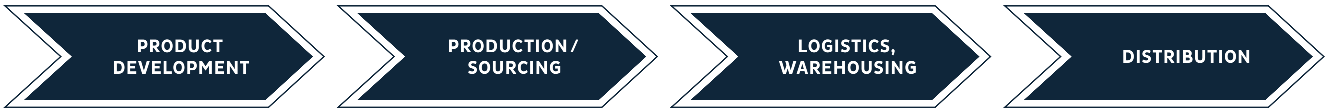
Accessories including shoes, bags, belts, socks, underwear, sleepwear and beachwear compliment the range and complete the brand portfolio. The lifestyle idea of the TOM TAILOR lines is communicated via products such as perfume, sunglasses, prescription glasses, bedding, towels and umbrellas. One special feature of the TOM TAILOR brand is its own TOM TAILOR home segment with a product range encompassing everything from beds, sofas, chairs, tables, shelving, seating, cushions and rugs to bathroom products.

The TOM TAILOR Group works closely with its licensing partners on its accessories and lifestyle products from the development process right through to completion, thus ensuring that the TOM TAILOR brand image is part of every product. In doing so, the Company generates revenue from direct sales as well as from fees for granting licenses for the accessories and lifestyle products offered under the TOM TAILOR brand name.

### *BONITA*

BONITA is synonymous with stylish fashion that radiates modern femininity. With a focus on confident, sophisticated trends, BONITA sees itself as an inspiring, guiding partner for women who want to highlight their personal style. The looks are authentic, easy to combine and create an image of natural beauty. Colourful and stylish BONITA accessories complement the collections effectively. These include scarves, shawls, necklaces, belts, watches and bags.

### Value Chain of the TOM TAILOR Group




**Product Development**
- Trendspotting
- Design and product management

**Production / Sourcing**
- Sourcing mainly in Asia and Turkey
- Own purchasing organisation in Asia and own sourcing office in Turkey
- High sustainability standards

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

**Distribution**
- Retail
- Wholesale
- E-Commerce

## 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, e-commerce) 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.

### *Product Development*

With its own trend and brand scouts, the TOM TAILOR Group monitors fashion trends around the world and collects ideas for the new collections. The Company also attends national and international fashion shows in order to record trend developments. It then evaluates this data and works its findings into the design of the new collections to offer the latest fashion products to a broad group of buyers at a fair price. The TOM TAILOR Group generally gets its collections into stores within nine to ten months. So-called flash collections, which are produced on the European mainland, can be offered in shops within just six months.

### *Production and Procurement*

Most of the products sold by the TOM TAILOR Group are manufactured by suppliers in Asia. In TOM TAILOR Sourcing Ltd., Hong Kong/China, the Company has its own procurement organisation, with seven offices in Asia and around 250 employees, thus ensuring local production and procurement. The Company's seven largest procurement countries are Bangladesh, China, India, Indonesia, Turkey and Vietnam. The share of this production is approximately 92% for the TOM TAILOR brand and roughly 84% for the BONITA brand. To reduce our dependency on suppliers in these countries and ensure a broader international production base, the supplier network was expanded to include additional tariff-free nations such as Myanmar and Sri Lanka. Production partly began in these countries in 2018, with the remaining expansion planned for 2019. Asia thus plays an important role for the TOM TAILOR Group, enabling large quantities to be produced at high quality and fair prices. Turkey is also becoming increasingly significant for procurement in Europe, particularly when it comes to implementing our so-called "quick response" programmes. To strengthen its activities in this region, the Company opened its own purchasing office in Istanbul in 2018. Across the Group, more than 89% of the products sourced are purchased in US dollars. The separate non-financial report of the TOM TAILOR Group includes additional information on procurement.

### *Logistics and Warehousing*

Logistics activities have been organised in different ways for its two brands TOM TAILOR and BONITA.

The TOM TAILOR Group has been using a new modern, central logistics centre in Hamburg for its TOM TAILOR brand since summer 2015 that constitutes an important element of the Group's omnichannel strategy. The new logistics centre is owned and operated by an external service provider. 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.

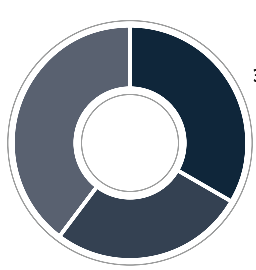
BONITA operates a self-managed, state-of-the-art, SAP-based, automated warehouse and logistics centre at the Hamminkeln site. All BONITA stores and concession spaces are supplied from there. Supply is based on an analytically integrated push-pull process, which in a first step delivers around 80% of 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 generates 60% of its revenue in the retail segment (2017: 62%) and around 40% in the wholesale business (2017: 38%), which remains important.

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 and BONITA brands 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.

# *STRATEGIC FOCUS*

## ACHIEVING SUSTAINABLY PROFITABLE GROWTH

2018 was a very challenging year for the entire fashion and consumer goods industry and was dominated by exceptionally difficult consumption trends and weather conditions. Despite this, the TOM TAILOR Group continued to outperform the German market (-2%) with its TOM TAILOR brand (+3.4%, excluding the effects of the decline in revenue caused by the RESET cost and process optimisation programme and including royalties which are shown under revenue for the first time) and completed important key projects such as the implementation of SAP. The Company also further refined its growth strategy for the coming years and defined the following key points:

- Expanding the digital infrastructure and data analytics capabilities (including continuing to develop the B2C and B2B online business and improving omnichannel capabilities)
- Strengthening brand attractiveness by emphasising the enhanced fashion profile in marketing and visual merchandising at the point of sale
- Enhancing 'customer lifetime value' with targeted, personalised CRM activities
- Achieving profitable growth in existing core markets by more broadly satisfying demand and offering a wider range of styles (including smart casual wear for modern businesswomen and plus-size collections for women, as well as internationalising and strengthening the TAILOR Denim Male and TOM TAILOR Denim Female brands in the youth fashion segment).
- Achieving profitable growth in new and existing growth markets by expanding PoS activities (e.g. in Eastern Europe, Russia or even Spain)

The TOM TAILOR Group primarily defines profitable growth 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”). More specifically, the Group will systematically press ahead in 2019 with the following strategic measures initiated in 2018 to enable it to achieve positive financial performance:

- Strengthening the brand profile through more targeted marketing as well as more fashionable collections
- Expanding the product range and improving market positioning in women’s fashion
- Enhancing selling space productivity in the Group’s own retail space with improved key performance indicators and point-of-sale placement of merchandise, pursuing a consistent omnichannel focus and optimising the appearance of stores
- Expanding the distribution network, especially for the TOM TAILOR Denim Male and TOM TAILOR Denim Female brands
- Expanding internationally in select locations outside of the core markets of Germany, Austria and Switzerland
- Improving efficiency in procurement and logistics processes
- Expanding digitalisation

## STRENGTHENING THE BRAND PROFILES

In addition to the individual collections, a differentiated brand profile and a high degree of brand attractiveness are the key to success in the fashion industry. The Group began its efforts to strengthen the brand profile of TOM TAILOR and TOM TAILOR Denim in 2017 and decisively continued them in the 2018 financial year. As part of this initiative, the “SAY YES” communication platform was launched for TOM TAILOR and TOM TAILOR Denim and communicated to the respective target groups across all relevant channels using comprehensive marketing and communication concepts. The Group’s own online platform and the expansion of digital marketing played a key role in these efforts. To complement these activities, the TOM TAILOR Group expanded its successful collaborations with well-known brand ambassadors or launched new ones (including Revolverheld, Toni Garrn, Nena and her daughter Larissa for TOM TAILOR and Franziska Knuppe for BONITA). The Group continues to focus on marketing in 2019 with the clear aim of further enhancing brand attractiveness and refining the individual brand profiles.

## EXPANDING COLLECTIONS IN WOMEN’S FASHION

The TOM TAILOR Group has purposefully made its collections more fashionable over the past financial year. One of its most important strategic priorities is to enhance its women’s fashion ranges. This area is being selectively expanded using the motto “Win Women” and to include new “wearing occasions” such as businesswear. The Company is also investing in the attractive plus-size growth segment. This segment represented 13% of the entire women’s apparel market in Germany in 2018 – and this figure is set to rise further. In light of this, TOM TAILOR launched its new MY TRUE ME product line in the plus-size segment in autumn 2019. The first capsule collections in sizes 44 to 54 have been available in stores since August 2019. TOM TAILOR will be offering eight MY TRUE ME collections per year from 2020 onwards.

## ENHANCING PRODUCTIVITY IN THE GROUP’S OWN RETAIL SPACE

Increasing digitalisation, growing customer demands and ongoing changes in bricks-and-mortar retail are prompting a fundamental rethink in the fashion industry. In 2018, the TOM TAILOR Group launched its “Get Ready for Retailization” initiative in the retail segment.

The initiative pursues three main objectives:

1. Carry out demand-driven product planning and point-of-sale placement
2. Integrate and expand CRM and omnichannel activities and optimise services in the Group’s own retail space
3. Differentiate and / or reduce discount promotions to sell off slow-moving items (merchandise with low rotation figures and thus low daily sales volumes).

The aim of these measures is to counteract the decline in footfall caused by the growing online business and enhance productivity by improving brand attractiveness, particularly in the Group’s own stores. To achieve this goal, product creation and procurement processes have been shortened (“quick response” track), brand and supply chain processes have been optimised and product displays in the Group’s own stores have been redesigned and adapted to suit customers’ needs. To support these objectives, the Group has redeveloped its POS marketing and optimised its store concept as well as offering more intensive training and continuing education to its store teams. At the same time, TOM TAILOR Group is continuing to optimise costs and close unprofitable stores.

## INTERNATIONALISING THE WHOLESALE SEGMENT

In 2019, the TOM TAILOR Group continued to pursue its growth trajectory to increase profitability and reduce risks. The regional focus is on targeted expansion of selling space in the Group's core markets (Germany, Austria and Switzerland) as well as new growth regions. The TOM TAILOR brand is demonstrating its penetration potential in both established and future growth markets, both in the Wholesale segment and in the Group's own retail stores. As part of these efforts, Eastern Europe and Spain have been identified as having the strongest growth potential. In the new growth market of Spain, the collaboration between local multi-brand provider El Corte Inglés and the TOM TAILOR brand was rolled out to more than 15 locations. High-growth product categories such as jackets and trousers were also intensively expanded for TOM TAILOR Women and TOM TAILOR Denim across all markets.

## IMPROVING EFFICIENCY IN PROCUREMENT AND LOGISTICS

Most of the products sold by the TOM TAILOR Group are produced by manufacturers in Asia and Europe. Efforts to consolidate the supplier portfolio launched in 2017 were completed at the end of 2018. The goal was to consolidate procurement at selected manufacturers and achieve higher volumes on better terms. As the composition of the supplier portfolio is particularly important, all suppliers were continuously monitored using internally defined KPIs and a comprehensive scoring model and replaced as required in 2019. As a result, procurement and the associated performance are being continually improved.

Within logistics, the Group also regularly reviews shipping rates and adjusts the efficiency of warehouse logistics processes. This is partly made possible by focusing sea and air freight on one logistics provider. Another efficiency feature is the improved subsequent delivery of items in the Group's own bricks-and-mortar retail and outlet stores. Instead of delivering the entire collection at the start of the season, the TOM TAILOR Group now supplies its stores with a steady stream of smaller, demand-based deliveries throughout the season.

## EXPANDING DIGITALISATION

E-commerce remains a key growth driver for retail, which means it is also strategically significant for the TOM TAILOR Group. In 2018, the Group took important steps to establish and expand core digital competencies across the business. Online wholesale, online marketplaces and B2C e-commerce, as well as B2C e-commerce and all product and technology development efforts were bundled under new management. Combining the online B2B and B2C offering enables the Group to monetise the scope of online platforms while at the same time establishing strategically important customer relationships in direct sales using the Group's own customer data. TOM TAILOR is continuing to invest in the establishment and expansion of its core digital expertise in 2019. This means that mobile devices with a share of more than 60% in B2C e-commerce have the same priority as investments in data infrastructure and customer relationship management (CRM). The aim is to sustainably improve customer satisfaction with more relevant, personalised experiences.

More powerful IT systems will also be needed to optimise internal processes; TOM TAILOR will continue to invest in these. The introduction of SAP was completed in 2018.

## STABILISING THE BONITA SEGMENT

After discontinuing its efforts to sell BONITA in May 2019, the Management Board of TOM TAILOR Group once again stepped up the restructuring of BONITA it began in the fourth quarter of 2018 and will continue to consistently push ahead with it. At the same time, all value-creating options are being considered, including the sale of BONITA. However, due to significant losses in the 2018 financial year and the resulting fundamental reassessment of expected future profitability, the Management Board does not currently foresee a short-term solution for BONITA. As a result, the Group is initially focusing on stabilising the existing business.

## STRENGTHENING THE GROUP'S FINANCIAL POSITION AND REDUCING DEBT

Permanently reducing the Company's debt and further boosting equity are the core elements of the TOM TAILOR Group's strategy, particularly in light of the high net loss recorded in the past financial year. In order to accomplish these goals, the TOM TAILOR Group intends to increase cash flows from operating activities to enable repayment of short- and long-term lines of credit. The Group expects to achieve this by making scheduled and special repayments of the long-term loan running until [September 2022]. Its aim is to drop the ratio of net debt to reported EBITDA back below 2.0 in the medium term.

# *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, such as pre-order volumes or expected economic growth in key markets, are monitored and evaluated. There is no separate management system applicable to TOM TAILOR Holding SE alone.

## 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 2018 were revenue, gross margin, EBITDA, the EBITDA margin, EBIT and the EBIT margin.

The Company defines the gross profit margin as the gross profit (revenue less cost of materials) for this period expressed as a percentage of revenue for the same period. EBITDA is defined as earnings before income taxes, interest and similar expenses, other financial income / expense (net), interest and similar income and income from associates, depreciation, amortisation and impairment. The Company defines the EBITDA margin as EBITDA for this period expressed as a percentage of revenue for the same period. EBIT is defined as earnings before income taxes, interest and similar expenses, other financial income / expense (net), interest and similar income and income from associates. The Company defines the EBIT margin as EBIT for this period expressed as a percentage of revenue for the same period.

Starting with the 2017 financial year onwards, both recurring EBITDA and the recurring EBITDA margin are no longer used as financial key performance indicators. For the 2019 financial year, the Management Board of TOM TAILOR Holding SE anticipates significant one-off expenses which may arise in connection with the renegotiation of the syndicated loan agreement and the implementation of restructuring measures. Having said this, it cannot be ruled out at present that adjusted EBITDA and the adjusted EBITDA margin will again be used as key financial performance indicators in the future.

Additional 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.

The financial key performance indicators from the perspective of the single-entity financial statements of TOM TAILOR Holding SE are equity ratio, net income / loss for the year and the level of bank liabilities shown in the balance sheet.

## 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 studies (retailer surveys) and internal studies (for example, customer surveys in the Wholesale segment, or trends in social media such as Facebook) are used in this context.

## 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, expected economic growth in key markets, 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 UPTURN IN EURO ZONE IN 2018 – BUT CYCLE HAS PASSED ITS PEAK

While the euro zone economy's robust growth continued in 2018, it lost momentum in the wake of the global economic slowdown. Increasing political uncertainty placed a strain on the real economy, resulting in a rapid and noticeable economic cooldown in late summer. Gross domestic product (GDP) rose by 1.9% in 2018 as a whole (2017: 2.4%). The labour market continued its positive trajectory in 2018, with the unemployment rate dropping from 8.6% to 7.9% in the euro zone and from 7.2% to 6.6% in the EU (December figures). Regional differences continued to be very pronounced, as unemployment in countries such as Spain, Italy and Greece remained high. Meanwhile, consumer prices rose by just over 2%, primarily as a result of higher energy and food prices. In December 2018, the inflation rate in the euro zone was 1.5% (2017: 1.4%).

### 2018: SOLID CONSUMER SENTIMENT IN TOM TAILOR'S REGIONAL CORE MARKETS

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

According to Deutsche Bundesbank, the German economy continued to experience a boom in 2018, with robust domestic demand and high utilisation of production capacity. However, the upturn stalled noticeably as a result of slow export growth. GDP only rose by 1.4% in real terms in 2018 after recording very strong growth in the previous two years. At just 1.0% in real terms, the increase in private consumer spending was much more moderate than in the previous two years. Consumer spending was boosted by low interest rates and higher wages and salaries.

While consumer sentiment in Germany remained positive in 2018, it deteriorated considerably from an extremely high level over the course of the year. In February, the GfK consumer confidence index reached an annual high of 11.0 points. In December, the index stood at 10.4 points (December 2017: 10.7 points), suggesting that consumers had significant doubts about the continuing economic trend. Although consumers' income expectations and propensity to buy remained positive, they were lower than a year earlier.

The main international markets for the TOM TAILOR Group are Switzerland, Austria, South-Eastern European EU countries and Russia. Economic growth and spending by private households developed as follows in these countries in 2018:

The Swiss economy picked up speed in 2018 and grew by 2.6% despite a surprising dip in the summer. Investments and exports provided an important stimulus for growth. Inflation remained low at a rate of 0.9%. While private consumption continues to drive the economy, a weak summer meant that consumption stalled due to factors such as the extremely hot weather and grew by a moderate 1.1%, just as in the previous year (+1.1%).

Austria entered the late stage of a strong upturn in 2018, posting vigorous growth of 2.7% as in the previous year. This expansion had a broad basis with strong domestic demand and solid export activity. Despite higher consumer prices (+2.1%), real disposable household income rose significantly by 2.4%. Consumer spending increased by 1.6% in 2018, thus continuing to provide important support to the economy.

South-Eastern EU countries continued their very strong economic upturn. According to the EU Commission, growth rates in euro zone country Slovenia (+4.5%) as well as Croatia (+2.6%), Bulgaria (+3.1%) and Romania (+4.1%) exceeded the EU and euro zone averages, driven by vigorous consumer spending. Russia's moderate recovery continued with 1.7% growth in 2018 despite persistent sanctions (IMF).

### NO BENEFIT FOR FASHION BUSINESS FROM POSITIVE CONSUMER SENTIMENT IN 2018

Retail sales in the euro zone grew by an average of 1.4% year-on-year in real terms in 2018. Destatis calculates that retail sales in Germany rose by 1.2% in real terms in 2018. This means that the German retail trade has grown for the ninth consecutive year.

Total German retail sales of textiles, clothing, shoes and leather goods (in brick-and-mortar stores and online) contracted by 2.1% in nominal terms in 2018 (-2.6% in real terms), As in the previous two years, trade journal TextilWirtschaft estimates a 2% decline in sales generated by bricks-and-mortar German fashion retail in 2018 based on the analysed test market. This data shows that the textile and fashion business experienced significant headwinds for the third successive year in 2018 despite generally positive consumer sentiment. It was another highly challenging year for the sector, with more well-known companies reporting economic difficulties.

The increase in online and mail order sales of all types of retail goods was disproportionately high (+5.5% in real terms, +5.9% in nominal terms). The online business gained further ground in the retail sector. This trend affected the textile and fashion industry in particular, which is accelerating expansion of its omnichannel offerings as a result.

## *SIGNIFICANT EVENTS IN THE REPORTING PERIOD*

### STRENGTHENING THE RETAIL AND E-COMMERCE BUSINESS

In February, the reorganisation of the retail and e-commerce business was placed under unified management, while further efforts were also made to enhance growth in the e-commerce and omni-channel business. Among the steps taken to achieve this was the appointment of two new and experienced managers.

### EARLY REFINANCING SUCCESSFULLY COMPLETED

At the end of March, the TOM TAILOR Group was able to conclude the early refinancing of the syndicated loan agreement at significantly better terms and thus lower financing costs for the future. The new loan agreement had a term of five years and a total volume of EUR 400 million.

### BORROWER'S NOTE LOAN REPAID AS PLANNED

In late May 2018, the TOM TAILOR Group repaid the remainder of the borrower's note loan issued in 2013 as planned, further simplifying its financing structure. The loan was repaid from operating cash flow. This has significantly reduced the complexity of the Group's financing and lowered annual interest expenses.

### CONSOLIDATING RETAIL BUSINESS IN EASTERN GERMANY

In August 2018, the Group acquired all of the shares in TT Textiles GmbH, Bischofswerda, in which it previously had held a minority interest. Together with the 17 previous stores in Germany's newer federal states, the combined TT Textiles distribution network has now comprises a total of 23 TOM TAILOR stores. While the company remains under the management of the TOM TAILOR Group, its operations are managed by the former joint venture partner.

### ACCELERATING GROWTH IN THE WHOLESALE BUSINESS

After successfully reorganising the wholesale business in 2017, the Group continues to manage the segment centrally. In August, management also decided to focus on growing the business internationally in future. There are promising business opportunities in brick-and-mortar retail in Spain as well as in the online segment in the Middle East. Western Central Europe and Scandinavia also offer growth potential.

### REORGANISING OPERATIONS AT BONITA

BONITA completed its new management team in September. After the RESET measures taken in 2017, a new store concept was also to be implemented to manage sales more efficiently. In addition, CRM activities at BONITA were intensified. However, after the revenue generated at the stores equipped based on the new store concept fell far short of expectations, the further roll-out in the other countries was stopped.

### FORECAST REVISED DUE TO PACKAGE OF MEASURES AND IMPAIRMENT

In December, the Management Board reaffirmed its medium-term growth targets but at the same time decided upon a new package of measures for the further development of the Group. The primary focus is to continue the successful growth strategy for the core TOM TAILOR brand. BONITA will also continue to pursue its restructuring programme. Due to a reassessment regarding future profitability, carrying amounts in the balance sheet were corrected, including a write-down of the BONITA brand. As a result of the significant write-down in brand value, the Group breached its financial covenants as of 31 December 2018.

As part of the updated forecast, the Group affirmed its annual operating targets for the TOM TAILOR segment. However, BONITA negatively impacted consolidated EBITDA in 2018 due to the poorer-than-expected operating performance.

## DEVELOPMENTS IN 2019

In the current year 2019, the TOM TAILOR Group was exposed to numerous challenging developments that particularly affected the Group's financing situation and were restructured with the refinancing successfully carried out in October 2019. These negative developments were triggered by the poor business performance of the BONITA segment since the third quarter of 2018, the intensity of which came as a surprise.

As early as the end of 2017, the Management Board of the TOM TAILOR Group introduced various initiatives to realign the BONITA segment in light of an apparent negative trend in the 'best ager' market segment. Not only did the anticipated positive revenue and earnings effects fail to materialise, but the decline in revenue accelerated and an unexpectedly sharp drop in earnings occurred. This prompted the Management Board to fundamentally reassess the future direction of BONITA and with it the multi-year profit and cash flow planning for the BONITA segment. The independent business review conducted by an external expert as part of the refinancing in 2019 confirmed this assessment. In light of this, the Management Board now anticipates sustained future losses in the BONITA segment.

As a result, significant impairment losses were recognised in the BONITA segment in the 2018 consolidated financial statements that related to the BONITA brand in particular at EUR 184.5 million. These impairment losses, together with the additional provisions for onerous contracts recognised for loss-making stores, resulted in a significantly negative EBIT of EUR 246.6 million in the BONITA segment.

In the single-entity financial statements of TOM TAILOR Holding SE, it was necessary to fully write down the carrying amount of the interest in BONITA amounting to EUR 239.9 million.

As of 31 December 2018, these developments caused the Group to breach the financial covenants set out in the syndicated loan agreement that had just been signed in April 2018. As a consequence, the financing banks would have been entitled to terminate the syndicated loan agreement for cause, which meant that all bank liabilities had to be recognised under current financial liabilities as of 31 December 2018 in accordance with international accounting rules.

In light of the negative business performance that began to emerge at the end of 2018, an agreement was reached with the financing banks to raise additional capital via a cash capital increase that disapplied the pre-emptive rights of shareholders. As a result of this capital increase, which was fully subscribed by Fosun in February 2019, Fosun exceeded the 30% threshold and was obliged to submit a takeover offer in accordance with relevant statutory requirements. Since the takeover offer was completed on 12 July 2019, the Fosun Group has held a 76.75% stake in TOM TAILOR Holding SE, making it the majority shareholder.

In parallel with the necessary financial negotiations, the Management Board undertook efforts to sell the BONITA subgroup in 2019. Although sales negotiations were held, they were not successful due to the lack of approval from the syndicate of financing banks.

As a result, a new financing agreement was reached with the syndicate of banks and Fosun based on the results of the independent business review at the end of October 2019 to secure the overall financing structure of the TOM TAILOR Group in the medium term. This agreement expires on 30 September 2022 and is designed to provide planning security. In addition to the provision of credit and surety lines by the syndicate of banks, the overall structure also includes the granting of a loan by majority shareholder Fosun that expires on 31 December 2022.

## COMPARISON OF ORIGINAL GROUP FORECAST AND ACTUAL 2018 FIGURES

In light of the weak business performance in autumn 2018 and, in particular, the slump in revenue and earnings in the BONITA segment, the Management Board of TOM TAILOR Holding SE was forced to revise its original Group forecast for the 2018 financial year downwards both in September and in December. Although the outcomes of the planning adjustments made as part of the independent business review from 2019 and the effects of these adjustments on the 2018 financial statements were not yet available for updating the forecasts, they significantly affected the results for the past financial year, particularly reported EBITDA and reported EBIT.

The Management Board originally anticipated a slight year-on-year decline in consolidated revenue. When the forecast was updated for the first and second times, the specific range set for consolidated revenue was significantly below the previous year's level. Although the consolidated revenue figure of EUR 843.8 million did not reach the original forecast, it did meet the adjusted forecast. The deviation from the original forecast is attributable in particular to the two segments BONITA and TOM TAILOR Retail. We refer to the corresponding comments on the net assets, financial position and results of operations.

Both the original and updated Group forecasts for gross margin consistently anticipated a moderate year-on-year increase. The actual gross margin of 58.1% was only slightly below the previous year's margin of 58.3%, falling just short of both the original and adjusted forecasts. In particular, this is due to high write-downs in the last quarter as well as inventory write-downs made in the annual financial statements.

The original forecast also assumed a moderate rise in reported EBITDA as well as a sharp increase in reported EBIT and the reported EBIT margin compared to the previous year. These key figures were no longer used when updating the forecasts in September and December. Without exception, the Group was unable to achieve the original forecasts for these key performance indicators. The actual results fell significantly short of the original expectations. In addition to weak operating performance in the fourth quarter of 2018, reported EBITDA was also adversely impacted by the recognition of provisions, the amount of which was only definitively determined when the independent business review was concluded. Reported EBIT and the reported EBIT margin were affected by impairment charges to a significant and unexpected extent.

The reported EBITDA margin was revised downwards twice compared to the original Group forecast when these forecasts were adjusted in September and December. While the original estimate still assumed a moderate increase to 10% compared to the previous year, this was amended to a range of 7.5%-8.5% in September and 6.0%-6.5% in December. The final reported EBITDA margin for the past financial year was 3.0%, well below all of the forecasted figures. The failure to achieve either the original or adjusted forecast was due to weak business performance in the BONITA segment, the need to recognise provisions based on revised forecasts after the completion of the independent business review, and the inventory write-downs carried out in the annual financial statements.

## TOM TAILOR Group: Key Data for the Company Forecast for 2018

| EUR million | 2017 | 2018 | Original forecast | Comment | Adjusted forecast September 2018 | Comment | Adjusted forecast December 2018 | Comment |
|---|---|---|---|---|---|---|---|---|
| Consolidated revenue | 921.8 | 843.8 | slight decrease year-on-year | not achieved | EUR 840-860 million | achieved | unchanged from previous forecast EUR 840-860 million | achieved |
| Gross margin (in %) | 58.3 | 58.1 | moderate increase year-on-year | not achieved | moderate increase year-on-year | not achieved | moderate increase year-on-year | not achieved |
| Reported EBITDA | 83.1 | 25.7 | moderate increase year-on-year | not achieved | | | | |
| Reported EBITDA margin (in %) | 9.0 | 3.0 | moderate increase year-on-year to 10% | not achieved | 7.5-8.5% | not achieved | 6.0-6.5% | not achieved |
| Reported EBIT | 43.9 | -216.2 | Strong increase year-on-year | not achieved | | | | |
| Reported EBIT margin (in %) | 4.8 | -25.6 | Strong increase year-on-year | not achieved | | | | |

Overall, the forecasts for the single-entity financial statements of TOM TAILOR Holding SE were not met. As a result of the impairment of the carrying amount for BONITA GmbH and the high level of loss compensation for BONITA GmbH, the net profit/loss of TOM TAILOR Holding SE was markedly negative at EUR -286.1 million and did not reach the positive single-digit million euro range as expected. The net loss for the year led to a considerable reduction in reported equity and the equity ratio, while the forecast expected the equity ratio to increase slightly. By contrast, long-term bank liabilities dropped significantly from EUR 102.5 million to EUR 70.0 million as anticipated due to scheduled repayments.

# RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

## TOM TAILOR GROUP'S RESULTS OF OPERATIONS

### *Impairment at BONITA Resulted in Significant Loss for the TOM TAILOR Group – The TOM TAILOR Brand Grew Excluding the Effects of Store Closures*

Business performance in the BONITA segment remained negative in the second half of 2018 and, in addition to causing a significant loss in the 2018 financial year, also led to a fundamental re-evaluation of expected future profitability in this segment. In light of the adjusted corporate and cash flow planning and in addition to the write-downs previously made, the Company was forced to make comprehensive valuation adjustments affecting property, plant and equipment in the BONITA segment and the recognised brand value of BONITA, which was written down in full by EUR 184.5 million. Overall, this resulted in a loss of EUR 175.9 million for the TOM TAILOR Group in the past financial year.

Consolidated revenue fell by 8.5% to EUR 843.8 million during the period under review (2017: EUR 921.8 million). In addition to market and footfall development in individual countries and sales channels, this decline was also due to store closings. Since the change in strategy as part of the RESET programme in the 2016 financial year, stores that generate sustained losses and for which termination options arise on the basis of store-specific lease terms have been closed. After adjusting for the effects of store closures, the TOM TAILOR Group's revenue (including royalties which for the first time are shown under revenue) fell by just 1.1% in the past financial year.

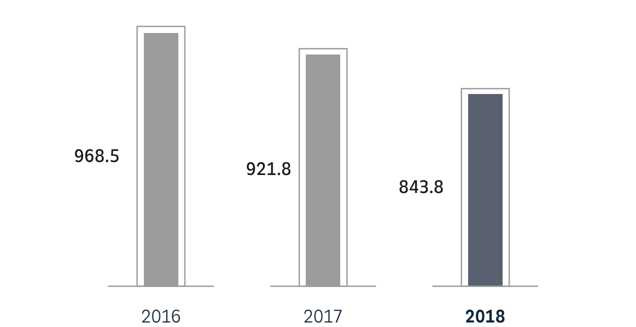
The drop in revenue in the TOM TAILOR Group is almost entirely due to developments in the BONITA segment. Revenue in this segment declined by 15.7% to EUR 225.7 million in the financial year ended (2017: EUR 267.7 million). Even when adjusted for the effects of store closures, revenue still fell by 11.5%. The TOM TAILOR brand generated revenue of EUR 618.1 million, down 5.5% on the previous year's figure (2017: EUR 654.2 million). After adjusting for the effects of store closures, however, revenue in the TOM TAILOR segments (including royalties which for the first time are shown under revenue) rose by 3.4% in the year under review.

In the fourth quarter of 2018, revenue in the TOM TAILOR Group decreased by 2.3% to EUR 230.3 million (prior-year quarter: EUR 235.6 million). In the fourth quarter of 2018, revenue of BONITA fell by 18.6% to EUR 53.6 million (prior-year quarter: EUR 65.8 million). In the same period, revenue in the TOM TAILOR segments was up 4.1% to EUR 176.7 million (prior-year quarter: EUR 169.8 million) as a result of the positive wholesale performance.

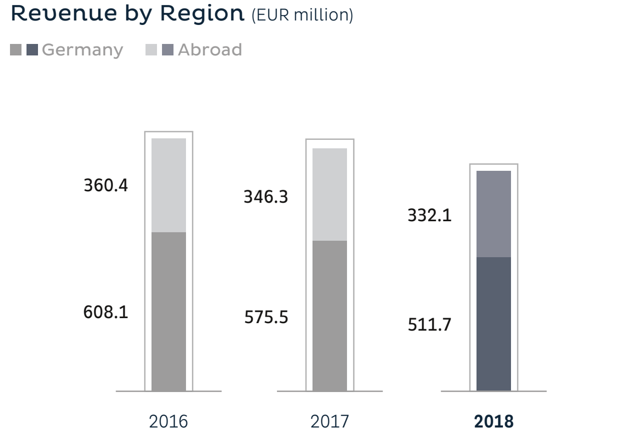
### *Revenue by Region*

In Germany, the TOM TAILOR Group posted revenue of EUR 511.7 million in 2018, which represents a year-on-year decrease of 11.1% (2017: EUR 575.5 million). The BONITA revenue in Germany decreased by 14.8% to EUR 164.6 million (2017: EUR 193.3 million). TOM TAILOR's two segments collectively generated combined revenue in Germany of EUR 347.1 million (2017: EUR 382.2 million) for year-on-year decline of 9.2%. Consolidated revenue also fell outside Germany. At EUR 332.1 million (2017: EUR 346.3 million), revenue generated by the TOM TAILOR Group outside of Germany fell by 4.1%.

**Development of Consolidated Revenue** (EUR million)




**Revenue by Region** (EUR million)



### *Segment reporting*

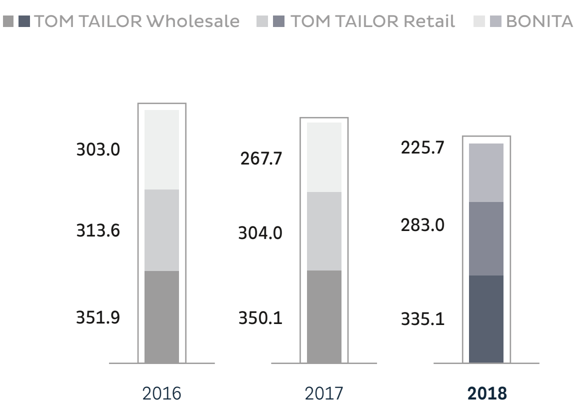
Segment reporting in the TOM TAILOR Group is basically divided into the Retail and Wholesale segments.

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 the Group's own e-shops and e-commerce partnerships with mail-order companies. In the Retail segment a distinction is made between the TOM TAILOR and BONITA brands.

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** (EUR million)




### *TOM TAILOR Retail Segment – Decline in Gross Profit and Provisions for Onerous Contracts Adversely Impacted EBIT*

**TOM TAILOR Retail Segment – Key Data**

| | 2018 | 2017 |
|---|---|---|
| Revenue (in EUR million) | 283.0 | 304.0 |
| Growth (in %) | -6.9 | -3.1 |
| Gross margin (in %) | 59.3 | 60.0 |
| Number of stores | 457 | 452 |
| Reported EBITDA (in EUR million) | 4.4 | 15.5 |
| Reported EBITDA margin (in %) | 1.6 | 5.1 |
| Reported EBIT (in EUR million) | -11.0 | 2.5 |
| Reported EBIT margin (in %) | -3.9 | 0.8 |

Revenue in the TOM TAILOR Retail segment fell by 6.9% to EUR 283.0 million (2017: EUR 304.0 million) during the past financial year, mainly as a result of reduced footfall caused by store closures, among others. The decline was not fully compensated for by the opening of new stores in 2018. The segment generated revenue of EUR 90.3 million in the fourth quarter of the year under review, on a par with the previous year (2017: EUR 90.4 million).

The number of retail stores has risen by five since 31 December 2017 to 457 stores. Store closures took place in Germany and France in particular. These were offset by new store openings, particularly in Russia. Of the 457 retail stores in the network at the end of 2018, 155 were in Germany and 302 in countries outside Germany. In international markets outside Russia, the number of stores fell by four. In contrast, the number of stores in Russia rose by 18 to 65 during the 2018 financial year. In the 2018 financial year, the e-commerce revenue of the TOM TAILOR brands dropped by 5.0% to EUR 46.3 million (2017: EUR 48.7 million), primarily as a result of problems encountered when introducing new software.

The segment's gross margin showed a slight year-on-year decline of 0.7 percentage points to 59.3% (2017: 60.0%) attributable mainly to higher discounts. Gross profit fell by EUR 14.0 million to EUR 167.7 million (2017: EUR 181.7 million) due to revenue and margin decreases. In the fourth quarter of the reporting period, the gross margin was 57.1%, well below the figure for the prior-year quarter (2017: 65.2%) due to high discounts.

Reported EBITDA for financial year 2018 likewise fell sharply, dropping by EUR 11.1 million to EUR 4.4 million (2017: EUR 15.5 million). The decline is the result of the lower gross profit, a sharp increase in provisions for provisions for onerous contracts of EUR 5.2 million for loss-making stores that will be closed as they are negative contributors to earnings, but where the existing leases cannot be terminated without incurring undue expense, and increased marketing expenses related to the e-commerce business in particular. Conversely, rents were EUR 5.1 million lower and personnel expenses EUR 2.3 million lower as a result of the store closures carried out.

Reported EBIT was down by EUR 13.6 million to EUR -11.0 million (2017: EUR 2.5 million) due to the decline in EBITDA and further impairment losses required to be recognised on the fixed assets of unprofitable stores.

### *BONITA Segment – Substantial Drop in Gross Profit, Provisions for Onerous Contracts and Brand Value Write-down Resulted in Significant Loss*

#### BONITA Segment – Key Data

| | 2018 | 2017 |
|---|---|---|
| Revenue (in EUR million) | 225.7 | 267.7 |
| Growth (in %) | –15.7 | –11.6 |
| Gross margin (in %) | 62.1 | 69.7 |
| Number of stores | 754 | 815 |
| Reported EBITDA (in EUR million) | -38.2 | 15.6 |
| Reported EBITDA margin (in %) | -16.9 | 5.8 |
| Reported EBIT (in EUR million) | -246.6 | 2.5 |
| Reported EBIT margin (in %) | -109.3 | 0.9 |

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 2018, revenue fell by 15.7% to EUR 225.7 million (2017: EUR 267.7 million). In the fourth quarter of 2018, BONITA generated revenue of EUR 53.6 million, a decrease of 18.6% on the prior-year level of EUR 65.8 million. Revenue in the BONITA segment developed considerably worse than expected, particularly in the second half of 2018. Even given the performance observed in the 2019 financial year, this led to a fundamental reassessment of the expected future profitability level in this segment. As a consequence of the future profit and cash flow planning associated with this reassessment, significant additional provisions for onerous contracts were recognised in the annual financial statements for financial year 2018 and the fixed assets of unprofitable stores, together with the BONITA brand, were fully written off in the consolidated financial statements.

The decline in revenue was due to both the development of the relevant market segment as well as reasons specific to the BONITA segment. 2018 was one of the most challenging years in the history of the European fashion industry. General consumer reticence and unusual changes in climate in the first and third quarters of 2018 placed a significant strain on the sector and led to numerous insolvencies in the fashion sector in Germany among both retailers and well-known brand manufacturers. One market segment that was particularly adversely affected was the 'best ager' segment which, having already recorded falling revenues for several years, in 2018 was forced to deal with above-average drops in revenue year-on-year due to the challenging situation in the industry as a whole.

The BONITA segment was also unable to avoid this historic and sustained negative revenue trend and recorded increasingly poor performance in the course of 2018. While not expecting its intensity, management had recognised the negative trend in the best ager segment in previous years and made the decision at the end of 2017 to tap into a more modern target group for BONITA, the potential of which exists and is also considered achievable for BONITA according to market research data. The following measures have been introduced to initially stabilise the like-for-like decline in revenue and increase it in the medium term:

- Modernise the image of BONITA's products and collections
- Invest in new, high-quality, modern shopfitting concepts
- Offer attractive entry-level price ranges for product groups that have suffered particularly heavy revenue losses in recent years

However, these measures did not have the positive effect on sales anticipated by the Company; instead they even accelerated the decline in revenue.

The new, more modern collection was not accepted as planned by regular customers and reached just a small section of the more modern target group it addressed in brick-and-mortar stores. The majority of these new customer segments only accessed the products online and footfall in the Company's own stores continued to decline considerably. According to the Group's own analyses, this was because both customer groups found the design less desirable following the change of collection. The revenue generated at the renovated stores where the new store concept was tested fell far short of expectations and the further roll-out in the other countries was stopped. Even opening up lower price points did not help revenues to improve. Rather, it was found that the new price categories put downward pressure on price levels overall, as customers expected the past discount rates that they have now become accustomed to in the new price categories too. The change in strategy at the end of 2017 resulted in a sharp drop in revenue in the third and fourth quarters of 2018.

BONITA's gross margin also came under pressure due to other effects. Modernising the brand's collections also entailed investing in higher-quality printing and materials as positive effects on sales were expected from this measure. This partly led to higher procurement costs in purchasing, which in turn further impacted the gross margin for sales.

Massively reducing inventories of old merchandise from 2015 to 2017 by way of strong promotions in summer 2018 also had a negative effect on the gross margin. Although this led to a slight rise in sales volumes and effectively streamlined the brand's stocks, this further pushed down the gross margin significantly in the summer months at the expense of EBITDA. In late summer, the effect of the exceptionally hot summer could be felt, with temperatures above 20 degrees Celsius lasting well into October. This meant that planned revenues from higher-priced knitwear and coats also failed to materialise and forced the Company to sell these items below the anticipated retail price - with heavy depreciation in some cases. This in turn placed further pressure on the gross margin and caused the brand to miss its revenue targets, particularly in September and October.

Due to the surprisingly high speed of the negative trend in the BONITA segment that was the cumulative result of the aforementioned effects in financial year 2018, the Management Board was unable to reduce expenses or change strategy again at equal speed. Revenue and earnings have therefore not improved since the third quarter of 2018.

In light of the segment's failed realignment and the simultaneous and surprisingly rapid deterioration in the market environment, BONITA's future direction and, building on that, the multi-year earnings and cash flow plans for the BONITA segment underwent a fundamental reassessment. Unlike in previous years, the Management Board is no longer expecting to be able to modernise BONITA's market identity over the near or medium term so that new customer groups can be developed and regular customers retained at the same time. BONITA's successful integration into the TOM TAILOR Group's wholesale structure, involving the identification of significant synergies, is also assessed differently from how it was in the past. Following the abandoned sale of BONITA in spring 2019, the Management Board is therefore examining all value-creating options for the TOM TAILOR Group, including a disposal. The Management Board of TOM TAILOR Holding SE continues to anticipate significant negative EBITDA for the current 2019 financial year.

The number of BONITA stores has been reduced by 61 since 31 December 2017 to 754. A total of 31 stores were closed in Germany, with the remainder primarily located in the Benelux region, Austria and Switzerland. Of the 754 stores in the network at the end of the year, 543 were in Germany and 211 in countries outside Germany. Furthermore, 85 BONITA shop-in-shops were operated in the 2018 financial year (2017: 54).

The gross margin for the BONITA segment fell significantly by 7.6 percentage points year-on-year to 62.1% (2017: 69.7%). The decline is due to the reasons mentioned above. In absolute terms, gross profit fell by EUR 46.4 million year-on-year to EUR 140.1 million (2017: EUR 186.5 million). In the fourth quarter of financial year 2018, the gross margin stood at just 45.5%, well below the figure for the prior-year quarter (2017: 74.7%), due to the high discounts granted and the write-downs of inventories required to be recognised when preparing the annual and consolidated financial statements.

Reported EBITDA in the BONITA segment dropped by EUR 53.8 million to EUR -38.2 million in the 2018 financial year (2017: EUR 15.6 million). In addition to the decline in gross profit, the EUR 17.2 million increase in provisions for onerous contracts also had a particularly adverse effect on segment EBITDA. By contrast, personnel and rent expenses fell considerably as a result of store closures.

Unlike in previous years, the BONITA segment is now expected to see sustained losses in light of the outlined developments in financial year 2018 and the resulting reassessment of the strategic direction of the operating business and the synergies to be achieved by integrating it into the TOM TAILOR Group. Whereas, in previous years, impairment losses totalling EUR 19.4 million had been recognised on store fittings and corporate assets allocated to those stores and provisions for onerous contracts in the amount of EUR 7.5 million had been recognised as of 31 December 2017 in response to the gradual deterioration apparent in the segment's long-term earnings, the outlined developments in financial year 2018 resulted in the brand value being written down in full following the performance of the impairment test. Due to the EUR 184.5 million impairment of the brand value and additional write-downs amounting to EUR 16.2 million, reported EBIT was EUR -246.6 million in the past financial year (2017: EUR 2.5 million).

### *TOM TAILOR Wholesale Segment – Profitability Increases Further*

**TOM TAILOR Wholesale Segment – Key Data**

| | 2018 | 2017 |
|---|---|---|
| Revenue (in EUR million) | 335.1 | 350.1 |
| Growth (in %) | -4.3 | -0.5 |
| Gross margin (in %) | 54.3 | 48.4 |
| Number of shop-in-shops | 2,524 | 2,443 |
| Number of franchise stores | 187 | 188 |
| Reported EBITDA (in EUR million) | 59.6 | 52.0 |
| Reported EBITDA margin (in %) | 17.8 | 14.9 |
| Reported EBIT (in EUR million) | 41.4 | 38.8 |
| Reported EBIT margin (in %) | 12.4 | 11.1 |

Revenue in the TOM TAILOR Wholesale segment decreased by 4.3% in the reporting year to EUR 335.1 million (2017: EUR 350.1 million). This is primarily due to the effects of the closure of regional sales activities planned and implemented to boost profitability and the discontinuation of product lines. In contrast, revenue in the Wholesale segment rose considerably by 8.8% to EUR 86.4 million in the fourth quarter (prior-year quarter: EUR 79.4 million). In financial year 2018, this revenue figure for the first time also includes royalties, which were previously reported under other operating income in the 2017 financial year. Royalties rose by 27.5% from EUR 6.9 million to

EUR 8.8 million during the past financial year due to the out-licensing of the KIDS line. The number of shop-in-shops rose by 81 as against 31 December 2017 to 2,524. The number of franchise stores held virtually steady at 187 in the year under review.

Gross margin increased considerably from 48.4% to 54.3% during the financial year under review. This was primarily due to further improvements in incoming product costing, income from royalties and lower discounts. Gross profit thus rose by EUR 12.5 million to EUR 182.0 million in absolute terms (2017: EUR 169.5 million). In the fourth quarter of 2018, the gross margin stood at 56.6%, thus showing a considerable increase on the figure of 52.3% reported for the prior-year quarter.

Reported EBITDA in the TOM TAILOR Wholesale segment climbed by EUR 7.6 million, or 14.5%, year-on-year to EUR 59.6 million (2017: EUR 52.0 million). In addition to the rise in gross profit, significantly lower personnel and marketing expenses and a reduction in valuation allowances had a particularly positive effect on EBITDA performance in this segment. Conversely, other operating income was EUR 12.2 million down on the previous year as a result of the aforementioned change to presenting royalties as revenue and various other individual effects.

Reported EBIT grew by EUR 2.6 million, or 6.7%, to EUR 41.4 million in the reporting period (2017: EUR 38.8 million) due to the EBITDA performance and despite the EUR 3.5 million increase in amortisation charges on intangible assets particularly as a result of the recognition of the SAP software.

### *Group's gross margin remains almost unchanged from previous year at 58.1%*

In the financial year ended, the cost of materials in the TOM TAILOR Group decreased by 7.8% to EUR 354.0 million (2017: EUR 384.1 million). The gross margin in the Group remained almost unchanged year-on-year at 58.1% due to the decline in revenue (2017: 58.3%). However, taking into account the reclassified royalties gross profit in absolute terms decreased by EUR 47.8 million to EUR 489.9 million as a result of lower consolidated revenue.

In the fourth quarter of 2018, the gross margin stood at 54.2% due to the performance across all retail segments of TOM TAILOR and BONITA, thus showing a considerable decrease on the figure of 63.2% reported for the prior-year quarter.

### *Other Operating Income down*

Other operating income decreased by EUR 6.6 million to EUR 30.9 million in financial year 2018 (2017: EUR 37.5 million). The decline is due mainly to the change in the presentation of royalties, which are presented under revenues for the first time in financial year 2018 (2017: EUR 6.9 million). Income from the reversal of provisions (2018: EUR 8.0 million), rental income (2018: EUR 3.9 million) and currency gains from foreign currency translation of EUR 4.8 million (2017: EUR 8.5 million) also made a notable contribution to other operating income. In other operating expenses, these gains stood in contrast to foreign exchange expenses from currency translation of EUR 7.5 million (2017: EUR 6.5 million).

### *Declining Personnel Expenses – Personnel Expense to Revenue Ratio up by 0.9 Percentage Points to 22.1%*

Personnel expenses were reduced by EUR 8.9 million or 4.6% to EUR 186.4 million in the reporting year (2017: EUR 195.3 million). The personnel expense to revenue ratio increased from 21.2% in the prior-year period to 22.1% in the past financial year as a result of a stronger decline in revenue. The decrease in absolute terms was mainly the result of the planned reduction in the number of employees in the BONITA segment.

The TOM TAILOR Group employed 6,158 people as at 31 December 2018 (previous year: 6,071), of whom 2,960 worked at BONITA (previous year: 3,049).

### *Increase in Other Operating Expenses*

Despite the increase in provisions for onerous contracts recognised as an expense in the total amount of EUR 22.4 million, other operating expenses were up by only EUR 11.9 million, or 4.0%, on the prior-year figure to EUR 309.4 million (2017: EUR 297.5 million). The rise in marketing expenses contrasted in particular with the sharp year-on-year fall in lease expenses as a result of the store closes carried out.

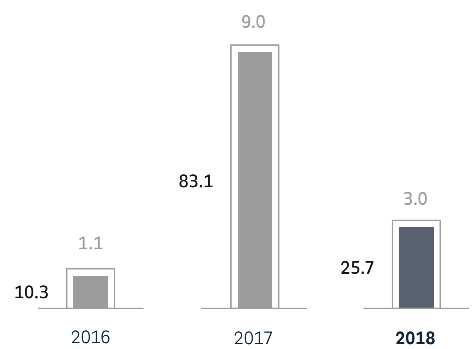
Marketing expenses increased by 11.6% to EUR 36.1 million in the reporting year (2017: EUR 32.3 million). Rental expenses, in contrast, fell by 9.6% to EUR 94.8 million in 2018 (2017: EUR 104.9 million) as a result of store closures. Further key elements of other operating expenses were logistics costs for order picking of EUR 23.4 million (2017: EUR 22.5 million), outgoing shipping costs of EUR 15.0 million (2017: EUR 14.4 million), IT expenses of EUR 11.5 million (2017: EUR 9.1 million) and legal and consulting expenses of EUR 10.9 million (2017: EUR 8.3 million).

### *Significant Decrease in Reported EBITDA for the TOM TAILOR Group Due to BONITA Performance – Reported EBITDA Margin at 3.0%*

The reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of the TOM TAILOR Group fell by EUR 57.3 million to EUR 25.7 million during the reporting year (2017: EUR 83.1 million). In the 2018 financial year, the reported EBITDA margin decreased to 3.0% (2017: 9.0%). In the fourth quarter of 2018, reported EBITDA was EUR -11.1 million, down EUR 41.4 million on the prior-year figure (2017: EUR 30.3 million). EBITDA of the TOM TAILOR Group is significantly impacted by the unsatisfactory performance of the BONITA segment. The sustainable improvement in EBITDA of the TOM TAILOR Group planned for the future is largely contingent on the measures already initiated in the BONITA segment resulting in a containment of losses as planned and on the successful growth trajectory of the two TOM TAILOR segments continuing as planned.

**Development of Reported EBITDA, Group** (EUR million)

Reported EBITDA margin in %




### *Depreciation and Amortisation up Slightly to EUR 37.7 million Due to Higher Capital Expenditure on Software*

Depreciation and amortisation amounted to EUR 37.7 million in 2018, up slightly on the previous year (EUR 35.2 million). This increase is mainly attributable to the higher capital expenditure on new SAP software in 2018 and preceding financial years. Amortisation of software rose to EUR 9.4 million (2017: EUR 3.4 million). This is offset by slightly lower amortisation of intangible assets and depreciation of property, plant and equipment. In the reporting period, this depreciation and amortisation was compensated at the level of the TOM TAILOR Group by investments of EUR 32.4 million, including EUR 16.8 million for intangible assets and EUR 20.1 million for property, plant and equipment.

### *Impairment Reaches EUR 204.3 million Due to Write-down of BONITA Brand Value*

Impairment amounted to EUR 204.3 million in 2018, several times higher than the prior-year figure (2017: EUR 4.0 million). This is primarily due to the full write-down of BONITA's brand value amounting to EUR 184.5 million. In addition to the impairment of the brand value, additional impairment losses totalling EUR 19.9 million were recognised in the BONITA segment and the TOM TAILOR Retail segment following impairment tests. These relate primarily to property, plant and equipment.

### *Reported EBIT of the TOM TAILOR Group Clearly Negative Due to High Impairment Losses*

The reported earnings before interest and taxes (EBIT) of the TOM TAILOR Group fell to EUR -216.2 million during the reporting year (2017: EUR 43.9 million) as a result of high impairment losses totalling EUR 204.3 million and negative EBITDA recorded in the BONITA segment. In the 2018 financial year, the reported EBIT margin dropped to -25.6% (2017: 4.8%). In the fourth quarter of 2018, reported EBIT was EUR -225.8 million, down EUR 243.5 million on the prior-year figure (2017: EUR 17.8 million).

### *Financial Result up EUR 5.5 million*

The financial result amounted to EUR -9.8 million in the year under review, up EUR 5.5 million on the previous year (2017: EUR -15.3 million). This was primarily due to the lower average level of net debt in the 2018 financial year compared to the 2017 financial year. Lower interest margins were also agreed when refinancing the syndicated loan agreement in March 2018. In the fourth quarter of 2018, the financial result of EUR -2.4 million due to lower interest margins was EUR 1.1 million better than in the same period of the previous year (2017: EUR -3.4 million).

### *Tax Income of Just over EUR 46 million*

Taxes on income are mainly impacted by income from the reversal of deferred tax liabilities on the BONITA brand in the amount of EUR 57.4 million. Other than that, this item primarily comprises the current taxes of the international Group companies for 2018 and expenses from the reversal of deferred tax assets on the temporary differences between the BONITA companies, as well as the utilisation and reversal of deferred tax assets on tax loss and interest carryforwards of the German Group companies (within the group of companies consolidated for income tax purposes) due to the reassessment of opportunities to offset them against taxable profit, taking into account the results of the ongoing external tax audit. In the 2018 financial year, income tax income amounted to EUR 46.5 million (2017: expense of EUR 11.5 million).

With net income before income tax of EUR -226.1 million (2017: EUR 28.6 million), the effective tax rate was thus 20.6% (2017: 40.3%). The high effective tax rate mainly resulted 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 remeasurement of deferred tax assets on tax loss carryforwards and interest carried forward as well as the reversal of deferred taxes on temporary differences of the BONITA companies.

### *Reported Net Loss for the Period at EUR 179.5 million*

In financial year 2018, the reported net loss for the period was EUR 179.5 million, a bottom-line decrease of EUR 196.6 million year-on-year compared with the net income of EUR 17.1 million reported for 2017. Earnings per share (EPS) amounted to EUR -4.77 (2017: EUR 0.37).

## FINANCIAL POSITION OF THE TOM TAILOR GROUP

### *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. Aimed at ensuring both financial stability and sufficient flexibility.

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. It finances its operational and long-term funding requirements mainly through a syndicated loan agreement. The syndicated loan agreement was renegotiated in April 2018 for a term of five years and a total amount of EUR 400 million. The available bank lines of credit in the amount of EUR 410 million comprised a current account overdraft facility of EUR 145.0 million (drawdown as at 31 December 2018: EUR 72.1 million), a guarantee facility of EUR 180.0 million (drawdown as at 31 December 2018: EUR 95.7 million) and bank loans of EUR 85.0 million (outstanding liability as at 31 December 2018: EUR 70.0 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 syndicated loan was dependent on compliance with certain financial covenants (net debt / EBITDA, net debt incl. future rent / EBITDAR and equity ratio); these were to be calculated on the basis of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs). As at 31 December 2018, the Group was unable to maintain the contractually agreed financial covenants due to business development in the BONITA segment as well as the resulting brand value impairment, as a result of which the financing banks were entitled to terminate the syndicated loan agreement for cause.

The syndicated loan agreement was restructured by taking into account the results of an independent business review and a new agreement was signed in October 2019 for a period expiring on 30 September 2022. The new agreement has a total volume of EUR 375 million and consists of a current account overdraft facility of EUR 145.0 million, a guarantee facility of EUR 160.0 million and bank loans amounting to EUR 70.0 million. The German TOM TAILOR companies and BONITA GmbH furnished collateral for the new syndicated financing. In addition to bank financing, the majority shareholder of TOM TAILOR Holding SE, Fosun International Limited, has provided a fixed loan of EUR 28.5 million that expires on 31 December 2022.

The continuation of the new financing structure agreed in 2019 is contingent on compliance with defined financial covenants (meeting defined minimum liquidity requirements both for the BONITA segment and for the two TOM TAILOR segments combined). If the defined minimum liquidity level is not reached either in the BONITA subgroup or for the TOM TAILOR subgroup, the loan agreement provides for the possibility that the majority shareholder Fosun can compensate for the lack of liquidity.

The continuation of the new financing structure agreed in 2019 is also contingent on compliance with defined milestones regarding the implementation of agreed legal and economic measures.

If the financial covenants are not met or the defined milestones cannot be implemented as planned, the financing banks are entitled to terminate the syndicated loan agreement for cause. For further information, see the disclosures on liquidity risk in the report on risks and opportunities.

The final tranche of the borrower's note loan from 2013 amounting to EUR 15 million was repaid as planned in May 2018.

### *Operating Cash Flow down Sharply*

**TOM TAILOR Group – Development of key cash flows**

| EUR million | 2018 | 2017 |
|---|---|---|
| Operating cash flow | 23.7 | 83.4 |
| Change (in %) | –71.6 | 65.7 |
| Cash flows from investing activities | –30.7 | –13.2 |
| Free cash flow | –14.2 | 56.9 |
| Change (in %) | >100.0 | 184.6 |

Net cash generated from operations declined by 71.6%, or EUR 59.7 million, to EUR 23.7 million in financial year 2018 (2017: EUR 83.4 million) and was therefore essentially in line with the operating loss in the BONITA segment.

Net cash used in investing activities amounted to EUR 30.7 million in the reporting period, a sharp increase on the prior-year figure (2017: EUR 13.2 million). Payments to acquire intangible assets and property, plant and equipment were up year-on-year to EUR 32.4 million (2017: EUR 17.5 million). In addition to capital expenditure, proceeds of EUR 1.8 million were generated from the sale of fixed assets in the reporting period (2017: EUR 4.2 million).

The net balance of net cash provided by operating activities (EUR 16.5 million) and net cash used in investing activities (free cash flow) was negative at EUR -14.2 million in the reporting period (2017: EUR 56.9 million).

Net cash provided by financing activities amounted to a total of EUR 15.2 million (2017: net cash used of EUR 70.7 million). This change was due to an increase of EUR 61.9 million in drawings on the current account overdraft facility to offset the negative free cash flow and repay other financial liabilities. In addition to the last tranche of the borrower's note loan in the amount of EUR 15.0 million, bank loans of EUR 30.0 million and lease liabilities of EUR 6.0 million were also repaid in the reporting period. Conversely, the bank loan was increased by EUR 12.5 million when refinancing the syndicated loan agreement in April 2018.

### *Investments in Intangible Assets and Items of Property, Plant and Equipment Increased Considerably*

The Group invested a total of EUR 32.4 million (2017: EUR 17.5 million) across all three segments in the past financial year to further expand controlled selling spaces and develop software. Of that amount, EUR 7.1 million was invested in the TOM TAILOR Retail segment (2017: EUR 8.8 million) and EUR 14.0 million in the TOM TAILOR Wholesale segment (2017: EUR 7.3 million). Capital expenditure in the retail segment concerned shop fittings and fixtures as well as IT software mainly comprising development services for e-commerce applications. A total of EUR 3.0 million was spent on new selling spaces in the TOM TAILOR Wholesale segment. The remaining EUR 11.0 million mainly related to investments in the expansion of the IT software infrastructure. BONITA invested a total of EUR 11.3 million in 2018 (2017: EUR 1.4 million), primarily in shop fittings (EUR 6.7 million) and IT software (EUR 4.6 million).

## NET ASSETS OF THE TOM TAILOR GROUP

### *Intangible Assets down Due to brand value write-off*

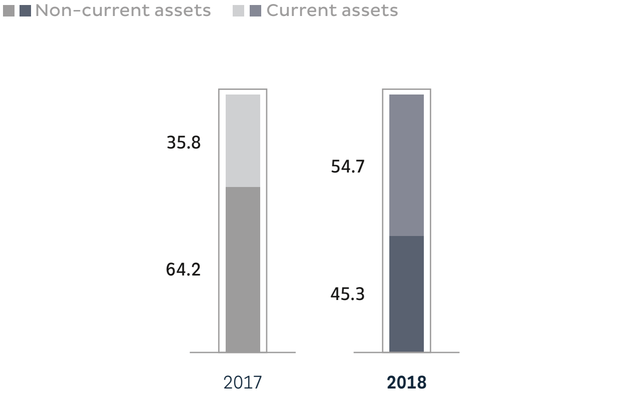
Alongside brands, the intangible assets item includes the customer base and licences that were realised by the identification of hidden reserves in the course of purchase price allocation for the acquisition in 2005 of the TOM TAILOR operating business by what today is TOM TAILOR Holding SE. During the BONITA purchase price allocation in 2012, a total of EUR 187.7 million was added for the BONITA brand (2017 carrying amount: EUR 184.5 million). The brands and goodwill reported are tested for impairment on an annual basis. Based on the multi-year earnings and cash flow planning for the BONITA segment, the remaining brand value of BONITA was written off in full at EUR 184.5 million as at the balance sheet date. For more details please see our disclosures on the results of operations of the BONITA Segment.

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. 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.

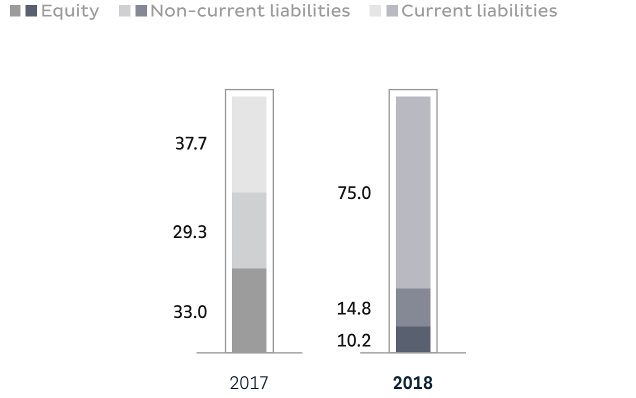
### *Property, Plant and Equipment Lower Due to Depreciation and Impairment Losses*

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.

### Asset Structure of the TOM TAILOR GROUP (in%)




### Capital Structure of the TOM TAILOR GROUP (in%)




Property, plant and equipment declined by EUR 19.4 million to EUR 60.0 million in 2018 (2017: EUR 79.4 million). Depreciation and impairment losses of EUR 37.9 million in the reporting period contrasted with capital expenditure of EUR 15.6 million. The impairment losses of EUR 17.6 million primarily relate to the further impairment of fixed assets of stores that made a negative contribution to earnings and are earmarked for closure, and of corporate assets allocated to these stores.

### *Net Working Capital up By Just over EUR 8 million*

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

Amounting to EUR 145.2 million at the reporting date, inventories were up EUR 6.7 million on the prior-year figure (2017: EUR 138.5 million). The rise is mainly the result of excessively high order volumes for never-out-of-stock merchandise for the autumn / winter season of 2018 and lower sales in the second half of 2018 as a result of weather conditions. Trade receivables increased by EUR 4.5 million to EUR 58.4 million at the reporting date (2017: EUR 53.8 million) due to revenue growth in German exports and wholesale business in Russia. Trade payables rose by EUR 2.9 million to EUR 127.9 million (2017: EUR 125.0 million) as at the reporting date.

On the whole, net working capital as at 31 December 2018 increased by EUR 8.4 million to EUR 75.7 million (2017: EUR 67.3 million), and thus accounted for 9.0% of consolidated revenue (2017: 7.3%).

### Selected key figures
### Financial position and net assets

| EUR million | 2018 | 2017 | 2016 |
|---|---|---|---|
| Equity | 47.7 | 213.0 | 162.9 |
| Non-current liabilities | 69.5 | 189.6 | 282.9 |
| Current liabilities | 352.2 | 243.8 | 249.9 |
| Financial liabilities | 164.4 | 137.5 | 232.8 |
| Cash funds | 25.1 | 24.2 | 38.1 |
| Net debt | 139.3 | 113.3 | 194.7 |
| Total assets | 469.4 | 646.3 | 695.7 |

### *Financial Liabilities and Net Debt up Sharply*

Under non-current liabilities, non-current financial liabilities decreased by EUR 85.1 million year-on-year to EUR 16.3 million as at 31 December 2018 (2017: EUR 101.4 million). The decline is due mainly to the temporary classification out of non-current and into current financial liabilities that became necessary because agreed financial covenants under the syndicated loan agreement and the related right of cancellation were not met. Current financial liabilities therefore increased by EUR 112.0 million to EUR 148.1 million at the reporting date (2017: EUR 36.1 million). Of the EUR 26.9 million increase in financial liabilities, EUR 29.3 million is attributable to liabilities to banks. Finance lease liabilities, on the other hand, decreased slightly. For information on the right of cancellation and the change in financial liabilities, please refer to our comments on the financial position.

At 31 December 2018, net debt amounted to EUR 139.3 million, up EUR 26.0 million on the prior-year figure of EUR 113.3 million.

#### *Equity Ratio Pushed down Significantly Due to Loss*

Equity was lower in the reporting period at EUR 47.7 million due to the net loss for the period (31 December 2017: EUR 213.0 million). The equity ratio therefore fell to 10.2% as at 31 December 2018 (31 December 2017: 33.0%).

#### *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 2018, receivables from German business customers of EUR 12.9 million were sold under a rolling factoring programme.

#### *Rating*

The TOM TAILOR Group has only has bank lines of credit at its disposal 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.

## *RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS OF TOM TAILOR HOLDING SE*

#### *Revenue / Investment Income / Other Operating Income*

TOM TAILOR Holding SE generates revenue and other operating income by recharging services to the German subsidiaries. The Company's operating activities continue to be determined by the investment income generated and by profits transferred by or losses assumed from its subsidiaries.

At EUR -26.9 million, the sum total of net investment income, revenue and other operating income was down EUR 61.5 million on the prior-year figure of EUR 34.6 million. The decline is mainly due to the loss compensation under the profit and loss transfer agreement with BONITA GmbH in the amount of EUR 49.0 million, which compares with a profit transfer of EUR 0.2 million in the previous year. The positive result generated by TOM TAILOR GmbH led to income from the transfer of profits in the amount of EUR 15.5 million (2017: EUR 26.7 million).

#### *Expenses*

As at 31 December 2018 and as in the previous year, TOM TAILOR Holding SE had three Management Board members. Personnel expenses declined by EUR 0.4 million year-on-year to EUR 2.7 million (2017: EUR 3.1 million).

Other operating expenses decreased by EUR 4.2 million to EUR 5.2 million (2017: EUR 9.4 million), mainly due to lower administrative expenses. Other operating expenses in financial year 2017 were impacted by one-off expenses in connection with the capital increase.

#### *Depreciation, Amortisation and Impairment Losses*

Based on the multi-year earnings plans for BONITA GmbH, the carrying amount of the investment in BONITA GmbH (EUR 239.9 million) was written down in full at the reporting date. The background to this is described in detail in the commentary on the TOM TAILOR Group's results of operations in the BONITA segment. As regards the recoverability of the carrying amount of the investment in BONITA GmbH in the single-entity financial statements of TOM TAILOR Holding SE, there are no differences from the explanatory notes provided in those statements.

#### *Financial Result*

The financial result remained almost unchanged year-on-year at EUR -5.2 million (2017: EUR -5.3 million).

#### *Net Income / loss for the Year*

In 2018, the high expenses incurred to absorb the losses of BONITA GmbH and the full write-down of the carrying amount of the investment in BONITA GmbH resulted in a net loss for the year of EUR 286.1 million.

Equity decreased to EUR 53.2 million (2017: EUR 339.4 million) as a result of the net loss for the year. TOM TAILOR Holding SE's subscribed capital remained unchanged at EUR 38.5 million at the reporting date.

Liabilities to banks were reduced by EUR 32.5 million to EUR 70.0 million in the reporting period (2017: EUR 102.5 million) through repayments.

#### *Capital Expenditure*

TOM TAILOR Holding SE's investment policy is focused on the acquisition and holding of equity investments. Aside from the full write-down of the carrying amount of the investment in BONITA GmbH, there were no significant changes in long-term financial assets in financial year 2018.

#### *Balance Sheet Structure*

Long-term financial assets, at EUR 210.9 million (2017: EUR 450.8 million), are TOM TAILOR Holding SE's main asset, accounting for around 95% of total assets in the amount of EUR 220.9 million (2017: EUR 465.0 million).

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

The Management Board of TOM TAILOR Holding SE assesses the Group's current situation as highly challenging. In the 2018 reporting period, consolidated revenue declined by 8.5% in total due mainly to the negative trend in the BONITA segment, but also as a result of the intended effects of store closures and a weak market environment in the second half of the year. Profitability and cash flow performance suffered considerably as a result of the slump in earnings at BONITA. This led to a sharp increase in debt and a significant decline in equity. In addition, the Group was forced to restructure its syndicated loan agreement in lengthy negotiations with its banks and majority shareholder after failing to meet the agreed financial covenants. Overall, these developments caused major uncertainty among customers, investors, financing partners and employees. In financial year 2019, therefore, it is particularly important to stabilise profitability and cash flow so as to be able to invest in sustained, profitable growth again and regain lost trust. The successful signing of the syndicated loan agreement and the support of majority shareholder Fosun lay the necessary groundwork for this.

#### *Management Judgements*

No accounting policies were applied in the 2018 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.

## SEPARATE NON-FINANCIAL REPORT

The separate non-financial Group report in accordance with section sections 289b and 315b of the HGB (hereafter: "separate non-financial report") can be found in the Annual Report and on TOM TAILOR Holding SE's website at http://ir.tomtailorgroup.com.

## CORPORATE GOVERNANCE DECLARATION

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 SE's website http://ir.tomtailorgroup.com.

# REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

## *REMUNERATION OF THE MANAGEMENT BOARD OF TOM TAILOR HOLDING SE*

In the 2018 financial year, the Management Board of TOM TAILOR Holding SE comprised Dr Schäfer, Mr Dressendörfer and Mr Devoy.

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, Mr Dressendörfer Mr Devoy are, in principle, based on multi-year bonus.

The variable remuneration components are as follows:

– One-year bonus

– Multi-year bonus

– Performance Share Unit Plan (PSU)

– Long-Term Incentive Programme (LTI)

– Stock Option Programme (SOP)

a) One-year Bonus

For the Management Board members Dr. Schäfer and Mr Devoy, the contracts provide for a voluntary short-term bonus component, which can be specified by the Supervisory Board for each individual and for the respective financial year. Mr Dressendörfer's contract does 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: EBITDA growth, average EBIT, savings in purchasing, average operating cash flow/growth in operating cash flow, and consolidated earnings per share (EPS) and EPS growth for the TOM TAILOR Holding AG Group. As a rule, a multi-year average is used to calculate the averages of earnings figures. If, despite a positive EPS component in the period under review, EPS for the financial year is negative, the EPS-based bonus component will not be paid out. There is a cap on the amount of the multi-year bonus for Management Board members.

c) LTI

In July 2010. a Long-Term Incentive (LTI) Programme was introduced for the Management Board and executives of TOM TAILOR Holding SE. This Programme serves to align the interests of the Management Board members, executives and shareholders of TOM TAILOR Holding SE 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 SE 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.

d) AOP

On 3 June 2013 the Annual General Meeting of TOM TAILOR Holding SE voted to introduce a stock option programme (SOP 2013) at the Company. A resolution to introduce an additional stock option programme (SOP 2017) was adopted at the Annual General Meeting of TOM TAILOR Holding SE on 31 May 2017. The two stock option programme – SOP 2013 and SOP 2017 – have identical structures. The performance targets for the programmes 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 2018, the members of the Management Board Dr Schäfer and Mr Dressendörfer 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 for the respective tranche 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 of the SOP 2013 and issue period of the SOP 2017, 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).

e) Performance Share Unit Plan

In 2018, TOM TAILOR Holding SE launched a Performance Share Unit Plan as a long-term variable remuneration instrument for Management Board members and selected employees. This plan is intended to align the interests of the Company and participants in the plan with the aim of promoting sustainable corporate development.

In financial year 2018, all three members of the Management Board were entitled to participate in the Performance Share Unit Plan. Dr Schäfer, Mr Dressendörfer and Mr Devoy each were granted performance share units.

The plan participants receive performance share units (PSUs) in annual tranches. Each tranche has a three-year performance period. Performance will be measured based on the development of two internal performance indicators – EBIT growth (KPI 1) and revenue growth (KPI 2) – over the performance period. Target achievement for each performance indicator ranges between 0% and 200%. The weighted individual target achievement for KPI 1 and KPI 2 will be added together to calculate the overall target achievement, with KPI 1 having a weighting of two-thirds and KPI 2 of one-third. Up to an overall target achievement of 75%, all PSUs granted expire; the plan participants cannot be allocated more than 200% of the PSUs granted. The pay-out is the product of PSUs granted and an average share price at the end of the performance period; the value of one PSU is limited to 200% of the average share price at the grant date.

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 accident insurance, legal expenses insurance and D&O insurance.

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, Management Board members are entitled to severance pay in the amount of their fixed remuneration for the remaining term of the contract. The severance amount is limited to a maximum of two years' minimum salary 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.

## Benefits Granted

| | Dieter Holzer | | | | Dr. Heiko Schäfer | | | |
|---|---|---|---|---|---|---|---|---|
| EUR | 2017 | 2018 | 2017 (Min) | 2017 (Max) | 2017 [3, 5] | 2018 [3, 6] | 2018 (Min) | 2018 (Max) |
| Fixed remuneration | 225,000 | | 0 | 0 | 591,667 | 600,000 | 600,000 | 600,000 |
| Fringe benefits | 7,823 | | 0 | 0 | 16,800 | 16,800 | 16,800 | 16,800 |
| **Total (fixed)** | **232,823** | **0** | **0** | **0** | **608,467** | **616,800** | **616,800** | **616,800** |
| One-year variable remuneration | | | | | 795,000 | 150,000 | | |
| Multi-year variable remuneration | 0 | 0 | 0 | 0 | 271,679 | 254,620 | 0 | 2,000,000 |
| Multi-year bonus | | | | | | 254,620 | | 900,000 |
| LTI 2015 – 2018 / 2016 – 2019 | | | | | 74,359 | | | |
| PSU 2018 | | | | | | | | 1,100,000 |
| AOP[1] 2015 – 2019 / 2017 – 2021 | | | | | 197,320 | | | |
| **Total (variable)** | **0** | **0** | **0** | **0** | **1,066,679** | **404,620** | **0** | **2,000,000** |
| Pension expense | | | | | | | | |
| **Total remuneration** | **232,823** | **0** | **0** | **0** | **1,675,146** | **1,021,420** | **616,800** | **2,616,800** |

## Benefits Granted

| | Thomas Dressendörfer | | | | Liam Devoy | | | |
|---|---|---|---|---|---|---|---|---|
| EUR | 2017 [3] | 2018 [3, 6] | 2017 (Min) | 2018 (Max) | 2017 [2, 4, 5] | 2018 [4, 6] | 2017 (Min) | 2018 (Max) |
| Fixed remuneration | 450,000 | 450,000 | 450,000 | 450,000 | 166,667 | 400,074 | 400,074 | 400,074 |
| Fringe benefits | 10,488 | 10,493 | 10,493 | 10,493 | 10,780 | 6,348 | 6,348 | 6,348 |
| **Total (fixed)** | **460,488** | **460,493** | **460,493** | **460,493** | **177,447** | **406,422** | **406,422** | **406,422** |
| One-year variable remuneration | | 150,000 | | | 141,146 | | | |
| Multi-year variable remuneration | 1,158,282 | 309,055 | 0 | 2,050,000 | 0 | 106,178 | 0 | 1,040,000 |
| Multi-year bonus | 919,000 | 309,055 | | 1,050,000 | | 106,178 | | 400,000 |
| LTI 2015 – 2018 / 2016 – 2019 | 41,962 | | | | | | | |
| PSU 2018 | | | | 1,000,000 | | | | 640,000 |
| AOP[1] 2015 – 2019 / 2017 – 2021 | 197,320 | | | | | | | |
| **Total (variable)** | **1,158,282** | **459,055** | **0** | **2,050,000** | **141,146** | **106,178** | **0** | **1,040,000** |
| Pension expense | | | | | | | | |
| **Total remuneration** | **1,618,770** | **919,548** | **460,493** | **2,510,493** | **318,593** | **512,600** | **406,422** | **1,446,422** |

## Benefits Granted

| | Uwe Schröder | | | | Total | |
|---|---|---|---|---|---|---|
| EUR | 2017 [2] | 2018 | 2017 (Min) | 2018 (Max) | 2017 | 2018 |
| Fixed remuneration | 250,000 | | 0 | 0 | 1,683,334 | 1,450,074 |
| Fringe benefits | | | | | 45,891 | 33,641 |
| **Total (fixed)** | **250,000** | **0** | **0** | **0** | **1,729,225** | **1,483,715** |
| One-year variable remuneration | 75,000 | | | | 1,011,146 | 300,000 |
| Multi-year variable remuneration | | | | | 1,429,961 | 669,853 |
| Multi-year bonus | | | | | 919,000 | 669,853 |
| LTI 2015 – 2018 / 2016 – 2019 | | | | | 116,321 | 0 |
| PSU 2018 | | | | | 0 | 0 |
| AOP[1] 2015 – 2019 / 2017 – 2021 | | | | | 394,640 | 0 |
| **Total (variable)** | **75,000** | **0** | **0** | **0** | **2,441,107** | **969,853** |
| Pension expense | | | | | | |
| **Total remuneration** | **325,000** | **0** | **0** | **0** | **4,170,332** | **2,453,568** |

[1] In financial years 2016 and 2017, 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).

[2] The fixed and variable remuneration for Mr Devoy and Mr Schröder in financial year 2017 comprises pro-rated remuneration for their period of service as Management Board members.

[3] Overall remuneration comprising the fixed annual salary and the bonus (excluding LTI, SOP and PSU) is capped at EUR 1.5 million.

[4] Overall remuneration comprising the fixed annual salary and the bonus (excluding LTI, SOP and PSU) is capped at EUR 0.8 million.

[5] As regards the Management Board employment contracts entered into in 2017, the multi-year bonus will not be calculated for the first year.

[6] The table reflects the legal entitlements arising from the employment contracts of the members of the Management Board for the variable multi-year remuneration components.

## Benefits received

| | Dieter Holzer | | Dr. Heiko Schäfer | | Thomas Dressendörfer | |
|---|---|---|---|---|---|---|
| EUR | 2017 [2] | 2018 | 2017 | 2018 | 2017 | 2018 |
| Fixed remuneration | 225,000 | 0 | 591,667 | 600,000 | 450,000 | 450,000 |
| Fringe benefits | 7,823 | 0 | 16,800 | 16,800 | 10,488 | 10,493 |
| **Total (fixed)** | **232,823** | **0** | **608,467** | **616,800** | **460,488** | **460,493** |
| One-year variable remuneration | | | 300,000 | 944,911 | 650,000 | 150,000 |
| Multi-year variable remuneration | 0 | 0 | 0 | 0 | 0 | 919,211 |
| Multi-year bonus | | | | | | 919,211 |
| MSP 2014 – 2018 / 2015 – 2019 | | | | | | |
| LTI 2015 – 2018 / 2016 – 2019 | | | | | | |
| AOP 1 2015 – 2019 / 2017 – 2021 | | | | | | |
| Multi-year variable remuneration from third-party benefits (ratchet arrangement) | | | | | | |
| Others | | | | | | |
| **Total (variable)** | **0** | **0** | **300,000** | **944,911** | **650,000** | **1,069,211** |
| Pension expense | | | | | | |
| **Total remuneration** | **232,823** | **0** | **908,467** | **1,561,711** | **1,110,488** | **1,529,704** |

[2] In accordance with his termination agreement, Mr Holzer waived portions of his remuneration.

## Benefits received

| | Liam Devoy | | Uwe Schröder | | TOTAL | |
|---|---|---|---|---|---|---|
| EUR | 2017[1] | 2018 | 2017[1] | 2018 | 2017 | 2018 |
| Fixed remuneration | 166,667 | 400,074 | 250,000 | 0 | 1,683,334 | 1,450,074 |
| Fringe benefits | 10,780 | 6,348 | 0 | 0 | 45,891 | 33,641 |
| **Total (fixed)** | **177,447** | **406,422** | **250,000** | **0** | **1,729,225** | **1,483,715** |
| One-year variable remuneration | | 141,146 | 75,000 | | 1,025,000 | 1,236,057 |
| Multi-year variable remuneration | 0 | 0 | 0 | 0 | 0 | 919,211 |
| Multi-year bonus | | | | | 0 | 919,211 |
| MSP 2014 – 2018 / 2015 – 2019 | | | | | 0 | 0 |
| LTI 2015 – 2018 / 2016 – 2019 | | | | | 0 | 0 |
| AOP 1 2015 – 2019 / 2017 – 2021 | | | | | 0 | 0 |
| Multi-year variable remuneration from third-party benefits (ratchet arrangement) | | | | | 0 | 0 |
| Other | | | | | | |
| **Total (variable)** | **0** | **141,146** | **75,000** | **0** | **1,025,000** | **2,155,268** |
| Pension expense | | | | | 0 | 0 |
| **Total remuneration** | **177,447** | **547,568** | **325,000** | **0** | **2,754,225** | **3,638,983** |

[1] The fixed and variable remuneration for Mr Devoy and Mr Schröder in financial year 2017 comprises pro-rated remuneration for their period of service as Management Board members

## *REMUNERATION OF THE SUPERVISORY BOARD MEMBERS*

The remuneration of Supervisory Board members stipulated in Article 12 (1) of the Articles of Association was reduced at the Annual General Meeting on 31 May 2017. Apart from being reimbursed for their expenses, the members of the Supervisory Board receive remuneration (plus statutory value added tax in case such tax is incurred) for the relevant financial year, which amounts to EUR 25 thousand for each individual member and EUR 100 thousand for the Chairman of the Supervisory Board. Members of Supervisory Board committees receive additional remuneration for the relevant financial year for each membership in a committee, which amounts to EUR 20 thousand for each individual member and EUR 30 thousand for the Chairman of the committee. 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.

In the 2018 financial year, the remuneration for each member of the Supervisory Board is calculated on a pro rata basis for the period of their membership on the Supervisory Board.

# DISCLOSURES REQUIRED BY TAKEOVER LAW

## *IN ACCORDANCE WITH SECTIONS 289A (1) AND 315A (1) 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 SE 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 SE's subscribed capital (share capital) as at 31 December 2018 was EUR 38,495,269.00 and is composed of 38,495,269 noparvalue registered shares. Each share grants the holder equal rights and a single vote at the Annual General Meeting.

TOM TAILOR Holding SE's subscribed capital (share capital) as at 21 February 2019 was EUR 42,344,795.00 and is composed of 42,344,795 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 2018, the following direct or indirect equity interests in the share capital of TOM TAILOR Holding SE exceed 10% of the voting rights:

Mr Guo Guangchang, Shanghai, China, holds 28.89% of the voting shares. 28.89% of the voting rights (11,119,995 voting rights) are attributable to Mr Guangchang in accordance with both section 34 (1) sentence 1 no. 1 WpHG new version (corresponds to section 22 (1) sentence 1 no. 1 WpHG old version) and section 34 (2) WpHG new version (corresponds to section 22 (2) WpHG old version).

The voting rights attributed to Mr Guangchang in accordance with section 34 (1) sentence 1 no. 1 WpHG new version (corresponds to section 22 (1) sentence 1 no. 1 WpHG old version) are held by the following companies he controls and whose interest in the voting shares of TOM TAILOR Holding SE is 3% or more in each case: Fosun International Limited; Fidelidade-Companhia de Seguros, S.A.; FCM Beteiligungs GmbH.

To the knowledge of the Management Board, based on the notifications received by the Company in line with the WpHG as at 21 February 2019, the following direct or indirect equity interests in the share capital of TOM TAILOR Holding SE exceed 10% of the voting rights:

Mr Guo Guangchang, Shanghai, China, holds 35.35% of the voting shares. 35.35% of the voting rights (14,969,521 voting rights) are attributable to Mr Guangchang in accordance with both section 34 (1) sentence 1 no. 1 WpHG new version (corresponds to section 22 (1) sentence 1 no. 1 WpHG old version) and section 34 (2) WpHG new version (corresponds to section 22 (2) WpHG old version).

The voting rights attributed to Mr Guangchang in accordance with section 34 (1) sentence 1 no. 1 WpHG new version (corresponds to section 22 (1) sentence 1 no. 1 WpHG old version) are held by the following companies he controls and whose interest in the voting shares of TOM TAILOR Holding SE is 3% or more in each case: Fosun International Limited; Fidelidade-Companhia de Seguros, S.A.; FCM Beteiligungs GmbH.

To the knowledge of the Management Board, based on the notifications received by the Company in line with the WpHG as at 12 July 2019, the following direct or indirect equity interests in the share capital of TOM TAILOR Holding SE exceed 10% of the voting rights:

Mr Guo Guangchang, Shanghai, China, holds 76.75% of the voting shares 76.75% of the voting rights (32,497,966 voting rights) are attributable to Mr Guangchang in accordance with both section 34 (1) sentence 1 no. 1 WpHG new version (corresponds to section 22 (1) sentence 1 no. 1 WpHG old version) and section 34 (2) WpHG new version (corresponds to section 22 (2) WpHG old version).

The voting rights attributed to Mr Guangchang in accordance with section 34 (1) sentence 1 no. 1 WpHG new version (corresponds to section 22 (1) sentence 1 no. 1 WpHG old version) are held by the following companies he controls and whose interest in the voting shares of TOM TAILOR Holding SE is 3% or more in each case: Fosun International Limited; Shanghai Yujin 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 6 (11) 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 29 May 2023 by up to a total of EUR 15,398,107 by issuing new, noparvalue registered shares against cash and / or noncash contributions (Authorised Capital 2018). 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]).

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 from the subscription right;
- in the case of capital increases in ex-change for non-cash contributions to grant shares for the purpose of acquiring enterprises, parts of enterprises, participating interests in other enterprises or other assets or rights;
- in the case of cash 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 (a) 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 (b) are or can be issued to service bonds and / or participation rights with conversion and / or warrant rights or conversion and / or warrant obligations insofar as these financial instruments are issued after this authorisation comes into effect subject to the disapplication pre-emptive rights in line with section 186 (3) sentence 4 of the AktG.
- in the case of cash capital increases insofar as it is necessary to grant to holders of bonds or participation rights with conversion and / or warrant rights or conversion and / or warrant obligations issued by the Company or Group companies in which the Company holds a majority interest either directly or indirectly a subscription right to new shares of the Company in the amount to which they would be entitled as shareholders after exercise of the warrant or conversion right, or after fulfilment of the warrant or conversion obligation, or after exercise of a right of substitution by the Company.

The aforementioned authorisations to disapply pre-emptive rights for capital increases against cash and / or non-cash contributions may not exceed a total of 20% of the share capital either at the time that this authorisation comes into effect or at the time it is exercised. Own shares that were sold during the term of this authorisation subject to the disapplication of pre-emptive rights must additionally be included in the aforementioned 20% limit along with shares issued to honour financial instruments with conversion and / or warrant rights or conversion and / or warrant obligations to the extent that the financial instruments were issued during the term of this authorisation based on a future authorisation by the Annual General Meeting to issue such financial instruments subject to the disapplication of the pre-emptive rights of shareholders. In addition, shares issued during the term of this authorisation based on other corporate actions subject to the disapplication of pre-emptive rights of shareholders must also be included in the maximum limit of 20% of the share capital mentioned above.

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 2018.

The Supervisory Board is authorised to amend the Articles of Association in accordance with the scope of the respective capital increase out of the Authorised Capital 2018.

1 Amended by section 3 of the second Financial Market Amendment Act dated 23 June 2017, Federal Law Gazette I, 1693 (no. 39) effective 3 January 2018.

### *Contingent Capital*

In accordance with section 6 (10) of the Articles of Association, the share capital has been contingently increased by up to EUR 1,141,000 by issuing up to 1,141,000 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.

The Supervisory Board is authorised to amend the Articles of Association in accordance with the scope of the capital increase from Contingent Capital 2013.

In accordance with section 6 (12) of the Articles of Association, the share capital has been contingently increased by up to EUR 290,000 by issuing up to 290,000 noparvalue registered shares (Contingent Capital 2017). The sole purpose of the contingent capital increase is to grant shares to the holders of stock option rights under the 2017 Stock Option Programme. The Management Board was authorised to grant these shares by way of a resolution adopted by the Annual General Meeting on 31 May 2017. 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 31 May 2017 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.

The Supervisory Board is authorised to amend the Articles of Association in accordance with the scope of the capital increase from Contingent Capital 2017.

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

With regard to the amount and probability of the exercise of the stock option rights by the stock option holders and a possible capital increase resulting from this, we refer to the explanations in the notes to the consolidated financial statements under item "17. STOCK OPTION PROGRAMME".

## AUTHORISATION OF THE MANAGEMENT BOARD TO ACQUIRE 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 conversion or warrant 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 intended 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 Articles of Association.

*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 SE are regulated by sections 84 and 85 of the AktG in conjunction with section 7 of the Articles of Association. According to section 7 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. Deputy members of the Management Board may also be appointed.

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 11 (3) 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. In accordance with section 15 (4) of the Articles of Association, an amendment to the Articles of Association requires a two-thirds majority of the valid votes cast or a simple majority of the valid votes cast if at least half of the share capital is represented. This simple majority is not sufficient for an amendment to the purpose of the Company, a resolution on the relocation of the registered office in accordance with Art. 8 (6) of Council Regulation (EC) No. 2157/2001 – SE Regulation – as well as for cases in which a higher share capital majority is required.

## CHANGE OF CONTROL

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

In 2018, the Company entered into a syndicated loan agreement with a consortium of banks. This agreement contained 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, with the exception of Fosun International Limited or a company directly or indirectly affiliated with Fosun, one or several persons acting in concert within the meaning of section 2 (5) of the Wertpapiererwerbs- und Übernahmegesetz (WpÜG - German Securities Acquisition and Takeover Act) directly or indirectly acquired 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 had to be repaid pro rata. In 2019, the change of control clause was amended as part of the new syndicated loan agreement.

# 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).

## *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.

## *EFFICIENT ORGANISATION OF RISK AND OPPORTUNITY MANAGEMENT*

The Management Board of TOM TAILOR Holding SE 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. 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 once a year as well as reporting to the Management Board as needed.

## *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 and also hires external experts 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 assessed as fully as possible; risks are then prioritised as low, medium, medium-high or high, and opportunities as minor, medium and major.

Risk owners manage all operational risks and opportunities in the Company's day-to-day business. The Management Board also considers all material risks, i.e. individual risks that are classified at least as medium-high, as well as other medium risks which, in combination with other risks, could become significant for the TOM TAILOR Group's operating activities and continued existence as a going concern. In this way, the TOM TAILOR Group prioritises its exposures according to potential risk to the Company and manages them effectively by analysing potential and actually implemented measures.

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. 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. The presentation is limited to the risks and opportunities that are material to the TOM TAILOR Group in the 2019 financial year.

The TOM TAILOR Group applies the negative impact of a risk or positive effect of an opportunity to changes in enterprise value and/ or profit / loss for the year, and takes into consideration relevant risks that could harm the Company or its reputation. The separate non-financial report also includes a presentation of risks affecting third parties and the environment. The breakdown of risks and opportunities presented below uses a condensed form of the same risk and opportunity categories as those used in the internal risk management system: Company-related, financial, strategic, external risks, as well as operating risks and opportunities. Unless specified otherwise, all risks and opportunities relate to all of the TOM TAILOR Group's segments or companies. 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.

## Risk and opportunity profile at a glance

| | Current year | Previous year | Year-on-year change |
|---|---|---|---|
| **Risk and opportunity profile at a glance** | | | |
| BONITA operating performance | high | Previously part of the risk arising from trend identification and pricing | increased |
| Risks associated with long-term competitive positioning and brand image | medium | medium | none |
| Opportunities associated with long-term competitive positioning and brand image | medium | medium | none |
| | | | |
| **Company-related risks and opportunities** | | | |
| IT risks (incl. project risks from the previous year) | medium-high | medium / project risks: medium-high | none, since aggregated |
| IT opportunities | minor | minor (listed as project opportunity) | none |
| Personnel risks | medium | medium | none |
| Compliance risks | medium | medium-high | decreased |
| | | | |
| **Financial risks and opportunities** | | | |
| Impairment risks in the consolidated financial statements | medium | medium-high | decreased |
| Impairment risks in the single-entity financial statements | low | medium-high | decreased |
| Liquidity risks | medium-high | low | increased |
| Tax risks | medium | medium | none |
| Credit risks (incl. risk of revenue loss) | medium | low | increased |
| Currency risks (EUR / USD) | low to medium | low | increased |
| Currency risks (EUR / RUB) | medium | medium | none |
| | | | |
| **External risks and opportunities** | | | |
| Risks of Competition | medium | medium | none |
| Opportunities Provided by Competition | medium | medium | none |
| Risks arising from economic developments | medium | medium | none |
| Country risks | low to medium | minor to medium | none |
| Country opportunities | minor to medium | minor to medium | none |
| | | | |
| **Operating risks and opportunities** | | | |
| Sales and inventory risks | medium | low to medium | increased |
| Risks arising from the Company's complexity | medium | low | increased |
| Opportunities arising from the Company's complexity | minor | minor | none |
| Logistics risks (aggregation of two logistics risks from the previous year) | low | low and low | none |

## YEAR-ON-YEAR CHANGES

There were material changes as regards the financial risks and risks in the BONITA segment. The operating performance of the BONITA segment, which in previous years was recognised as part of trend identification, is now emphasised as a separate risk and classified as high. As a result of the unsatisfactory development of the business in 2018 and the associated rise in net borrowings, the liquidity risk also increased from low to medium-high. The steps taken by the Management Board in this area are outlined in more detail in the 'Liquidity risk' section. The impairment risks within the Group attributable to BONITA in particular are still classified as medium despite significant impairment losses in the past financial year in order to take account of the high degree of planning uncertainty in this segment. By contrast, the impairment risk in the single-entity financial statements fell from medium-high to low. The sales and inventory risk is rated more highly for 2019 than in the previous year due to developments in 2018. As a result of numerous risk-reducing measures, the compliance risk for 2019 is lower than it was in 2018. These and other minor deviations are explained in more detail in the sections below.

## STRATEGIC RISKS AND OPPORTUNITIES

### *BONITA business performance*

The risk and consequences of a clear failure in the operating performance of the BONITA segment were known. In the 2017 financial statements, the resulting impairment risk for the BONITA brand and the effects of this on the carrying amount recognised by TOM TAILOR Holding SE was classified as a medium-high risk. In addition, "risks arising from trend identification and pricing" were analysed last year and estimated to be material for BONITA; however, these risks were classified as medium overall – together with the TOM TAILOR brand.

In light of this assessment, the Management Board introduced numerous measures to stabilise the fall in revenue experienced over several years and significantly improve profitability. These measures included modernising the image of BONITA's products and collections and investing in shopfitting and more attractive entry-level price ranges. However, the measures introduced did not have the expected impact in 2018, and the planned revenue and earnings effects did not materialise. The new shopfitting concept was stopped and the modernisation of the collection led to higher purchasing prices, which caused a reduction in gross margin. The excess inventory that had built up in recent years was further exacerbated by a failed procurement policy in the 2018 financial year. Although this excess inventory was reduced with the help of significant write-downs, it did place a high strain on gross margin. Added to this was the hot summer of 2018, which led to lower revenues across the entire textile industry. BONITA also experienced considerable drops in revenue in the third and fourth quarters. This development has caused profitability expectations in the BONITA segment to decline over the long term, which in turn necessitated the full impairment of the BONITA brand in the consolidated financial statements and a complete write-down of the carrying amount recognised in the single-entity financial statements of TOM TAILOR Holding SE. The performance of the BONITA segment and the consequences of this are outlined in detail in the Report on Economic Position together with statements concerning the results of operations in this segment.

In light of the current loss situation in the BONITA segment and the high forecasting risk, further write-downs impacting the consolidated financial statements of TOM TAILOR Holding SE cannot be ruled out. This risk is described within this risk report under financial risks as "impairment risks in the consolidated and single-entity financial statements of TOM TAILOR Holding SE".

Although the sale of BONITA could not be successfully implemented in the first half of 2019, the Management Board believes that BONITA does not fit within the TOM TAILOR Group. The Management Board reserves the right to continue reviewing all options, including divesting BONITA. In addition to this strategic review, BONITA has been undergoing a thorough restructuring since 2018, which has led to considerable cuts within the BONITA segment. This is designed to stabilise the business situation and improve the quality of forecasting.

The risk that efforts to restructure and stabilise BONITA will be ineffective or insufficient to improve BONITA's performance permanently in 2019 is classified as 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 continues to classify this risk as medium. At the same time, opportunities can arise if strengthening the TOM TAILOR Group brands has a greater positive impact than expected.

## COMPANY-RELATED RISKS AND OPPORTUNITIES

### *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. The ERP implementation (Enterprise Resource Planning) described last year has largely been completed and the project risk has now been aggregated to IT risk. In order to counter the aforementioned risks, the TOM TAILOR Group will continue to make targeted investments in the expansion, stabilisation 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 aggregated here and classified as medium-high.

### *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 operating activities and business performance. The TOM TAILOR Group addresses this risk by working to position itself as an attractive employer, creating a good working atmosphere and offering its employees good career prospects in order to retain and recruit staff. As a result of the implementation of measures aimed at recruiting and retaining employees, this risk is classified as medium, as in the previous year.

### *Compliance Risks*

The TOM TAILOR Group is currently expanding and optimising its compliance management system. This includes the efficient management of individual compliance risks by risk owners in the relevant departments and by the Compliance Officer. Compliance is defined as adherence to laws and internal guidelines. Compliance violations could have financial consequences such as lawsuits, reputational damage and / or monetary fines for the TOM TAILOR Group. Compliance risks usually have a low probability of occurrence but a high loss potential. In recent years, for example, the General Data Protection Regulation has been a relevant risk and will remain so for subsequent years due to the potentially high level of damage associated with it. On account of the measures initiated in 2018, such as the whistleblower hotline, this risk has been downgraded to the medium category.

## FINANCIAL RISKS AND OPPORTUNITIES

### *Liquidity Risk*

Liquidity risk is the risk that payment obligations cannot be met or cannot be met on time because insufficient cash funds are available. To manage this risk, the Company prepares a revolving liquidity plan and daily liquidity reports to document cash inflows and outflows in both the short and medium term. The intensity of the liquidity risk is assessed based on the amount of net financial liabilities and the free liquidity derived from this. The Group is primarily dependent on the syndicated loan agreement in this regard.

In the 2018 financial year, the very weak business performance of BONITA led to mutually reinforcing effects. As a result of the decline in the BONITA segment, BONITA was no longer able to finance itself using its own cash flow and thus negatively impacted the liquidity available to the entire TOM TAILOR Group, which in turn caused a rise in net borrowings. Due to the significant write-down in brand value, the Group also breached its financial covenants as of 31 December 2018, which meant that the financing banks were entitled to terminate the syndicated loan agreement for cause.

Against this backdrop, TOM TAILOR Holding SE, together with its existing consortium of banks and Fosun, reached a new financing agreement in October 2019 based on an independent business review (IBR) to secure its overall financing structure in the medium term. This agreement expires on 30 September 2022. In addition to the provision of credit and surety lines by the consortium of banks, the overall structure also includes the provision of a loan by Fosun.

The continuation of the new financing structure agreed in 2019 is contingent on compliance with defined financial key performance indicators and milestones for the implementation of agreed legal and economic measures. These are largely dependent upon the business performance of the BONITA segment. The key performance indicators and measures agreed are based on corporate planning for the BONITA segment and the rest of the TOM TAILOR Group prepared by management and sensitised by an independent expert as part of the IBR. As a result, the Management Board is also using the sensitised corporate plans as the basis for its further planning. Some of these plans envisage significant negative cash flows for the BONITA segment up to and including 2022.

Although the Management Board believes that all identifiable risks have been taken into account in corporate planning, particularly in the BONITA segment, these plans constitute forecasts that naturally carry an array of risks, uncertainties and assumptions that could significantly deviate from actual results or events. These risks, uncertainties and assumptions could have a negative impact on the financial results. The results could deviate from those contained in the forecasts for various reasons including, but not limited to, changing economic and market conditions and intense competition in the clothing industry as well as different political, legal, commercial and other conditions that influence the markets of the TOM TAILOR Group, including the BONITA segment.

If the financial covenants are not met or the defined milestones cannot be implemented as planned, the financing banks are entitled to terminate the syndicated loan agreement for cause. Although the Management Board of TOM TAILOR Holding SE believes that TOM TAILOR Group has sufficient liquidity with this overall financing structure, the liquidity risk is medium-high in light of the rise in net financial liabilities and the need to achieve financial key performance indicators and milestones and is thus considered to be higher than in the past.

### *Tax Risks*

At TOM TAILOR Holding SE, deferred tax assets were recognised on interest carried forward as well as on corporate income tax loss carryforwards. At the level of TOM TAILOR Holding SE's German income tax group, TOM TAILOR Holding SE's planning will lead to income being generated in the coming years against which existing tax losses can be offset in the future. The usability of these tax loss carryforwards depends on the future performance and achievement of the targets defined in the corporate planning. Due to the increase in major shareholder Fosun's stake in TOM TAILOR Holding SE in July 2019, tax loss carryforwards are declining together with the deferred tax assets recognised for them as a result of the so-called "detrimental acquisition of interest" set out in section 8c (1) of the Körperschaftsteuergesetz (KStG - Corporate Income Tax Act) Although this risk has since materialised, it is not yet recognised in the financial figures for 2018. As a result, it is classified here as a medium risk. Furthermore, as TOM TAILOR Holding SE is part of an international corporate group, it has a tax exposure arising from the corporate group's international operations and existing internal transfer pricing models. Overall, the risk of potential subsequent tax and interest expense is still classified as medium. Sufficient provisions for tax risks have, however, already been recognised.

### *Impairment Risks in the Consolidated and Single-entity Financial Statements of TOM TAILOR Holding SE*

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. For example, the carrying amount of the BONITA brand was written down in full in the 2018 financial year due to lower profitability expectations. As of 31 December 2018, the carrying amount of the BONITA segment exceeds its fair value. Further details can be found in the notes to the consolidated financial statements under D.10. The risk of further valuation allowances to the consolidated financial statements of TOM TAILOR Holding SE is classified as medium because of the write-downs already recognised in financial year 2018. The remaining difference between the fair value and the carrying amount represents expected future losses of the BONITA segment that could not yet be recognised in the balance sheet.

As the parent of and holding company for 43 direct and indirect subsidiaries, TOM TAILOR Holding SE is exposed to the risks of its subsidiaries through the existing ownership structure and the profit / loss transfer agreements entered into. These include in particular the risks arising from lower profit transfers to or losses assumed by TOM TAILOR Holding SE as a consequence of the subsidiaries' earnings situation. The profits / losses of TOM TAILOR GmbH, Hamburg, as well as those of its German subsidiaries, and the profits / losses of BONITA GmbH, Hamminkeln, as well as those of its German subsidiary GEWIB GmbH, Hamminkeln, are transferred automatically to TOM TAILOR Holding SE on the basis of existing profit / loss transfer agreements. The risk for TOM TAILOR Holding SE of having to assume significant losses of BONITA GmbH due to the profit and loss transfer agreement applicable in 2019 is assessed as high. The Company's risk exposure in this regard also includes the risk that loss allowances on Group receivables or impairment losses on carrying amounts of equity investments must be recognised as a result of deteriorated earnings performance. The carrying amount of the equity investment in BONITA GmbH was written down in full in the single-entity financial statements of TOM TAILOR Holding SE as of 31 December 2018 due to significantly lower profitability expectations. The impairment risk in the single-entity financial statements of TOM TAILOR Holding SE has been reduced from medium-high to medium.

If BONITA's operating performance improves significantly, the provisions recognised could be reversed and it may be necessary to reverse the write-down of assets. This opportunity is classified as minor.

### *Credit Risks (incl. Risk of Revenue Loss)*

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 loss allowances or provisions. Due to the current market situation in the fashion industry, this risk and the resulting risk of the respective customer's revenue loss is now classified as a medium risk – and thus higher than previously – despite the measures that have been adopted.

### *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 is minimised using these currency forwards.

Due to the intense bank discussions held as part of the refinancing in the 2019 financial year, no or very few hedging transactions were completed for large parts of 2019. The risk for 2019 continues to be classified as low to medium due to the volume already hedged. Medium to high risk must be assumed for the 2020 financial year due to continued low volumes.

The Russian ruble's devaluation against the euro reduces the purchasing power of TOM TAILOR customers in Russia. The market is carefully monitored and this risk is put in the medium category. Currency risks arising from other currencies and currency opportunities are currently regarded as insignificant and are therefore not explained in more detail.

## EXTERNAL RISKS AND OPPORTUNITIES

### *Risks and Opportunities of Competition*

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. Based on the currently observable economic indicators, the risk of a weak economic development with negative consequences for the TOM TAILOR Group is considered to be medium for the markets of the TOM TAILOR Group in 2019.

### *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. Due to an increase in market share, the Company now classifies the risk arising from such negative developments with negative consequences for the TOM TAILOR Group as low to medium. On the other hand, there is still attractive potential in the markets in South-Eastern Europe and Russia. Here, the TOM TAILOR Group sees a general opportunity to achieve positive deviations from planning. This opportunity is classified as minor to medium.

## OPERATING RISKS AND OPPORTUNITIES

### *Sales and Inventory Risks*

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. As a result of the long, hot summer of 2018 which, among other things, led to higher inventories, the sales and inventory risk is higher than in the previous year. Nevertheless, the Management Board assumes that the increased inventory can be marketed on generally acceptable terms by implementing targeted control measures. This risk is classified as medium for 2019.

### *Risks and Opportunities Arising from the Company's Complexity*

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 completed ERP implementation will lead to short-term increases in complexity, with the result that the risk will be classified as medium. However, there is a also a chance that the planned goals in terms of reducing complexity will be exceeded in 2019. This opportunity is classified as minor.

### *Logistics Risks*

If natural forces, accidents or bankruptcies affect air and sea freight, deliveries of merchandise could be delayed or even destroyed. This risk 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 the loss of merchandise and earnings. A disruption in inventory management systems or warehousing and logistics services outsourced to partners could also 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 direct controllability as a result of having only indirect access now. Close cooperation with the relevant partners allows the Company to identify possible problems or difficulties at an early stage and to take suitable countermeasures. The logistics risk overall is classified as low.

### *Social and Environmental Risks*

The TOM TAILOR Holding SE is committed to the principle of sustainable management and acknowledges the Company's responsibility to its stakeholders and society (corporate social responsibility). More information on this topic is presented in the separate non-financial report of the TOM TAILOR Group.

## *OVERALL ASSESSMENT BY THE MANAGEMENT BOARD OF THE TOM TAILOR HOLDING AG'S RISK AND OPPORTUNITY POSITION*

Overall, there were changes with regard to the risk position of the TOM TAILOR Group and of TOM TAILOR Holding SE in the 2018 reporting year compared to financial year 2017; these are explained in this report.

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 for 2019 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 from the Management Board's perspective.

# REPORT ON RELATIONS WITH AFFILIATED COMPANIES

The Management Board prepared a report on the relations of TOM TAILOR Holding SE with affiliated companies in accordance with section 312 German Stock Corporation Act (AktG). The report on relations with affiliated companies contains the following final statement:

“We declare that with respect to the legal transactions and measures listed in the report on relations with affiliated companies, and based on the circumstances known to us at the time these legal transactions were carried out or the measures were taken or omitted, the Company in the financial year ended received appropriate compensation for each legal transaction and was not placed at a disadvantage as a result of taking or failing to take measures.”

# REPORT ON EXPECTED DEVELOPMENTS

## *OUTLOOK – ECONOMIC ENVIRONMENT AND SECTOR DEVELOPMENTS*

### GLOBAL ECONOMIC CLIMATE DETERIORATING FURTHER IN 2019 – INCREASED RISK OF RECESSION IN GERMANY

The International Monetary Fund (IMF) lowered its economic expectations further in July. The current forecast for the global economy in 2019 assumes growth of 3.2% (2018: +3.6%), with the upturn set to weaken in industrialised countries and China in particular compared to the previous year, in some cases significantly. Political strains, particularly those caused by the US trade dispute with China and potentially also with Europe in future, as well as Brexit, have caused a high degree of uncertainty and are having an increasingly adverse effect on the real economy. In the wake of this economic downturn, central banks have since returned to a more expansive monetary policy.

The IfW Kiel expects growth in the euro zone and the EU as a whole to decelerate considerably to 1.2% in 2019. While Italy's economy is stagnating, making it the slowest-growing country in Europe, Ireland and EU countries in Eastern and South-Eastern Europe are likely to continue their strong expansion. Growth in the euro zone will be driven by domestic demand in 2019. The IfW still anticipates a slightly positive trend on the labour market, which means consumer spending is expected to increase robustly once again by 1.3% in the euro zone.

### 2019: CONSUMER DEMAND IN TOM TAILOR'S REGIONAL CORE MARKETS WEAKENING BUT STILL ROBUST

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

As a result of the global economic slowdown, the German economy's upturn has virtually come to a complete standstill. In September, the Ifo Institute cut its forecast for GDP growth in Germany to just 0.5%, while at the same time emphasising the concrete risk of a recession. There are increasing signs that the frailty currently being witnessed in the industrial sector will spread to consumer and construction-related service sectors. As a result, the weak economy is already leaving its mark on the labour market. Thanks to what so far has been a very positive underlying trend, average employment is growing in 2019 compared to the previous year. Higher income and state transfer payments are also bolstering private consumption. Against this backdrop, consumer spending is expected to increase robustly once again by 1.3% in 2019.

Consumer sentiment in Germany has recently deteriorated further. In August, the GfK consumer confidence index stood at 9.7 points. Economic expectations and the propensity to buy have both slumped over the past 12 months.

The main 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 2019:

Industrial activity in Switzerland is set to weaken in line with the more gloomy prospects for the global and European economies. Although the labour market upturn is noticeably slower, it is continuing nevertheless. Consumer spending is likely to grow robustly by 1.2% in 2019.

Austria's economy appears to be cooling off significantly after two boom years, with the central bank (OeNB) expecting GDP growth of just 1.5% in 2019. However, the labour market upturn is set to continue due to high levels of employment and wage growth. Real disposable household income is forecast to rise sharply by 2.2% in 2019 as a result of newly created tax benefits for families. On this basis, private consumption is set to increase by 1.6% in 2019, as in the previous year.

The EU Commission is predicting above-average economic growth in 2019 for EU member states in South-Eastern Europe, namely Slovenia (+3.2%), Croatia (+3.1%), Bulgaria (+3.3%) and Romania (+4.0%). According to the IMF, Russia will continue its economic recovery in 2018 with moderate growth of 1.2%.

## 2019: TURNAROUND STILL NOT ON THE HORIZON FOR THE TEXTILE AND FASHION BUSINESS

The German Retail Federation (HDE) is feeling confident about 2019. It anticipates overall revenue growth in German retail sales of 2.0% in nominal terms to EUR 537.4 billion (+0.5% in real terms). E-commerce is once again expected to record above-average growth of a nominal +8.5% to EUR 57.8 billion and thus capture additional market share at the expense of bricks-and-mortar retail (+1.3%).

However, the fashion industry is not expected to experience a turnaround in 2019. Against this backdrop, the prospects for the textile and fashion business remain very challenging. Competitive and price pressures will remain high. Manufacturers that are able to react to changing fashion 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 2019 and beyond.

## SIGNIFICANT EVENTS IN 2019 TO DATE

### *Capital increase agreed, Fosun's equity interest exceeds 30%*

In February the Management Board, with the approval of the Supervisory Board, agreed to carry out a 10% capital increase in return for cash contributions utilising a portion of authorised capital. The new registered shares were exclusively and directly allocated to Fosun International Ltd. as part of a private placement. This increased Fosun's equity interest in TOM TAILOR Holding SE to more than 30%.

### *TOM TAILOR Group postpones presentation of 2018 financial statements*

March: This was due to the additional organisational demand and time required for the capital increase carried out in February as well as initial application of the IFRS 5 financial reporting standard ("Non-current assets held for sale and discontinued operations").

### *TOM TAILOR Group announces sale of BONITA*

In March, the TOM TAILOR Group signed a purchase agreement for the sale of BONITA GmbH to Victory & Dreams International Holding B.V. The parties agreed not to disclose the terms of this transaction. The transaction was to be completed subject to the usual conditions.

### *Fosun publishes offer document*

In April, Fosun International published a voluntary public takeover offer for the shares of TOM TAILOR Holding SE at a price of EUR 2.31 per share. Although the Management Board and Supervisory Board welcome the offer in principle from a strategic point of view, the offer price was considered financially inadequate.

### *Preliminary figures for 2018 and Q1 2019*

In May, the Company continued to conduct negotiations with the syndicate banks about their consent to sell the equity interest in BONITA, the adjustment of key financial figures (financial covenants) under the syndicated loan agreement and a financing contribution from Fosun. These negotiations turned out to be more difficult than originally expected with regard to Fosun's financing contribution. With the agreement of the syndicate banks and Fosun, the Management Board commissioned Boston Consulting Group to carry out an independent business review to support the negotiations. On 13 May 2019, the Company published further preliminary figures for the 2018 financial year and the first quarter of 2019.

### *Changes in Supervisory Board*

According to a resolution passed on 28 May 2019, Dr Thomas Tochtermann, Chairman of the Supervisory Board of TOM TAILOR Holding SE, stepped down from his role effective no later than 25 June 2019. This was because major shareholder Fosun International is seeking stronger representation on the Supervisory Board in light of the Company's current exceptional situation and regarded this as one of the prerequisites for its continued participation in financing discussions. As part of the reorganisation of the Supervisory Board, former Supervisory Board member and vice president of the Fosun Fashion Group Dr. Junyang (Jenny) Shao took over as Chairwoman of the Supervisory Board. Michael Chou, CFO of the Fosun Fashion Group, was also appointed to the Supervisory Board as a new member.

### *Syndicate banks reject BONITA sale*

On 31 May 2019, the syndicate banks announced that there was no sufficient majority to approve the implementation of the sale of the BONITA subgroup. As a result, the Management Board announced that it would review all strategic alternatives for BONITA, including a resumption of the sale process. At the same time, the restructuring measures were intensified further.

### *Bridge financing agreed in principle*

In June, discussions with the syndicate banks and major shareholder Fosun reached an initial agreement concerning bridge financing until mid-August. This additional time should make it possible to finalise the independent business review and agree the final financing structure and the contributions to be made by each party.

### *Preliminary figures for Q2 2019*

On 14 August 2019, the Company published its preliminary figures for the second quarter of 2019.

### *Bridge financing extended*

In August, the bridge financing agreement reached by TOM TAILOR Holding SE and its syndicate banks was extended until mid-September in order to finalise the independent business review and agree the final financing structure and the contributions to be made by each party. The short-term loan from Fosun was also extended.

### *Change at the top of the Management Board*

The Supervisory Board appointed Dr Gernot Lenz as the new CEO of TOM TAILOR Holding SE. The decision was communicated on 21 October. Dr. Lenz took office on 1 November 2019 and succeeded Dr. Heiko Schäfer, who left the Company at his own request. Dr Lenz was most recently CEO of the s.Oliver Group.

### *TOM TAILOR Holding SE Signs New Loan Agreement and Publishes Restated Preliminary Results for 2018*

In early October, the TOM TAILOR Group reached an agreement with the consortium banks and major shareholder Fosun on a new financing structure and the associated contributions to be made by the respective parties, and they signed a corresponding term sheet. The parties then finalised the contractual documentation by the end of October and the loan agreement signed at the end of October became effective on 30 October 2019 after all conditions precedent had been met. This new agreement, which runs until the end of September 2022 and has a total volume of EUR 365.0 million, secures the long-term financing of the TOM TAILOR Group and increases its flexibility for achieving future growth. Due to the planning horizon up to and including 2022, as laid out in the term sheet and based on the independent business review (IBR) carried out for this period, the Management Board is restating the preliminary results for the 2018 financial year that were published on 13 May 2019.

## EXPECTED DEVELOPMENT OF THE GROUP'S POSITION IN 2019

### *Consolidated revenue down on previous year*

In view of the revenue trend, the Management Board of TOM TAILOR Holding SE expects a slight fall in consolidated revenue for the 2019 financial year compared to the previous year, primarily due to the persistently negative revenue trend at BONITA. To stabilise earnings and re-establish a foundation for profitable growth, the Group is focusing on the restructuring begun in 2018 during the current financial year, intensifying and pressing ahead further with this programme after the efforts to sell BONITA were abandoned in May 2019.

The Management Board still anticipates revenue growth for the TOM TAILOR brand for reasons such as the e-commerce, space and product range expansion, including the introduction of new product lines in the womenswear business. However, the anticipated increases in revenue are not enough to compensate for the decline in revenue forecast for BONITA.

The Management Board also expects revenue in the TOM TAILOR Retail segment to increase slightly due to rising e-commerce revenues and controlled expansion of space, as well as higher productivity for existing space, thus more than offsetting the decline in revenue caused by store closures. The Management Board also anticipates a slight rise in revenues in the TOM TAILOR Wholesale segment caused by space expansion. The growth drivers here are primarily planned openings of shop-in-shops, especially in Germany, Austria and Switzerland, as well as international expansion in South-Eastern Europe and Spain in particular.

Generally speaking, the forecast assumes an economic slowdown in the TOM TAILOR Group's core markets and continued volatility in the textile and fashion market. At Group level, the Management Board therefore expects to generate revenue of EUR 800 to 820 million, of which approx. EUR 630 to 640 million is attributable to the TOM TAILOR brand and EUR 170 to 180 million to the BONITA brand.

### *GROUP-EBITDA of EUR 25 to 35 million before one-off expenses*

The Management Board estimates that the Group's gross margin will be in line with the previous year. Consolidated EBITDA before one-off expenses is forecast to reach around EUR 25-35 million, with EUR 50-55 million attributable to the TOM TAILOR brand and BONITA continuing to record a significantly negative performance at an anticipated EUR -20 to -25 million. As a result, the EBITDA margin within the Group is anticipated to be between 3.0% and 4.4%, with an EBITDA margin of between 7.8% and 8.7% for TOM TAILOR and between -11.8% and -13.9% for BONITA. Against this backdrop, the Management Board of TOM TAILOR Group only expects a slightly positive EBIT before one-off expenses for the 2019 financial year.

In addition, the Management Board anticipates that the financial negotiations and restructuring of BONITA will generate significant one-off expenses for the Group amounting to EUR 15-20 million. Furthermore, additional significant expenses may arise from write-downs or the recognition of provisions in the event of deviations from planning if implementing the planned restructuring measures requires more time. Both the EBITDA and EBIT forecasts would be negatively impacted in both cases.

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### TOM TAILOR Group: Key Data for the Company Forecast for 2019

| | 2019 guidance |
|---|---|
| Consolidated revenue | EUR 800–820 million |
| Gross margin (in %) | At prior-year level |
| EBITDA before one-off expenses | EUR 25–35 million |
| EBITDA margin (in %) before one-off expenses | 3.0–4.4 |
| EBIT before one-off expenses | EUR 0–5 million |
| EBIT margin (in %) before one-off expenses | 0–0.6 |
| One-off expenses | EUR 15–20 million |

The forecast and the key assumptions on which it is based take into account current developments in the 2019 financial year.

### EFFECTS OF IFRS 16

First-time application of the new accounting standard IFRS 16 in financial year 2019 will have a material effect on the TOM TAILOR Group's net assets and results of operations. As explained in section "A. General Disclosures", the TOM TAILOR Group recognised additional lease liabilities of around EUR 385 million as at 1 January 2019, mainly in connection with the leasing of stores, offices and warehouse spaces. The Group also recognised right-of-use assets in the same amount under intangible assets, which will increase the total assets / total equity and liabilities of the TOM TAILOR Group accordingly.

Due to the change in accounting requirements, rental expenses will no longer be recognised in EBITDA; the future presentation will include a depreciation charge for right-of-use assets and finance expense arising from interest expense on the lease liability. This will create significant shifts in the financial key performance indicators of the TOM TAILOR Group. The Management Board estimates that EBITDA will be around EUR 80 million higher than forecast, giving a reported EBITDA margin before one-off expenses of between 13.7% and 15.3%. The Management Board estimates that EBIT will be around EUR 6.0 million higher than forecast, giving a reported EBIT margin before one-off expenses and adjusted for accrued lease payments and provisions for onerous contracts of between 0.7% and 1.4%.

*TOM TAILOR Holding SE:*
For the 2019 financial year, the Management Board of TOM TAILOR Holding SE expects net income to break even and the equity ratio to decline. Liabilities to banks will not change significantly in 2019.

## *OVERALL ASSESSMENT OF EXPECTED DEVELOPMENTS BY THE MANAGEMENT BOARD*

Despite the TOM TAILOR brand's strong performance in the 2018 financial year, the TOM TAILOR Group's overall performance was not satisfactory and was well below the Management Board's expectations. The unusually difficult market conditions in the fashion industry and the significantly negative performance of BONITA, together with write-downs relating to both property, plant and equipment in the BONITA segment and the full write-down of BONITA's recognised brand value, caused consolidated earnings to decline from a net profit of EUR 17.1 million in the previous year to a net loss of EUR -179.5 million in 2018.

The sale of BONITA in the 2019 financial year was intended to free up capacity to enable the Management Board to concentrate fully on the profitable growth of the TOM TAILOR brand. After abandoning its efforts to sell BONITA in May 2019, the Management Board of TOM TAILOR Group once again stepped up the restructuring of BONITA and will continue to consistently push ahead with these efforts. At the same time, all value-creating options are still being considered, including the sale of BONITA. The Management Board expects the TOM TAILOR brand to continue its positive performance.

In light of this, the Management Board anticipates an improvement in revenue for the TOM TAILOR brand during the current 2019 financial year and a stable gross margin compared to the previous year. It also expects reported EBITDA to fall considerably below the previous year's level due to one-off expenses associated with negotiations concerning a new financing structure. The Management Board expects BONITA to continue its significantly negative operating performance in terms of both revenue and EBITDA.

By contrast, the Management Board is positive about the ongoing commitment of major shareholder Fosun, who is providing lasting strategic and financial support as a strong partner to the Group. The Management Board also has a positive view of the support provided by its banking syndicate, which entered into a long-term financing agreement with the Company in October 2019 that runs until the end of September 2022.

In principle, the Management Board expects business performance to be positive and earnings to improve in 2020. In addition, the Management Board is forecasting further revenue growth for the TOM TAILOR brand and a further decline in revenue in the BONITA segment. The full-year forecast is expected to be specified when the 2019 annual financial statements are published.

The forecasts for the 2019 and 2020 financial years assume that the textile market will remain fundamentally volatile and that the TOM TAILOR Group's core markets will experience a potential economic downturn. The forecast also 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, 30 October 2019.

The Management Board

Dr Heiko Schäfer (CEO)

Thomas Dressendörfer (CFO)

Liam Devoy (COO)

Karsten Oberheide (BONITA)

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

## Consolidated Income Statement from 1 January to 31 December 2018

| in EUR thousand | Note | 2018 | 2017 |
|---|---|---|---|
| **Revenue** | **(1)** | **843,818** | **921,775** |
| Other own work capitalized | (2) | 788 | 696 |
| Other operating income | (2) | 30,893 | 37,463 |
| Cost of materials | (3) | –353,958 | –384,085 |
| Personnel expenses | (4) | –186,414 | –195,292 |
| Depreciation, amortisation | (5) | –37,647 | –35,158 |
| Impairment losses | (5) | –204,311 | –4,014 |
| Other operating expenses | (6) | –309,393 | –297,482 |
| **Profit from operating activities** | | **–216,224** | **43,903** |
| **Financial result** | **(7)** | **–9,844** | **–15,333** |
| **Result before income taxes** | | **–226,068** | **28,570** |
| Income taxes | (8) | 46,532 | –11,515 |
| **Net income for the period** | | **–179,536** | **17,055** |
| thereof: Shareholders of TOM TAILOR Holding SE | | –183,531 | 12,660 |
| Non-controlling interests | | 3,995 | 4,395 |
| **Earnings per share** | **(9)** | | |
| Basic earnings per share (EUR) | | –4.77 | 0.37 |
| Diluted earnings per share (EUR) | | –4.77 | 0.37 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## Consolidated Statement of Comprehensive Income from 1 January to 31 December 2018

| in EUR thousand | Notes | 2018 | 2017 |
|---|---|---|---|
| **Net income for the period** | | **-179,536** | **17,055** |
| Other comprehensive income from the remeasurement of pensions and similar obligations | | 43 | -9 |
| Tax effect | | -13 | 3 |
| **Items that will not be reclassified subsequently to profit or loss** | | **30** | **-6** |
| Exchange differences on translating foreign operations | | -423 | -684 |
| Change in fair value of cash flow hedges | | 29,849 | -35,180 |
| Tax effect on change in fair value of cash flow hedges | | -9,278 | 10,928 |
| **Items that may be reclassified subsequently to profit or loss** | | **20,148** | **-24,936** |
| **Other comprehensive income** | | **20,178** | **-24,942** |
| **Total comprehensive income, net of tax** | | **-159,358** | **-7,887** |
| thereof: Shareholders of TOM TAILOR Holding SE | | -163,498 | -12,181 |
| Non-controlling interests | | 4,140 | 4,294 |

# CONSOLIDATED BALANCE SHEET

## Consolidated Balance Sheet as at 31 December 2018

| in EUR thousand | Notes | 31.12.2018 | 31. Dec. 2017 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | (10) | 134,107 | 321,323 |
| Property, plant and equipment | (11) | 60,016 | 79,380 |
| Other assets | (12) | 18,404 | 14,271 |
| | | **212,527** | **414,974** |
| **Current assets** | | | |
| Inventories | (13) | 145,177 | 138,511 |
| Trade receivables | (14) | 58,390 | 53,845 |
| Income tax receivables | | 2,191 | 2,347 |
| Other assets | (12) | 26,023 | 12,431 |
| Cash and cash equivalents | (15) | 25,110 | 24,189 |
| | | **256,891** | **231,323** |
| **Total assets** | | **469,418** | **646,297** |

## Consolidated Balance Sheet as at 31 December 2018

| in EUR thousand | Notes | 31.12.2018 | 31. Dec. 2017 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Subscribed capital | (16) | 38,495 | 38,495 |
| Capital reserves | (16) | 345,577 | 346,528 |
| Consolidated net accumulated losses | (16) | -347,727 | -163,525 |
| Accumulated other comprehensive income | | 6,572 | -13,461 |
| **Attributable to shareholders of TOM TAILOR Holding SE** | | **42,917** | **208,037** |
| Non-controlling interests | | 4,751 | 4,913 |
| | | **47,668** | **212,950** |
| **Non-current provisions and liabilities** | | | |
| Provisions for pensions | (20) | 1,472 | 1,530 |
| Other provisions | (21) | 33,858 | 19,734 |
| Deferred tax liabilities | (22) | 17,008 | 60,450 |
| Non-current financial liabilities | (23) | 16,269 | 101,385 |
| Other non-current liabilities | (25) | 904 | 6,489 |
| | | **69,511** | **189,588** |
| **Current provisions and liabilities** | | | |
| Other provisions | (21) | 33,906 | 44,657 |
| Income tax payables | | 8,938 | 6,644 |
| Current financial liabilities | (23) | 148,129 | 36,077 |
| Trade payables | (24) | 127,857 | 125,022 |
| Other current liabilities | (25) | 33,409 | 31,359 |
| | | **352,239** | **243,759** |
| **Total equity and liabilities** | | **469,418** | **646,297** |

# CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

## Consolidated Statement on Changes in Equity for the Financial Year from 1 January to 31 December 2018

| EUR thousand, if not stated otherwise | Number of shares in thousand | Subscribed capital | Capital reserves |
|---|---|---|---|
| **Balance at 1 January 2018** | **38,495** | **38,495** | **346,528** |
| Total comprehensive income, net of tax | – | – | – |
| Cash capital increase | – | – | –486 |
| Costs of raising equity capital | – | – | – |
| Dividends paid | – | – | – |
| Other changes | – | – | –465 |
| **Balance at 31 December 2018** | **38,495** | **38,495** | **345,577** |

## Consolidated Statement on Changes in Equity for the Financial Year from 1 January to 31 December 2017

| EUR thousand, if not stated otherwise | Number of shares in thousand | Subscribed capital | Capital reserves |
|---|---|---|---|
| **Balance at 1 January 2017** | **28,630** | **28,630** | **294,175** |
| Total comprehensive income, net of tax | – | – | – |
| Cash capital increase | 9,865 | 9,865 | 54,260 |
| Costs of raising equity capital | – | – | –2,088 |
| Dividends paid | – | – | – |
| Other changes | – | – | 181 |
| **Balance at 31 December 2017** | **38,495** | **38,495** | **346,528** |

| | | 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 SE | Non-controlling interests | Total |
| | **–163,525** | **–1,066** | **–12,095** | **–300** | **208,037** | **4,913** | 212,950 |
| | –671 | – | – | – | –671 | – | –671 |
| | – | – | – | – | –486 | 474 | –12 |
| | –183,531 | –568 | 20,571 | 30 | –163,498 | 4,140 | –159,358 |
| | – | – | – | – | – | –4,776 | –4,776 |
| | – | – | – | – | –465 | – | –465 |
| | **–347,727** | **–1,634** | **8,476** | **–270** | **42,917** | **4,751** | 47,668 |

| | | 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 SE | Non-controlling interests | Total |
| | **–176,185** | **–483** | **12,157** | **–294** | **158,000** | **4,892** | 162,892 |
| | 12,660 | –583 | –24,252 | –6 | –12,181 | 4,294 | –7,887 |
| | – | – | – | – | 64,125 | – | 64,125 |
| | – | – | – | – | –2,088 | – | –2,088 |
| | – | – | – | – | – | –4,273 | –4,273 |
| | – | – | – | – | 181 | – | 181 |
| | **–163,525** | **–1,066** | **–12,095** | **–300** | **208,037** | **4,913** | 212,950 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## Consolidated Statement of Cash Flows for the Financial Year from 1 January to 31 December 2018

| in EUR thousand | 2018 | 2017 |
|---|---|---|
| **Net income for the period** | **–179,536** | **17,055** |
| | | |
| Depreciation, amortisation and impairment losses | 240,114 | 38,765 |
| Income taxes | –46,532 | 11,515 |
| Interest income / expense | 9,844 | 15,333 |
| Change in non-current provisions | 15,778 | –938 |
| Change in current provisions | –10,970 | –4,737 |
| Proceeds from disposal of intangible assets and items of property, plant and equipment | 976 | 3,090 |
| Change in inventories | –6,666 | 22,168 |
| Change in receivables and other assets | –9,023 | –9,275 |
| Change in liabilities | 14,475 | –5,115 |
| Income taxes paid / refunded | –2,951 | –4,089 |
| Other non-cash changes | –1,843 | –402 |
| **Cash generated from operations** | **23,666** | **83,370** |
| | | |
| Interest paid | –7,261 | –13,306 |
| Interest received | 36 | 118 |
| **Net cash provided by operating activities** | **16,441** | **70,182** |
| | | |
| Payments to acquire intangible assets and items of property, plant and equipment | –32,418 | –17,451 |
| Proceeds from disposal of intangible assets and items of property, plant and equipment | 1,759 | 4,216 |
| **Net cash used in investing activities** | **–30,659** | **–13,235** |
| | | |
| Cash capital increase by issuing new shares | 0 | 64,125 |
| Costs of raising equity capital | 0 | –3,027 |
| Dividend payment to non-controlling interest shareholders | –4,776 | –4,273 |
| Proceeds from financial liabilities | –12 | 0 |
| Repayments of financial liabilities | 157,142 | 0 |
| Net cash provided by / used in financing activities | –137,196 | –127,481 |
| **Mittelzufluss / Mittelabfluss aus der Finanzierungstätigkeit** | **15,158** | **–70,656** |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | –19 | –225 |
| Net change in cash and cash equivalents | 921 | –13,934 |
| Cash and cash equivalents at beginning of period | 24,189 | 38,123 |
| **Cash and cash equivalents at end of period** | 25,110 | **24,189** |
| | | |
| **Composition of cash and cash equivalents** | | |
| **Cash funds** | **25,110** | **24,189** |

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

# A. GENERAL DISCLOSURES

The TOM TAILOR Group is an international, vertically integrated fashion and lifestyle company focused 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 Company covers the different segments of the fashion market (age groups of the target customers) with the TOM TAILOR and BONITA umbrella brands.

The ultimate parent of the TOM TAILOR Group is TOM TAILOR Holding SE, which is domiciled in Hamburg / Germany, and entered in the commercial register of Hamburg Local Court under the number HRB 146032. Its registered office is at Garstedter Weg 14, 22453 Hamburg.

## *BASIS OF PREPARATION*

The consolidated financial statements of TOM TAILOR Holding SE ("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 2018 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 2018

The TOM TAILOR Group applied the following new or amended standards and interpretations in financial year 2018:

#### 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 |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | 01 / 01 / 2018 | 28 / 03 / 2018 |
| Amendments to standards | | |
| Clarifications of IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers | 01 / 01 / 2018 | 31 / 10 / 2017 |
| Amendment to IFRS 2: Clarification of Classification and Measurement of Share-based Payment Transactions | 01 / 01 / 2018 | 26 / 02 / 2018 |
| Amendment to IAS 40: Classification of Unfinished Property | 01 / 01 / 2018 | 14 / 03 / 2018 |
| Annual Improvements (2014-2016 Cycle): | 01 / 01 / 2018 / 01 / 01 / 2017 | 07 / 02 / 2018 |

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.

The first-time application of IFRS 9 has no material effect on the presentation of the Group's net assets, financial position and results of operations.

In compliance with the stipulations of IFRS 9, the TOM TAILOR Group utilised the option for simplified initial application. Cumulative gains or losses arising from the transition were recognised in other comprehensive income and prior-year comparatives were not adjusted.

In accordance with the requirements of IFRS 9, the TOM TAILOR Group classifies financial instruments into the new categories of "at amortised cost", "at fair value through profit or loss" and "at fair value through other comprehensive income". IFRS 9 sets out that financial assets must be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The allocation of financial instruments to the new IFRS 9 measurement categories does not give rise to any transition effects for the Group in the form of reclassifications.

In view of the new hedge accounting rules, all existing hedges also meet the requirements for hedge accounting in accordance with IFRS 9 and are recognised accordingly.

The only insignificant effects for the Group arise from the introduction of the new impairment model that in accordance with IFRS 9 is based on the expected credit losses. The new measurement method leads to an increase in the provision for risk that is mainly due to the fact that it is also necessary to recognise risk provisions for financial assets that are not non-performing. To determine the expected credit losses for trade receivables and contract assets, TOM TAILOR utilises the simplified approach because these do not contain any significant financing components. To determine valuation allowances on trade receivables, measurement matrices are used that essentially take account of internal historical default rates, empirical values and the economic circumstances of the customer in question. Use of the new impairment model gives rise to EUR 0.5 million higher valuation allowances on trade receivables as at 1 January 2018 that were recognised in other comprehensive income.

The following table shows the reconciliation of the financial instruments' categories and carrying amounts and the effects on consolidated equity in the course of the first-time application of IFRS 9.

## Fair Values of Financial Instruments

| in EUR thousand | Category under IAS 39 | Category under IFRS 9 | Carrying amount pursuant to IAS 39 31/12/2017 | Remeasurement | Reclassification | Carrying amount pursuant to IFRS 9 01/01/2018 | Effect on loss carryforward 01/01/2018 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Trade receivables and other assets | lar | AC | 73,177 | –483 | | 72,694 | –483 |
| Cash and cash equivalents | lar | AC | 24,189 | | | 24,189 | |
| Derivatives used to hedge interest rate and currency risk that are part of a hedge | n.a. | Hedge Accounting | 57 | | | 57 | |
| **Financial liabilities** | | | | | | | |
| Liabilities to banks | flac | AC | 110,110 | | | 110,110 | |
| Finance lease liabilities | flac | n.a. [1] | 27,352 | | | 27,352 | |
| Derivatives used to hedge interest rate and currency risk that are part of a hedge | n.a. | Hedge Accounting | 17,104 | | | 17,104 | |
| Trade payables and other liabilities | flac | AC | 129,083 | | | 129,083 | |

flac = financial liabilities measured at amortised cost
lar = loans and receivables

AC = financial assets measured at amortised cost

[1] Finance lease liabilities are measured in accordance with IAS 17.

The effects of the increase in risk provisions recognised from the first-time application of the new impairment model are shown in the following table:

| Measurement category pursuant to IAS 39 | Loss allowances pursuant to IAS 39 as of 31/12/2017 | Effects of applying the impairment model pursuant to IFRS 9 | Loss allowances pursuant to IFRS 9 as of 01/01/2018 | Measurement category pursuant to IFRS 9 |
|---|---|---|---|---|
| **Trade receivables** | | | | **Trade receivables** |
| Loans and receivables | –12,625 | –483 | –13,108 | Measured at amortised cost |
| **Total** | **–12,625** | **–483** | **–13,108** | |

### *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. IFRS 15 Revenue from Contracts with Customers is mandatory for financial years beginning on or after 1 January 2018.

In compliance with the transitional provisions of IFRS 15, the TOM TAILOR Group chose the modified retrospective approach for the first-time application of the regulations governing revenue from contracts with customers, which led to the cumulative effect of the transition being recognised as an adjustment to equity at the date of initial application and the prior-year comparatives being presented in accordance with the existing guidance.

Given the Group's business model, there were no significant discretionary decisions to be made either with regard to the time of performance or the determination of the transaction price. The Group does not incur any significant costs in connection with the performance or initiation of a contract.

TOM TAILOR has entered into licensing agreements with various partners for the manufacture and distribution of products and accessories marketed under the TOM TAILOR brands. These license agreements provide for remuneration based on the sales revenue generated by the licensee. In the case of revenue-oriented remuneration for licences, variable remuneration results in revenue only when and insofar as the licensee realises the revenue underlying the licence income. The current approach is in line with the Group's previous accounting practice and does not affect the amount of licence income. Based on the rules on licence income in IFRS 15, in the 2018 financial year the Management Board of the TOM TAILOR Group has decided to report all licence income in revenue rather than in other operating income, as was the case previously. The change in the presentation of royalties increased revenue for 2018 by EUR 8.8 million.

In the TOM TAILOR Wholesale segment, bonuses, margin agreements and advertising cost subsidies are granted to key accounts. First-time application of IFRS 15 has no effect on the Group's earnings since recognition of the resulting obligations already reduces revenue by the full amount. In connection with the first-time application of IFRS 15, the line item in the balance sheet was adjusted such that a reclassification of EUR 8.0 million from provisions to other liabilities was made for these agreements.

In the TOM TAILOR Wholesale, TOM TAILOR Retail and BONITA segments, this triggers effects on the Group's results of operations in the amount of EUR -0.3 million related to existing customer rights of return and taking into account deferred taxes. This is due to the fact that previously, neither revenue nor the corresponding cost of goods sold were recognised for expected customer returns. To date, revenue was reduced based on the average margin generated. Regarding net assets, contract assets of EUR 1.7 million and return liabilities of EUR 5.9 million are recognised in the amount of the expected returns under other assets and other liabilities, respectively.

The customer loyalty programmes in the TOM TAILOR Retail and BONITA segments do not have any material effects as a result of the initial application of IFRS 15, since recognition of the resulting obligations using the previous approach already reduced revenue by the full amount. The disclosure in the balance sheet was restated such that the obligations are no longer shown under other provisions but under other liabilities.

The effects of the first-time application of IFRS 15 on the opening balance sheet as of 1 January 2018 are shown in the following table:

| in EUR thousand | Carrying amount pursuant to IAS 18 31,12,17 | Change in reporting | Remeasurement | Carrying amount pursuant to IFRS 15 01,01,18 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets and property, plant and equipment | 400,703 | | | 400,703 |
| Other assets | 14,271 | | | 14,271 |
| | **414,974** | | | **414,974** |
| **Current assets** | | | | |
| Inventories | 138,511 | | | 138,511 |
| Trade receivables | 53,845 | | | 53,845 |
| Contract assets | n.a. | | 1,750 | 1,750 |
| Other current assets | 38,967 | | | 38,967 |
| | **231,323** | | | **233,073** |
| **Total assets** | **646,297** | | | **648,047** |
| | | | | |
| **Equity** | | | | |
| Consolidated net accumulated losses | –163,525 | | –188 | –163,713 |
| Other equity | 376,475 | | | 376,475 |
| | **212,950** | | | **212,762** |
| **Non-current provisions and liabilities** | | | | |
| Deferred tax liabilities | 60,450 | | –85 | 60,365 |
| Other non-current liabilities | 129,138 | | | 129,138 |
| | **189,588** | | | **189,503** |
| **Current provisions and liabilities** | | | | |
| Other provisions | 44,657 | -12,548 | | 32,109 |
| Trade payables | 125,022 | | | 125,022 |
| Refund liabilities | n.a. | 3,043 | 1,610 | 4,653 |
| Contract liabilities | n.a. | 9,505 | 413 | 9,918 |
| Other current liabilities | 74,080 | | | 74,080 |
| | **243,759** | | | **245,782** |
| **Total equity and liabilities** | **646,297** | | | **648,047** |

The breakdown of revenue by specific categories required by IFRS 15 is shown under “1. Revenue”.

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 2018

In financial year 2018, 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 16: Leases | 01/01/2019 | 31/10/2017 |
| IFRS 17: Insurance contracts | 01/01/2021 | unclear |
| IFRIC 23 Uncertainty over Income Tax Treatments | 01/01/2019 | 23/10/2018 |
| **Amendments to standards** | | |
| Amendment to IFRS 9: Prepayment Features with Negative Compensation | 01/01/2019 | 22/03/2018 |
| Amendment to IAS 28: Long-term Interests in Associates and Joint Ventures | 01/01/2019 | 08/02/2019 |
| Amendment to IAS 19: Employee Benefits: Plan Amendment, Curtailment or Settlement | 01/01/2019 | 13/03/2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards: Updating References to the Conceptual Framework of IFRSs | 01/01/2020 | expected in 2019 |
| Amendment to IFRS 3: Definition of a Business | 01/01/2020 | expected in 2019 |
| Annual Improvements (2015-2017 Cycle) | 01/01/2019 | 14/03/2019 |
| Amendment to IAS 1 and IAS 8: Definition of materiality | 01/01/2020 | expected in 2019 |
| Amendment to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform | 01/01/2020 | expected in 2019 |

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

***IFRS 16 Leases***

IFRS 16, the new standard on leases, will replace the currently applicable standard IAS 17 and related interpretations and is effective for annual reporting periods starting on or after 1 January 2019. All rental and lease agreements, subleases, and sale and leaseback transactions come under the scope of IFRS 16.

The objective of the new standard is to present all financial obligations under rental and lease agreements. The main difference between IAS 17 and IFRS 16 is in lessee accounting; under IFRS 16 lessees will no longer be required to classify their leases as ‘operating’ or ‘finance’ and will instead recognise a lease liability at the present value of the future lease payments and a corresponding right-of-use asset for all leases.

On transition the TOM TAILOR Group opted to apply the modified retrospective approach, under which it is not required to restate prior-year figures. At the date of initial application, no reassessment is made as to whether an arrangement is or contains a lease. The right-of-use asset is recognised at the present value of the lease liability.

First-time application as at 1 January 2019 will lead to the recognition of additional lease liabilities amounting to approximately EUR 385 million, mainly in connection with the leasing of stores, offices and warehouse spaces. The lease payments comprise the sum of all fixed lease payments for the non-cancellable period of the lease. Extension options will be included if their exercise is sufficiently certain. The maturity-linked and country-specific incremental borrowing rate will be used to calculate the present value. The weighted average incremental borrowing rate used to determine lease liabilities as of 1 January 2019 is 3.4%. Interest will be added to the lease liability over the lease term using the effective interest method and the lease liability will be adjusted for any remeasurement to reflect the lease payments made.

At the date of initial application, the right to use the leased asset will be measured at the amount of the lease liability, reduced by accrued lease payments and provisions for onerous contracts, and amortised over the lease term.

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.

As a consequence of the substantial increase in lease liabilities, net debt will rise accordingly; non-current assets will also increase, thereby reducing the equity ratio. In the future, a higher depreciation charge and additional interest expense will be presented in the income statement instead of the lease expense. Furthermore, this will give rise to an improvement in the net cash provided by operating activities reported in the statement of cash flows, while the principal portion and the interest expense will be reported as a component of net cash flow provided by / used in financing activities.

# BASIS OF CONSOLIDATION

The basis of consolidation of the TOM TAILOR Group comprises TOM TAILOR Holding SE 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

## INDIRECT SUBSIDIARIES:

- TOM TAILOR Retail GmbH, Hamburg / Germany
- TOM TAILOR E-Commerce GmbH, Hamburg / 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., Lesce / Slovenia
- 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, Moscow / Russia
- TOM TAILOR Retail Slovakia s.r.o., Bratislava / Slovakia
- TOM TAILOR VELEPRODAJA d.o.o., Lesce / Slovenia
- TOM TAILOR VELEPRODAJA d.o.o., Belgrade / Serbia
- 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, Hamburg / Germany
- GEWIB GmbH, Hamminkeln / Germany
- GEWIB GmbH & Co. KG, Pullach / Germany
- BONITA (Schweiz) Retail AG, Baar / Switzerland
- BONITA Österreich Handels GmbH, Salzburg / Austria
- BONITA Lesce d.o.o., Lesce / Slovenia

## INDIRECT EQUITY INTERESTS:

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

TOM TAILOR CND INC. is not included in the consolidated financial statements due its insignificance to the Group's net assets, financial position and results of operations.

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

### Subsidiaries

| in % | Equity interest 31/12/2018 | 31/12/2017 |
|---|---|---|
| **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/Slowenia | 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 | 100.0 | 51.0 |
| TOM TAILOR RETAIL RO SRL, Bucharest/Romania | 90.2 | 90.2 |
| BONITA Lesce d.o.o., Lesce/Slowena | 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 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. has not been included in the consolidated financial statements because it is insignificant.

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%. A purchase option that can be exercised from 1 January 2018 to 31 December 2019 is in place for the remaining 20% minority interest. At the time these financial statements were prepared, the option had not been exercised.

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%. 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. At the time these financial statements were prepared, the option had not been exercised.

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.

In financial year 2018, TOM TAILOR GmbH acquired the minority shareholder's 49% stake in TT textiles GmbH, Hamburg, and is thus the sole shareholder of the company.

## CHANGES IN THE BASIS OF CONSOLIDATION

BONITA ITALIA S.R.L. UNIPERSONALE, Verona/Italy, was liquidated in the course of the 2018 financial year after having already ceased operations in the previous financial year.

## 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% (2017: 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. | | Group TOM TAILOR South Eastern Europe Holding GmbH | |
|---|---|---|---|---|
| in EUR thousand | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Revenue and income | 25,714 | 25,542 | 39,422 | 41,578 |
| Expenses | –11,492 | –13,173 | –35,987 | –38,701 |
| Net profit for the period | 14,222 | 12,369 | 3,435 | 2,877 |
| Net profit for the year attributable to non-controlling interests | 3,556 | 3,092 | 687 | 575 |
| Non-current assets | 414 | 496 | 7,299 | 8,849 |
| Current assets | 97,050 | 80,812 | 17,587 | 16,333 |
| Non-current liabilities and provisions | 0 | 0 | 425 | 233 |
| Current provisions and liabilities | 84,042 | 69,406 | 9,397 | 11,829 |
| Equity | 13,422 | 11,902 | 15,064 | 13,120 |
| Thereof: | | | | |
| Owners of the parent | 10,067 | 8,927 | 12,051 | 10,496 |
| Non-controlling interests | 3,356 | 2,976 | 3,013 | 2,624 |
| Dividends paid to non-controlling interests | 2,937 | 4,273 | 300 | 0 |
| Cash flows from operating activities | 12,229 | 13,531 | 7,661 | 8,280 |
| Cash flows from investing activities | –31 | 1 | –582 | –285 |
| Cash flows from financing activities | –11,748 | –17,091 | –8,329 | –4,851 |

## 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 2018 (2017: 1 January to 31 December 2017).

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 aforementioned liquidation of the subsidiary BONITA ITALIA S.R.L. UNIPERSONALE, Verona / Italy, the basis of consolidation did not change in the year under review.

## 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** | **31/12/2018** | 31/12/2017 | **2018** | 2017 |
| US dollars | 1.15 | 1.20 | 1.18 | 1.13 |
| Swiss francs | 1.13 | 1.17 | 1.16 | 1.11 |
| Russian rubles | 79.72 | 69.39 | 74.04 | 65.94 |

## RECOGNITION OF INCOME AND EXPENSES

Under IFRS 15, revenue from the sale of products is recognised when the goods have been transferred to the customer and, where an amount of consideration has been agreed or is determinable, collectibility of consideration is probable. Products are considered to be transferred when the customer obtains control of the products. The timing depends on the individual terms of the contracts in the different sales channels – wholesale, the Group's retail activities and online retail.

In wholesale, this is the case as soon as the delivery has been made to the wholesaler or the goods have been made available for pick-up and the further prerequisites for an effective transfer of risk have been fulfilled in compliance with the TOM TAILOR Group's general terms and conditions for orders.

In the Group's brick-and-mortar retail sales, consumers obtain title to and thus also control of the goods after paying for them in the store.

In online retail, revenue is recognised regularly, though delivery of the goods to the consumer and taking into account the 14-day right of return.

Revenue is recognised as the fair value of the consideration received. Rights of return granted to the customer are duly considered in the measurement of the consideration. Revenue is reported net of discounts, markdowns and value-added tax.

The rights granted to customers to return goods are shown gross in the income statement and the balance sheet. The probability and amount of the expected returns are estimated based on empirical data and recognised as a reduction in revenue. The goods issue that is recognised as an expense when the goods are shipped is adjusted for the amount of expected returns.

The right to receipt of the goods from expected returns is carried in the balance sheet under other non-financial assets in the amount of the original cost of the inventories minus any costs incurred for returns processing and potential impairment.

A return obligation to the customer is recognised under other current non-financial liabilities for settled customer receivables for which goods are expected to be returned.

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 the previous impairment have ceased to apply.

Amortisation and impairment charges are shown separately under the “Depreciation and amortisation” “impairment losses” items 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 250.00 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 NON-FINANCIAL 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.

## *FINANCIAL ASSETS*

Shares in unconsolidated affiliates are measured at the lower of cost or fair value. The shares are not shown in a dedicated line item in the balance sheet for reasons of materiality. The existing equity investments are carried at amortised cost.

## *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 age structure analyses and concrete marketing plans, where available.

# *FINANCIAL INSTRUMENTS*

## A) GENERAL

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets must be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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 assets and financial liabilities are recognised in accordance with IFRS 9 and - to the extent relevant for the TOM TAILOR Group - subdivided into the following categories upon initial recognition:

- financial assets and financial liabilities measured at amortised cost ("AC"),
- financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), and
- financial assets and financial liabilities at fair value through other comprehensive income ("FVTOCI").

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. Future expectations are also taken into consideration.

Subsequent measurement of financial assets and financial liabilities varies depending on the category to which they are allocated.

## B) NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative assets are initially recognised at fair value, plus transaction costs in the case of financial assets not at fair value through profit or loss. Transaction costs for financial assets measured at fair value are recognised as an expense.

The Group applies the general approach (expected credit loss model) described in IFRS 9 for determining the impairment of financial assets. At initial recognition, the loss allowance for these assets is measured at an amount equal to twelve-month expected credit losses. If the credit risk has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime expected credit losses.

Financial assets in the TOM TAILOR Group mainly consist of trade receivables, cash and cash equivalents and derivative financial assets.

Trade receivables, originated loans and other receivables are initially recognised at fair value or, if they do not contain a significant financing component, at the transaction price and are subsequently measured at amortised cost using the effective interest method, less any loss allowance.

Normally, trade receivables do not contain a significant financing component because in brick-and-mortar and online retail sales payment is generally effected when the goods are handed over or shipped to customers. In wholesale, standard payment terms of up to 90 days are agreed with customers.

The TOM TAILOR Group uses the simplified approach described in IFRS 9 for determining loss allowances on trade receivables. This sets out that subsequent to initial recognition the loss allowance is always measured at an amount equal to lifetime expected credit losses.

The TOM TAILOR Group uses loss rates based on internal data and empirical data on historical defaults from past years to measure expected credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting customers' solvency.

Loss allowances are recognised for discernible individual risks. If there is objective evidence of impairment, including significant financial difficulties of the debtor, a default in payment or adverse changes in the regional industry conditions which have been shown to affect the creditworthiness of the Group's debtor, specific loss allowances are recognised in an amount equal to the expected uncollectible cash flows. All impairment losses are recognised as an expense in the income statement.

Trade receivables are considered to be in default if it can be reasonably expected that the debtor will be unable to fulfil its payment obligations.

Cash and cash equivalents are comprised of cash, cheques and bank balances with an original term of no more than three months. Current account overdrafts are presented as liabilities to banks.

The Group writes down financial assets when it has no reasonable expectations of recovering the financial asset.

Financial assets are derecognised when the contractual rights to payment from the financial assets 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.

Financial liabilities that are not part of an effective hedge are measured on initial recognition at fair value plus directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

The financial liabilities in the Group are mainly comprised of trade payables, liabilities to banks and derivative financial liabilities.

A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

## C) DERIVATIVES AND HEDGE ACCOUNTING

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. In accordance with IFRS 9, 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 IFRS 9, derivatives that are not part of a hedge (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 IFRS 9 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 exchange rate risks from the operating business, and in particular to hedge actual and forecast purchases of goods in foreign currencies. TOM TAILOR Holding SE 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 IFRS 9.

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 31.2% (2017: 31.1%). This comprises the corporation tax rate of 15.0% (2017: 15.0%), the solidarity surcharge of 5.5% of the corporation tax rate (2017: 5.5%) and the average trade tax rate in the Group of 15.3% (2017: 15.3%). 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.

## 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

The obligations under the stock option programmes for management (hereinafter referred to as the Long-Term Stock Option Programme, or "SOP 2013" and "SOP 2017" for short) are measured using option pricing models (Black-Scholes model), in accordance with IFRS 2.

The fair value of the management equity participation programme was 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 eight 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 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. In the year under review, the royalties of EUR 8.8 million previously reported under other operating income (2017: EUR 6.9 million under other operating income) are shown under revenue for the first time.

The following tables show the breakdown of revenue by primary geographical market and distribution channel, including a reconciliation statement that illustrates the connection between the revenue broken down and the TOM TAILOR Wholesale, TOM TAILOR Retail and BONITA segments.

### Revenue fiscal year 2018

| | Wholesale | Retail | | | Group |
|---|---|---|---|---|---|
| in EUR thousand | TOM TAILOR | TOM TAILOR | BONITA | Total | |
| **Revenue by region** | | | | | |
| Germany | 210,814 | 136,330 | 164,591 | 300,922 | 511,736 |
| Austria | 27,183 | 43,823 | 27,625 | 71,448 | 98,631 |
| Switzerland | 10,367 | 7,138 | 15,597 | 22,735 | 33,102 |
| Benelux Countries | 25,167 | 8,758 | 17,488 | 26,246 | 51,413 |
| France | 2,895 | 3,817 | – | 3,817 | 6,711 |
| Russia | 24,673 | 23,861 | – | 23,861 | 48,534 |
| Other | 34,003 | 59,274 | 414 | 59,688 | 93,691 |
| **TOTAL** | **335,102** | **283,000** | **225,716** | **508,716** | **843,818** |
| | | | | | |
| **Revenue by distribution channel** | | | | | |
| Retail | – | 235,678 | 221,555 | 457,233 | 457,233 |
| Key accounts | 335,102 | – | – | – | 335,102 |
| Online business | – | 47,322 | 4,161 | 51,483 | 51,483 |
| **TOTAL** | **335,102** | **283,000** | **225,716** | **508,716** | **843,818** |

### Revenue fiscal year 2017

| | Wholesale | Retail | | | Group |
|---|---|---|---|---|---|
| in EUR thousand | TOM TAILOR | TOM TAILOR | BONITA | Total | |
| **Revenue by region** | | | | | |
| Germany | 226,160 | 156,008 | 193,258 | 349,267 | 575,427 |
| Austria | 27,726 | 42,903 | 32,296 | 75,199 | 102,925 |
| Switzerland | 12,280 | 6,587 | 19,181 | 25,768 | 38,048 |
| Benelux Countries | 25,074 | 10,895 | 21,996 | 32,891 | 57,965 |
| France | 4,968 | 5,928 | 79 | 6,007 | 10,975 |
| Russia | 22,696 | 19,746 | – | 19,746 | 42,442 |
| Other | 31,154 | 61,917 | 923 | 62,840 | 93,993 |
| **TOTAL** | **350,058** | **303,985** | **267,732** | **571,717** | **921,775** |
| | | | | | |
| **Revenue by distribution channel** | | | | | |
| Retail | – | 253,838 | 264,079 | 517,917 | 517,917 |
| Key accounts | 350,058 | – | – | – | 350,058 |
| Online business | – | 50,147 | 3,653 | 53,800 | 53,800 |
| **TOTAL** | **350,058** | **303,985** | **267,732** | **571,717** | **921,775** |

We also refer to our comments on the RECOGNITION OF INCOME AND EXPENSES and on non-derivative financial instruments under "B. ACCOUNTING POLICIES AND CONSOLIDATION METHODS". The classification of revenue by operating segments and by domestic / international markets 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 | 2018 | 2017 |
|---|---|---|
| Foreign exchange gains | 4,765 | 8,464 |
| Royalties | 0 | 6,937 |
| Rental income | 3,936 | 5,108 |
| Income from the reversal of provisions | 7,997 | 4,953 |
| Income from recharged marketing expenses | 2,751 | 2,312 |
| Recharged freight and other costs | 2,851 | 2,065 |
| Onward charging of delivery costs of online business | 586 | 554 |
| Reversal of impairment losses on non-current assets | 1,844 | 408 |
| Income from claims for compensation | 0 | 1,995 |
| Miscellaneous operating income | 6,163 | 4,667 |
| | **30,893** | **37,463** |

The decrease in other operating income is mainly attributable to the change in the presentation of royalties. In connection with the application of IFRS 15, royalties are presented under revenue from 2018.

The decrease in foreign exchange gains at the reporting date is compensated by higher income from the reversal of provisions, particularly employee-related provisions and provisions for customer bonuses. The personnel expenses relating to the introduction of SAP recharged in 2017 in the amount of EUR 2.0 million were not incurred in the current financial year and were only partly offset by the higher income from the reversal of impairment losses on non-current assets of EUR 1.8 million.

Rental income of EUR 3.9 million from subletting space leased by the Group is a further significant portion of other operating income.

# 3. COST OF MATERIALS

Cost of materials primarily comprises expenses for purchased merchandise.

# 4. PERSONNEL EXPENSES

Personnel expenses are composed of the following items:

### Personnel expenses

| in EUR thousand | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 157,559 | 165,463 |
| Social security costs | 16,805 | 17,502 |
| Post-employment benefit costs | 12,050 | 12,327 |
| | **186,414** | **195,292** |

The wages and salaries item includes expenses in the amount of EUR -262 thousand (2017: EUR 390 thousand) and EUR -465 thousand (2017: EUR -212 thousand) for the LTI programme and Long-Term Stock Option Programme (SOP) granted to managers.

The year-on-year decline in personnel expenses is attributable to a decrease in the average number of employees by 207, mostly due to store closings, as well as the lower amount of expenses for severance payments and leaves of absence granted to employees included in this item in 2018 as compared with the previous year. Lower personnel expenses were also attributable to lower expenses for variable remuneration components for employees and members of the Management Board, which were down due to the Group's results of operations.

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

### Number of Employees (Average)

| | 2018 | 2017 |
|---|---|---|
| Wholesale | 748 | 744 |
| Retail | 5,358 | 5,569 |
| | **6,106** | **6,313** |

Wages and salaries include expenses for severance payments in the amount of EUR 2.3 million (2017: EUR 4.5 million). Together with additions to defined benefit plans in the amount of EUR -42 thousand (2017: EUR -42 thousand), personnel expenses also included defined contribution obligations in the form of employer contributions to statutory pension insurance in the amount of EUR 12.1 million (2017: 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 (D.10) and property, plant and equipment (D.11).

# 6. OTHER OPERATING EXPENSES

Other operating expenses are composed of the following items:

### Other Operating Expenses

| in EUR thousand | 2018 | 2017 |
|---|---|---|
| Distribution expenses | 63,705 | 59,653 |
| Administrative expenses | 47,279 | 48,271 |
| Operating and other expenses | 198,409 | 189,558 |
| | **309,393** | **297,482** |

Distribution expenses mainly include EUR 36.1 million (2017: EUR 32.3 million) in marketing expenses and EUR 15.0 million (2017: EUR 14.4 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 IT costs totalling EUR 11.5 million (2017: EUR 9.1 million), legal and consulting costs totalling EUR 10.9 million (2017: EUR 8.3 million) and exchange rate losses totalling EUR 7.5 million (2017: EUR 6.5 million).

The increase in operating and other expenses of EUR 8.9 million is mainly the result of the recognition in financial year 2018 of additional provisions for expected losses from store locations totalling EUR 22.4 million due to the continued negative store performance and the related decision by management to close further store locations. This increase was compensated primarily by a EUR 11.6 million decrease in rental expenses and incidental rental costs due to store closings in the TOM TAILOR Retail and BONITA segments.

At EUR 116.5 million (2017: EUR 129.7 million), rent and incidental rental costs were the largest cost item of operating and other expenses, despite the cost savings achieved in comparison with the previous year. Furthermore, the largest items in operating and other expenses were remuneration for the logistics service provider for providing logistics services for deliveries to sales partners and remuneration for the fulfilment provider, which handles the online business.

# 7. FINANCIAL RESULT

### Financial result

| in EUR thousand | 2018 | 2017 |
|---|---|---|
| Financial income | 36 | 118 |
| Financial expense | -9,880 | -15,451 |
| | **-9,844** | **-15,333** |

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 considerable decline in financial expenses is mainly due to lower interest expense as a result of lower interest margins due to the positive business performance in the previous financial year and lower average net debt during the year. The lower net debt was mainly due to the cash capital increase carried out in the 2017 financial year and the repayment of financial liabilities using the cash inflow from operating activities.

Bank commissions and consulting fees totalling EUR 3.4 million were paid in connection with the refinancing in the first half of the 2018 financial year and in connection with the renegotiation of the financial ratios in the second half of the 2018 financial year. 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.

Previously accrued bank commissions and transaction costs with a carrying amount of EUR 3.0 million that related to the renegotiation of the financial covenants as at 30 September 2016 and the refinancing in financial year 2015 were fully derecognised through profit or loss in the 2018 financial year.

As well as these effects, financial expenses included expenses of EUR 28 thousand (2017: EUR 29 thousand) from the unwinding of discounted pension provisions, as well as expenses of EUR 296 thousand (2017: EUR 635 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 | 2018 | 2017 |
|---|---|---|
| **Current taxes** | | |
| Current income taxes for the financial year | -3,167 | -4,564 |
| Prior-period adjustments | -3,368 | 2,384 |
| | **-6,536** | **-2,180** |
| **Deferred taxes** | | |
| Utilisation of loss carryforwards / interest carried forward | -1,400 | -7,727 |
| Origination and reversal of temporary differences | 54,468 | -1,609 |
| | **53,068** | **-9,336** |
| | **46,532** | **-11,515** |

In financial year 2017, deferred tax assets recognised for existing tax loss carryforwards and interest carryforwards had been utilised by offsetting them against taxable profit at the companies of the German tax group. Due to the extent to which it will be possible to offset amounts against future taxable profit and in view of the ongoing external tax audit at the companies of the consolidated German tax group, deferred tax assets totalling EUR 3.6 million were recognised for the remaining trade and corporation tax loss carryforwards and for the interest carried forward.

In the 2018 reporting period, only deferred tax assets recognised for existing interest carryforwards were able to be utilised, which meant that after adjusting for the expected results of the ongoing external tax audit the cumulative interest carried forward in the consolidated German tax group amounted to EUR 7.1 million towards the end of 2018. After adjusting for the expected results of the ongoing external tax audit, corporation tax loss carryforwards amounted to EUR 10.4 million owing to the current tax loss in the 2019 financial year. No further trade tax loss carryforwards existed at the end of financial year 2018.

Due to the extent to which it will possible to offset amounts against future taxable profit and taking the consequences of the external tax audit into account, total deferred tax assets recognised for the aforementioned tax loss carryforwards amounted to EUR 2.2 million.

In the 2018 reporting period, the deferred taxes relating to the origination and reversal of temporary differences mainly resulted from the impairment of the BONITA brand and thus from the reversal of the deferred tax liabilities recognised for this brand. These stand in contrast to the recognition and reversal of deferred taxes relating to the origination and reversal of temporary differences arising from differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and their tax base, as well as from consolidation adjustments. Debit differences mainly result from temporary differences that were recognised on provisions for onerous contracts and impairment losses because these provisions were not allowable for tax purposes.

As at the reporting date, the Group's total tax loss carryforwards and interest carried forward amounted to EUR 116.6 million (2017: EUR 124.3 million) and EUR 7.1 million, respectively (2017: total of EUR 20.0 million). No deferred tax assets were recognised for tax loss carryforwards in the amount of EUR 109.6 million (2017: EUR 112.7 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 | 2018 | 2017 |
|---|---|---|
| Result before income taxes | -226,069 | 28,570 |
| Average composite tax rate | 31.2% | 31.1% |
| Expected income tax | 70,443 | -8,885 |
| **Reconciliation** | | |
| Effects of tax rate differences | 5,316 | 4,795 |
| Effects of tax rate changes | 8 | -116 |
| Non-recognition of deferred tax assets | -13,978 | -5,317 |
| Other tax effects from differences in the basis of tax assessment | -4,650 | -2,515 |
| Usable other loss carryforwards | -2,119 | -2,100 |
| Prior-period effects | -9,252 | 2,493 |
| Effects from the use of deferred tax assets, for which no deferred taxes were recognized | 710 | 491 |
| Other effects | 54 | -361 |
| Reported income tax income / expense | 46,532 | -11,515 |
| Effective tax rate | 21% | 40% |

Deferred taxes were calculated on the basis of a uniform tax rate of 31.2% (2017: 31.1%) 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.

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.

The non-recognition of deferred tax assets mainly relates to loss carryforwards of foreign subsidiaries and the non-recognition of deferred tax assets on temporary differences at BONITA companies.

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 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 offsetting of tax loss carryforwards against the taxable profit of the German tax group and to the results of the external tax audit.

Prior-period effects result from additional tax payments and refunds for prior years and the recognition of no more deferred tax assets on temporary differences for the BONITA companies.

Effects from the use of deferred tax assets for which no deferred taxes were recognised are attributable to reversal effects arising from the external tax audit at the German BONITA companies.

The termination of the profit and loss transfer agreement between the tax group parent, TOM TAILOR Holding SE, and the tax group subsidiary, BONITA GmbH, during the period in which these financial statements were prepared was taken into account in the recognition and measurement of deferred taxes.

# 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 SE 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 2018, 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

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Total shares as at the reporting date | 38,495,269 | 38,495,269 |

| | 2018 | 2017 |
|---|---|---|
| Share of consolidated net income attributable to shareholders of the parent (in EUR thousand) | -183,531 | 12,660 |
| Weighted average number of ordinary shares (thousands of shares) | 38,495 | 33,900 |
| Basic earnings per share (in EUR) | -4.77 | 0.37 |
| Diluted earnings per share (in EUR) | -4.77 | 0.37 |

TOM TAILOR Holding SE issued 9,865,423 new, no-par-value registered shares in June 2017 as part of a cash capital increase from authorised capital. The total number of shares is divided into 38,495,269 no-par value shares.

Subscribed capital increased by 3,849,526 shares as a result of the cash capital increase carried out in March 2019. The shares were issued while disapplying shareholders’ pre-emptive rights and subscribed exclusively by the majority shareholder Fosun. The shares carry dividend rights as from 1 January 2018. Taking this capital increase into account, the reported earnings per share as of 31 December 2018 amounted to EUR -4.33.

# D. BALANCE SHEET DISCLOSURES

## 10. INTANGIBLE ASSETS

Intangible assets are composed of the following items:

### Intangible Assets

| in T€ | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Hidden reserves identified in the course of initial consolidation** | | |
| Brands | 62,221 | 246,675 |
| Customer bases | 8,731 | 11,489 |
| Licensing agreements and similar rights | 360 | 2,445 |
| | **71,312** | **260,609** |
| **Other** | | |
| Key money / store subsidies | 3,789 | 6,310 |
| Other rights of use | 470 | 324 |
| Software | 46,911 | 42,682 |
| | **51,170** | **49,316** |
| | | |
| **Software leased under finance leases** | **122,482** | **309,925** |
| | | |
| **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 | 388 | 161 |
| | **134,107** | **321,323** |

Impairment testing of the BONITA cash-generating unit led to the brand value of EUR 184.5 million shown under intangible assets being written down in full in financial year 2018. Further intangible assets of the BONITA segment in the amount of EUR 2.2 million were impaired, as these were allocated as corporate assets to the stores that generate sustained losses.

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 and BONITA cash-generating units.

EUR 44.8 million (2017: 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 (2017: EUR 17.4 million) to the TOM TAILOR Retail segment, and EUR 184.5 million (2017: EUR 184.5 million) to BONITA, which correspond to the Group's segments of the same name. The BONITA brand (EUR 184.5 million) was written down in full in the current financial year as a result of the impairment test. EUR 4.9 million (2017: EUR 4.9 million) of goodwill relates to the TOM TAILOR Wholesale cash-generating unit and EUR 6.3 million (2017: EUR 6.3 million) to the TOM TAILOR Retail cash-generating unit.

Impairment testing is based on corporate planning, which was updated and sensitised in the course of the refinancing process to reflect performance in 2019, with a planning period until the end of 2022 followed by a terminal value, and thus Level 3 fair value measurement in accordance with IFRS 13. Following the four-year detailed planning period, the planning was updated for a period of one year using a constant annual growth rate of 1% (2017: 1% p.a.).

To calculate fair value less costs to sell, cash flows for the next five years were 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 and earnings growth per segment in the detailed planning period. The forecast, which is explained in more detail in the Company's combined management report, assumes an economic slowdown in the TOM TAILOR Group's CORE markets and continued volatility in the textile market, which shows customary fluctuations. Fair value is determined based on assumptions regarding revenue, 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% (2017: 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 – with the exception of a slightly different peer group resulting from the bankruptcy of one company. As at 31 December 2018, the WACC before taxes for the BONITA and TOM TAILOR brands was 11.28% and 11.06%, respectively (2017: 10.0% and 10.7%), while the WACC after taxes for the BONITA brand and the TOM TAILOR brand was 7.67% and 7.62%, respectively (2017: 6.92% and 7.34%).

The impairment test of the BONITA brand showed that the carrying amount considerably exceeds the fair value less costs to sell, which led to the value of the BONITA brand being written down in full in the amount of EUR 184.5 million. In addition to the brand value, other assets were written down in the amount of EUR 4.4 million. The segment's carrying amount exceeds the recoverable amount by approximately EUR 100 million. Due to the provisions of IAS 36, this amount cannot be recognised in the balance sheet as of 31 December 2018. This difference represents anticipated future losses that are expected to be realised in the coming years as a loss of the BONITA segment.

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), and licensing agreements (useful life of 14 years) are amortised over their useful life. There were no indications of impairment (triggering events) to these intangible assets as at the reporting date.

In the 2018 financial year, further investments were made in software, particularly in the SAP FMS industry solution, the implementation of which in the TOM TAILOR Group began in the 2017 financial year, and in the new e-commerce platform, which went online in 2017. Of the additions to the e-commerce platform, EUR 788 thousand (2017: EUR 696 thousand) is attributable to internal development work, which is shown as "Other own work capitalised" in the income statement.

Intangible assets changed as follows in 2018:

## Changes in Intangible Assets in 2018

| in T€ | | Brands | Goodwill | Customer bases | Licensing agreements and similar rights | Beneficial leases | Software | Other | Prepay-ments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | 1 January 2018 | 249,953 | 11,508 | 67,074 | 32,596 | 21,994 | 60,362 | 38,061 | 161 | 481,709 |
| Foreign exchange differences | | | | | | | 6 | 253 | | 259 |
| Additions | | | | | | | 15,798 | 642 | 307 | 16,747 |
| Reclassifications | | | | | | | 88 | 112 | -80 | 120 |
| Disposals | | | | | -4,280 | | -3,751 | -4,877 | | -12,908 |
| **Balance at 31 December 2018** | | 249,953 | 11,508 | 67,074 | 28,316 | 21,994 | 72,503 | 34,191 | 388 | 485,927 |
| **Amortisation and impairment losses** | 1 January 2018 | 3,278 | 271 | 55,585 | 30,151 | 21,994 | 17,680 | 31,427 | 0 | 160,386 |
| Foreign exchange differences | | | | | | | 6 | 214 | | 220 |
| Write-ups | | | | | | | | | | 0 |
| Additions from amorti-sation | | | | 2,758 | 2,085 | | 9,404 | 3,124 | | 17,371 |
| Additions from impairments | | 184,454 | | | | | 2,247 | | | 186,701 |
| Reclassifications | | | | | | | 5 | -5 | | 0 |
| Disposals | | | | | -4,280 | | -3,750 | -4,828 | | -12,858 |
| **Balance at 31 December 2018** | | 187,732 | 271 | 58,343 | 27,956 | 21,994 | 25,592 | 29,932 | 0 | 351,820 |
| Carrying amount | 1 January 2018 | 246,675 | 11,237 | 11,489 | 2,445 | 0 | 42,682 | 6,634 | 161 | 321,323 |
| **Carrying amount** | 31 December 2018 | 62,221 | 11,237 | 8,731 | 360 | 0 | 46,911 | 4,259 | 388 | 134,107 |
| of which leased | | | | | | | | | | 0 |

The customer bases with a carrying amount of EUR 8.7 million concern solely recurring customers.

Intangible assets changed as follows in financial year 2017:

## Changes in Intangible Assets in 2017

| in T€ | | Brands | Goodwill | Customer bases | Licensing agreements and similar rights | Beneficial leases | Software | Other | Prepay-ments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | **1 January 2017** | **249,953** | **11,508** | **67,074** | **32,596** | **21,994** | **21,498** | **44,057** | **551** | **449,231** |
| Foreign exchange differences | | | | | | | –11 | –722 | | –733 |
| Additions | | | | | | | 38,084 | 828 | 2,340 | 41,252 |
| Reclassifications | | | | | | | 2,245 | 376 | –2,645 | –24 |
| Disposals | | | | | | | –1,454 | –6,478 | –85 | –8,017 |
| **Balance at 31 December 2017** | | **249,953** | **11,508** | **67,074** | **32,596** | **21,994** | **60,362** | **38,061** | **161** | **481,709** |
| **Amortisation and impairment losses** | **1 January 2017** | **3,278** | **271** | **52,828** | **27,607** | **20,766** | **14,904** | **34,409** | **0** | **154,063** |
| Foreign exchange differences | | | | | | | –13 | –601 | | –614 |
| Additions from amortisation | | | | 2,757 | 2,544 | 1,228 | 3,376 | 3,143 | | 13,048 |
| Reclassifications | | | | | | | –179 | 687 | | 508 |
| Disposals | | | | | | | –408 | –6,211 | | –6,619 |
| **Balance at 31 December 2017** | | **3,278** | **271** | **55,585** | **30,151** | **21,994** | **17,680** | **31,427** | **0** | **160,386** |
| Carrying amount | 1 January 2017 | 246,675 | 11,237 | 14,246 | 4,989 | 1,228 | 6,594 | 9,648 | 551 | 295,168 |
| **Carrying amount** | **31 December 2017** | **246,675** | **11,237** | **11,489** | **2,445** | **0** | **42,682** | **6,634** | **161** | **321,323** |
| of which leased | | | | | | | | | | 0 |

In the 2017 financial year, the customer bases with a carrying amount of EUR 11.5 million 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 2018

| in T€ | | Land, buildings, including buildings on third-party land | Other equipment, operating and office equipment | Prepayments | Total |
|---|---|---|---|---|---|
| **Cost** | **1 January 2018** | **45,461** | **281,210** | **440** | **327,111** |
| Foreign exchange differences | | –324 | –248 | –37 | –609 |
| Additions | | 1,359 | 18,722 | 27 | 20,108 |
| Reclassifications | | 57 | –106 | –71 | –120 |
| Disposals | | –608 | –43,722 | –74 | –44,404 |
| **Balance at 31 December 2018** | | **45,945** | **255,856** | **285** | **302,086** |
| **Depreciation and impairment losses** | **1 January 2018** | **24,464** | **223,267** | **0** | **247,731** |
| Foreign exchange differences | | –85 | 101 | | 16 |
| Reversal of impairment losses | | –1,090 | –755 | 0 | –1,845 |
| Additions from depreciation | | 3,477 | 16,793 | 6 | 20,276 |
| Additions from impairments | | | 17,610 | | 17,610 |
| Reclassification | | –3 | 3 | | 0 |
| Disposals | | –137 | –41,581 | | –41,718 |
| **Balance at 31 December 2018** | | **26,626** | **215,438** | **6** | **242,070** |
| Carrying amount | 1 January 2018 | 20,997 | 57,943 | 440 | 79,380 |
| **Carrying amount** | **31 December 2018** | **19,319** | **40,418** | **279** | **60,016** |
| of which leased | | | | | 12,840 |

The additions in financial year 2018 related mainly to investments in controlled spaces in the TOM TAILOR Retail 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 2018 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 the two segments, TOM TAILOR Retail and BONITA, in a total amount of EUR 17,610 thousand (2017: EUR 4,014 thousand) in the reporting period. Impairment charges on property, plant and equipment amounting to EUR 1,844 thousand were reversed in the 2018 financial year.

Please refer to section 23. (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 2017

| in T€ | | Land, buildings, including buildings on third-party land | Other equipment, operating and office equipment | Prepayments | Total |
|---|---|---|---|---|---|
| **Cost** | **1 January 2017** | **54,124** | **315,879** | **603** | **370,606** |
| Foreign exchange differences | | –90 | –1,171 | –33 | –1,294 |
| Additions | | 1,383 | 5,697 | 126 | 7,206 |
| Reclassifications | | –226 | 507 | –256 | 25 |
| Disposals | | –9,730 | –39,702 | | –49,432 |
| **Balance at 31 December 2017** | | **45,461** | **281,210** | **440** | **327,111** |
| **Depreciation and impairment losses** | **1 January 2017** | **27,542** | **238,843** | **0** | **266,385** |
| Foreign exchange differences | | –28 | –920 | | –948 |
| Reversal of impairment losses | | | –407 | | –407 |
| Additions from depreciation | | 3,496 | 18,614 | | 22,110 |
| Additions from impairments | | | 4,014 | | 4,014 |
| Reclassification | | –504 | –3 | | –507 |
| Disposals | | –6,042 | –36,874 | | –42,916 |
| **Balance at 31 December 2017** | | **24,464** | **223,267** | **0** | **247,731** |
| Carrying amount | 1 January 2017 | 26,582 | 77,036 | 603 | 104,221 |
| **Carrying amount** | **31 December 2017** | **20,997** | **57,943** | **440** | **79,380** |
| of which leased | | | | | 14,899 |

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 | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Minimum lease payments** | | |
| Up to 1 year | 9,596 | 6,507 |
| 1 to 5 years | 16,286 | 23,627 |
| After 5 years | 1,308 | 771 |
| | **27,190** | **30,905** |
| **Interest component** | | |
| Up to 1 year | 896 | 630 |
| 1 to 5 years | 1,257 | 2,867 |
| After 5 years | 68 | 55 |
| | **2,221** | **3,552** |
| **Present value of minimum lease payments** | | |
| Up to 1 year | 8,700 | 5,877 |
| 1 to 5 years | 15,029 | 20,760 |
| After 5 years | 1,240 | 715 |
| | **24,969** | **27,352** |

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.

## 12. OTHER ASSETS

Other assets are composed of the following items:

### Other Assets

| in EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Fair value of currency futures | 13,649 | 57 |
| Contract assets | 1,705 | 0 |
| Creditors with debit accounts | 1,247 | 1,357 |
| Security deposits | 9,563 | 9,286 |
| Store subsidies | 4,393 | 4,935 |
| Receivables from online business | 3,277 | 2,649 |
| Receivables arising from factoring | 2,150 | 1,984 |
| Loans to third parties | 850 | 0 |
| Procurement agent commissions | 3,276 | 2,378 |
| Other assets | 4,317 | 4,056 |
| | **44,427** | **26,702** |
| of which non-current | 18,404 | 14,271 |
| of which current | 26,023 | 12,431 |

Other assets in financial year 2018 include the fair value of the foreign currency derivatives acquired as part of the Group's hedging strategy in the amount of EUR 13.6 million. Of these, EUR 4.4 million is shown under other non-current assets. As of 31 December 2017, most of the currency derivatives entered into and recognised in the balance sheet had negative market value and were therefore reported under other liabilities.

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 5.0 million and a maximum overall purchase price of EUR 20.0 million. 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 12.9 million were (2017: EUR 11.5 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 2.2 million (2017: EUR 2.0 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 260 thousand (2017: EUR 253 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 3,277 thousand (2017: EUR 2,649 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.

In connection with the first-time application of IFRS 15, the other assets reported in financial year 2018 include, for the first time, contract assets for the rights to recovery of delivered goods from expected returns in the amount of EUR 1,705 thousand.

# 13. INVENTORIES

Inventories are composed of the following items:

### Inventories

| in EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Raw materials, consumables and supplies | 1,231 | 2,060 |
| Merchandise | 143,946 | 136,451 |
| | **145,177** | **138,511** |

Write-downs to the lower net realisable value rose by EUR 1.0 million compared with the previous year (2017: decrease of EUR 13.2 million). The change was recognised in the cost of materials item in profit or loss. The measurement of the impairment included expected costs to sell that are still to be incurred.

The carrying amount of inventories, which were recognised at the lower of purchase costs and net realisable value, amounted to EUR 25.2 million as at the reporting date (2017: EUR 52.2 million). Inventories include goods in transit in the amount of EUR 34.5 million (2017: EUR 32.0 million). Despite further store closures, the increase in inventories is mainly due to comparatively high order volumes of so-called NOS (Never-out-of-Stock) merchandise and weather-related lower sales in the second half of 2018. The inventories recognised in the cost of materials in financial year 2018 amounted to EUR 354.0 million (2017: EUR 384.1 million).

# 14. TRADE RECEIVABLES

As in the previous year, trade receivables amounting to EUR 58,390 thousand (2017: EUR 53,845 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 | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **At the beginning of the year** | **12,625** | **9,987** |
| Additions recognised in profit or loss | 3,100 | 3,503 |
| Utilisation | –581 | –865 |
| Reversals | –1,507 | 0 |
| **At the end of the year** | **13,637** | **12,625** |

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.

### Age Structure of Trade Receivables

| in T€ | 2018 | 2017 |
|---|---|---|
| Neither due nor impaired | 27,136 | 22,206 |
| Carrying amount of receivables impaired | 7,822 | 17,323 |
| Past due but not impaired | | |
| < 30 days | 9,833 | 5,549 |
| 30 – 90 Tage | 12,748 | 1,578 |
| > 90 Tage | 851 | 7,189 |
| **Total** | **58,390** | **53,845** |

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.

In the reporting year, the Group for the first time applied the expected credit loss model described in IFRS 9 to receivables not yet due for settlement. The impairment determined on this basis amounted to EUR 597 thousand as of 31 December 2018.

Expenses relating to losses on receivables and valuation allowances on receivables totalled EUR 3,647 thousand (2017: EUR 5,201 thousand).

## 15. CASH AND CASH EQUIVALENTS

### Cash and Cash Equivalents

| in T€ | 31 / 12 / 2018 | 31 / 12 / 2017 |
|---|---|---|
| Overnight funds and other bank deposits | 22,567 | 21,260 |
| Cash-in-hand | 2,543 | 2,929 |
| | **25,110** | **24,189** |

Of the cash funds, no bank deposits are pledged (2017: EUR 0.6 million).

## 16. EQUITY

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

The Company's subscribed capital amounts to a total of EUR 38,495,269 and is composed of 38,495,269 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 2017 in the amount of EUR -17.5 million, net of the related deferred taxes of EUR 5.4 million, an amount of EUR 11.9 million was reclassified in its entirety to net income for the period in 2018 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. For these and for derivatives entered into in previous years, a total of EUR 12.3 million was appropriated to the hedge reserve. Corresponding deferred taxes amounted to million EUR 3.8 million. After adjustment for deferred taxes and the amount recognised in net income for the period, the hedge reserve totalled EUR 8.5 million as at 31 December 2018 (31 December 2017: EUR -12.1 million).

Consolidated net accumulated losses changed as follows:

### Accumulated Loss (Development)

| in T€ | 31 / 12 / 2018 | 31 / 12 / 2017 |
|---|---|---|
| **1 January** | **–163,525** | **–176,185** |
| Group net income before minorities | –179,536 | 17,055 |
| Less non-controlling interests | 3,995 | 4,395 |
| After non-controlling interests | –183,531 | 12,660 |
| Equity effect of first-time application of IFRS 9 and IFRS 15 | –671 | |
| **31 December** | **–347,727** | **–163,525** |

In the year under review, the consolidated net accumulated losses also include the conversion effects as of 1 January 2018 from the first-time application of IFRS 9 and IFRS 15.

The foreign currency translation reserve in the amount of EUR -1,634 thousand (31 December 2017: EUR -1,066 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 31 May 2017, 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 30 May 2022 by up to a total of EUR 4,449,500.00 by issuing new no-par-value registered shares in return for cash and / or non-cash contributions (Authorised Capital 2017).

At the Annual General Meeting on 30 May 2018, the Management Board's authorisation to increase Authorised Capital 2017 by the remaining amount of up to a total of EUR 4,449,500.00 was revoked and replaced as follows. The Management Board is now 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 29 May 2023 by up to a total of EUR 15,398,107 by issuing new no-par-value registered shares in return for cash and / or non-cash contributions (Authorised Capital 2018). 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 contingent capital totalling EUR 1,431,000.00 (2017: EUR 1,431,000.00) is available exclusively for granting stock option rights to members of the Management Board of TOM TAILOR Holding SE, members of the executive management of affiliated companies and selected employees below executive management level. For more details please see section "17. Stock Option Programme".

## *17. STOCK OPTION PROGRAMME*

On 3 June 2013, the Annual General Meeting of TOM TAILOR Holding SE adopted a resolution to launch a stock option programme (2013 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 executive 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 on 3 June 2013 also adopted a resolution 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 could therefore be granted. The stock option rights could be issued in four yearly tranches of up to 600,000 stock option rights each.

In the four issuing periods, the option beneficiaries received 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.

By the end of the 2016 reporting period, 1,955,000 stock options of the 2,400,000 stock options possible under the Stock Option Programme 2013 had been granted (8 June 2016: 500,000 stock options; 23 June 2015: 450,000; 11 June 2014: 520,000; 26 August 2013: 485,000). Due to the fact that not all of the 600,000 possible stock options per tranche were granted and stock option beneficiaries left the Company prior to the end of the vesting period, 1,141,000 stock options had not yet expired as at 31 December 2016. Against this backdrop, the Annual General Meeting on 31 May 2017 amended Article 6 (10) of the Articles of Association. As a result, the share capital can only be contingently increased by up to EUR 1,141,000 by issuing up to 1,141,000 noparvalue registered shares (Contingent Capital 2013). As at 31 December 2018, 384,000 of the originally granted stock options had not yet expired.

The stock options of tranches 1, 2 and 3 have expired in full as the performance targets and the market conditions were not met in the previous and / or current reporting periods.

At the Annual General Meeting of TOM TAILOR Holding SE on 31 May 2017 a new stock option programme (Stock Option Programme 2017) was agreed. Stock options can be granted through this Programme to members of the Company's Management Board, members of the executive management of affiliated companies and selected employees below Management Board level of the Company and below executive management level of affiliated companies. In this context, the share capital was contingently increased by up to EUR 290,000.00 by issuing up to 290,000 noparvalue registered shares (Contingent Capital 2017). The sole purpose of the contingent capital increase is to grant shares to the holders of stock option rights under the Stock Option Programme 2017. The stock options may be issued in one or more tranches.

The terms of the stock options under the Stock Option Programme 2017 basically correspond to those of the Stock Option Programme 2013.

As at 24 November 2017 all 290,000 stock options from the Stock Option Programme 2017 had been granted to the beneficiaries.

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

### Calculation of fair values

| Fair value parameters | SOP 2013<br>Tranche 4 | SOP 2017<br>2017 tranche |
|---|---|---|
| Stock options issued (number) | 500,000 | 290,000 |
| Stock options forfeited (number) | 116,000 | 25,500 |
| Stock options outstanding (number) | 384,000 | 264,500 |
| | | |
| Strike price Type A | EUR 4.07 | EUR 3.17 |
| Strike price Type B | EUR 4.88 | EUR 1.36 |
| Fair value Type A | EUR 1.11 | EUR 2.71 |
| Fair value Type B | EUR 1.02 | EUR 2.40 |
| 250-day volatility | 64.8% | 45.9% |
| Expected dividend | 1.14% | 0.23% |
| Risk-free interest rate | 0.12% | 0.10% |
| Share price at grant date | EUR 4.07 | EUR 9.05 |
| Share price hurdle | EUR 5.49 | EUR 12.22 |
| Average expected exercise period in years | 5.5 | 5.5 |
| Fluctuation | 10% | 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 executive management level of affiliated companies amounted to EUR -465 thousand (2017: EUR -212 thousand), taking into account the forfeiture of stock options.

## 18. PERFORMANCE SHARE UNIT PLAN

In 2018, TOM TAILOR Holding SE launched a Performance Share Unit Plan as a long-term variable remuneration instrument for Management Board members and selected employees. This plan is intended to align the interests of the Company and participants in the plan with the aim of promoting sustainable corporate development. The plan participants receive performance share units (PSUs) in annual tranches. Each tranche has a three-year performance period. Performance will be measured based on the development of two internal performance indicators – EBIT growth (KPI 1) and revenue growth (KPI 2) – over the performance period. Target achievement for each performance indicator ranges between 0% and 200%. The weighted individual target achievement for KPI 1 and KPI 2 will be added together to calculate the overall target achievement, with KPI 1 having a weighting of two-thirds and KPI 2 of one-third. Up to an overall target achievement of 75%, all PSUs granted expire; the plan participants cannot be allocated more than 200% of the PSUs granted. The pay-out is the product of PSUs granted and an average share price at the end of the performance period; the value of one PSU is limited to 200% of the average share price at the grant date.

The fair value of the performance share units was determined using the Black-Scholes method. The fair value per performance share unit is EUR 0, as based on current planning the overall target achievement of 75% within the performance period will not be achieved.

## 19. DIVIDEND PER SHARE

The syndicated loan agreement entered into in financial year 2018 provided for a restriction on future dividend payments in order to protect the consortium banks. The loan agreement provided 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 2.5.

The new loan agreement signed in financial year 2019 for refinancing purposes unconditionally excludes the resolution or implementation of dividend payments. Should TOM TAILOR Holding SE resolve to or in fact pay a dividend, the financing banks would have the right to cancel the new loan agreement without notice from the time this enters into force at the end of October 2019.

## 20. 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 1.9 million (2017: EUR 2.0 million), reinsurance policies in the amount of EUR 0.5 million (2017: EUR 0.5 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.

# 21. OTHER PROVISIONS / CONTINGENT LIABILITIES

Other provisions changed as follows:

## Other Provisions in 2018

| in T€ | Employee-related Provisions | Customer bonuses | Returns | Onerous contracts | Restoration obligations | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **22,225** | **9,505** | **3,043** | **13,446** | **13,040** | **3,132** | **64,391** |
| Reclassifications | | 9,505 | 3,043 | | | | 12,548 |
| Additions | 16,360 | | | 25,505 | 1,197 | 3,082 | 46,144 |
| Reversals | 1,686 | | | 0 | 581 | 89 | 2,356 |
| Unwinding of discounts / changes in interest rates | 3 | | | 199 | 94 | 0 | 296 |
| Utilisation | 19,982 | | | 3,297 | 2,817 | 2,067 | 28,163 |
| **Balance at 31 December 2018** | **16,920** | **0** | **0** | **35,853** | **10,933** | **4,058** | **67,764** |
| Current | 16,839 | | | 11,613 | 1,396 | 4,058 | 33,906 |
| Non-current | 81 | | | 24,240 | 9,537 | | 33,858 |
| | **16,920** | **0** | **0** | **35,853** | **10,933** | **4,058** | **67,764** |

## Other Provisions in 2017

| in T€ | Employee-related Provisions | Customer bonuses | Returns | Onerous contracts | Restoration obligations | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2016** | **23,343** | **9,540** | **3,931** | **16,684** | **13,267** | **3,935** | **70,700** |
| Additions | 14,819 | 11,951 | 1,125 | 948 | 698 | 1,640 | 31,181 |
| Reversals | 1,695 | 2,414 | 0 | 693 | 195 | 57 | 5,054 |
| Unwinding of discounts / changes in interest rates | 3 | 0 | 0 | 334 | 298 | 0 | 635 |
| Utilisation | 14,245 | 9,572 | 2,013 | 3,827 | 1,028 | 2,386 | 33,071 |
| **Balance at 31 December 2017** | **22,225** | **9,505** | **3,043** | **13,446** | **13,040** | **3,132** | **64,391** |
| Current | 21,654 | 9,505 | 3,043 | 5,489 | 1,834 | 3,132 | 44,657 |
| Non-current | 571 | | | 7,957 | 11,206 | | 19,734 |
| | **22,225** | **9,505** | **3,043** | **13,446** | **13,040** | **3,132** | **64,391** |

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.

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 7: 27.30%; tranche 8: 28.54%; the risk-free interest rate (tranche 7: -0.72%; tranche 8: -0.63%), and the expected dividend distribution (0.5%). The programme is also open to some members of the Management Board. As the minimum targets were met, tranche 6 was paid under the remuneration system in the 2018 financial year. Tranche 7 and tranche 8 can first be paid out in 2019 and 2020 respectively.

Provisions were recognised for leased stores that have to be kept in operation despite a planned closure because of existing leases, 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. A DCF-based approach was used to measure this provision, the result of which depends on the estimates and assumptions by management regarding future cash flow. Although these estimates are made on the basis of management's current knowledge, actual results may deviate from these estimates.

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.

# 22. DEFERRED TAXES

Recognised deferred tax assets relate to the following items:

### Deferred Tax Assets in the Reporting Period

| | 31 December 2018 | |
|---|---|---|
| in EUR thousand | Basis of assessment | Deferred tax assets |
| Tax loss carryforwards and interest carried for-ward | 7,028 | 2,190 |
| Consolidation adjustments (consolidation of inter-company balances, elimination of inter-company profits / losses) | 7,590 | 2,360 |
| Impairment losses | 9,590 | 2,985 |
| Restoration obligations | 905 | 282 |
| Currency translation differences | 771 | 240 |
| Pension provisions | 349 | 108 |
| Provisions for onerous contracts | 10,835 | 3,375 |
| Other | 1,826 | 568 |
| | **38,894** | **12,108** |
| Set off against deferred tax liabilities | -38,894 | -12,108 |
| | **0** | **0** |

An amount of EUR 2.2 million in deferred tax assets relates to the future usability of cumulative interest carried forward, as well as corporation and trade tax loss carryforwards.

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 for provisions for onerous contracts and impairments.

### Deferred Tax Assets in the Previous Year

| in EUR thousand | 31 December 2017 Basis of assessment | Deferred tax assets |
|---|---|---|
| Tax loss carryforwards and interest carried for-ward | 11,576 | 3,600 |
| Consolidation adjustments (consolidation of inter-company balances, elimination of intercompany profits / losses) | 9,788 | 3,044 |
| Impairment losses | 21,099 | 6,561 |
| Restoration obligations | 3,543 | 1,101 |
| Currency translation differences | 17,883 | 5,562 |
| Pension provisions | 353 | 109 |
| Provision for onerous contracts | 11,854 | 3,685 |
| Other | 6,218 | 1,929 |
| | **82,314** | **25,591** |
| Set off against deferred tax liabilities | -82,314 | -25,591 |
| | **0** | **0** |

As at 31 December 2018, 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 2018 Basis of assessment | Deferred tax assets |
|---|---|---|
| Intangible assets | 71,312 | 22,176 |
| Measurement of currency forwards | 11,857 | 3,688 |
| Leases | 6,919 | 1,914 |
| Treatment of transaction costs | 2,913 | 906 |
| Other | 1,386 | 432 |
| | **94,387** | **29,116** |
| Set off against deferred tax assets | -38,894 | -12,108 |
| | **55,493** | **17,008** |

Deferred tax liabilities in the amount of EUR 63.2 million were recognised on intangible assets, particularly for the BONITA brand value, 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 57.4 million as at the 2017 reporting date. As a result of the impairment of the BONITA brand value based on the impairment test for the cash-generating unit BONITA in the 2018 financial year, the deferred tax liabilities in the amount of EUR 57.4 million were also derecognised.

The remaining deferred tax assets on intangible assets of EUR 19.4 million relate to the brand TOM TAILOR brand value.

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 2017, recognised deferred tax liabilities were attributable to the following recognition and measurement differences:

### Deferred Tax Liabilities in the Previous Year

| in EUR thousand | 31 December 2017 Basis of assessment | Deferred tax assets |
|---|---|---|
| Intangible assets | 260,425 | 80,984 |
| Leases | 7,060 | 1,967 |
| Treatment of transaction costs | 3,009 | 936 |
| Measurement of receivables | 423 | 128 |
| Currency translation differences | 2,024 | 629 |
| Other | 4,527 | 1,397 |
| | **277,468** | **86,041** |
| Set off against deferred tax assets | -82,314 | -25,591 |
| | **195,154** | **60,450** |

# 23. FINANCIAL LIABILITIES

## A) COMPOSITION

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

### Financial Liabilities in the Reporting Period

| | 31 December 2018 | | | |
|---|---|---|---|---|
| in EUR thousand | Up to 1 year | 1 to 5 years | Over 5 years | Total |
| Liabilities to banks | 139,429 | | | 139,429 |
| Lease liabilities | 8,700 | 15,029 | 1,240 | 24,969 |
| | **148,129** | **15,029** | **1,240** | **164,398** |

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

### Financial Liabilities in the Previous Year

| | 31 December 2017 | | | |
|---|---|---|---|---|
| in EUR thousand | Up to 1 year | 1 to 5 years | Over 5 years | Total |
| Liabilities to banks | 30,200 | 79,910 | | 110,110 |
| Lease liabilities | 5,877 | 20,760 | 715 | 27,352 |
| | **36,077** | **100,670** | **715** | **137,462** |

## B) DISCLOSURES

***Liabilities to banks***

In April 2018, the TOM TAILOR Group prematurely refinanced the existing syndicated loan. The available bank lines of credit in the amount of EUR 500.0 million were reduced to EUR 410.0 million in this context.

Continued loan finance was 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 breach of the financial covenants entitled the lender to call in the loans immediately.

As at 31 December 2018, the Group was unable to meet the financial covenants for the existing credit lines. The financing institutions were notified in a timely manner – before 31 December 2018 – that the financial covenants were not expected to be met. Since the decision of the lenders was pending as at the reporting date for the financial statements for the 2018 financial year, non-current financial liabilities of EUR 139.4 million had to be shown under current financial liabilities as at 31 December 2018 to account for this situation.

This made it necessary to restructure the syndicated loan agreement after the reporting date and prior to the publication of the financial statements, taking the findings of an independent business review completed in October 2019 into account. The new agreement runs until 30 September 2022. For more information please refer to the section on events after the reporting period and to the statements in the combined management report.

The financing entered into in April was arranged for a five-year term. The available bank lines of credit with a total volume of EUR 410.0 million comprised a current account overdraft facility of EUR 145.0 million, a guaranteed line of credit of EUR 180.0 million and bank loans of EUR 85.0 million. The current account overdraft facility and guaranteed line of credit were available to the TOM TAILOR Group for five years from the date of grant in 2018.

The variable effective interest rate for the lines drawn down and the long-term loans was 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.

The long-term loan of EUR 25.0 million, due at the end of May 2019, was reduced to EUR 10.0 million as part of the refinancing in April 2018 by an early repayment of EUR 15.0 million. The term was at least 2 years. The loan was due at maturity.

As at the reporting date, bank commissions and transaction costs of EUR 3.4 million relating to the refinancing in 2018 were amortised over the term of the liabilities to banks using the effective interest method; this amount includes the fees incurred for renegotiating the financial covenants. The deferred commission will be recognised in the interest expense item in profit or loss over the term of the loans.

The previously accrued bank commissions and transaction costs (2017: total of EUR 3.0 million) were recognised in the interest expense item in profit or loss in the reporting period.

At the end of May 2013, TOM TAILOR Holding SE successfully issued a borrower's note loan totalling EUR 80.0 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 bore both fixed and variable rates of interest. The remaining fixed-rate tranche of the borrower's note loan in the amount of EUR 15.0 million was repaid in full at the end of May 2018.

## C) DISCLOSURES ON COLLATERAL

In connection with the overall financing of the TOM TAILOR Group, TOM TAILOR Holding SE, Hamburg / Germany, TOM TAILOR GmbH, Hamburg / Germany, TOM TAILOR Retail GmbH, Hamburg / Germany, TOM TAILOR E-Commerce GmbH, Hamburg / 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) CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

The following reconciliation presents both cash and non-cash changes in liabilities from financing activities. The reconciliation must generally include debt items in which associated payments were reported in the cash flow statement in cash flows from financing activities or will be reported in that item in the future.

### Changes in liabilities from financing activities

| | 1 January 2018 | Cashflows | Non-cash changes | | | 31 December 2018 |
|---|---|---|---|---|---|---|
| in EUR thousand | | | Acquisition | Distribition of transaction costs | Reclassification | |
| Liabilities for banks (longterm) | 79,910 | 56,118 | | 3,401 | –139,429 | 0 |
| Liabilities for banks (shortterm) | 30,200 | –30,200 | | | 139,429 | 139,429 |
| Lease liabilities | 27,352 | –5,972 | 3,589 | | | 24,969 |
| | **137,462** | **19,946** | **3,589** | **3,401** | **0** | **164,398** |

## 24. 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.

## 25. OTHER LIABILITIES

Other liabilities are composed of the following items:

### Other Liabilities

| in EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Other taxes (mainly VAT) | 10,085 | 10,341 |
| Refund liabilities | 5,872 | 0 |
| Customer vouchers, prepayments and credits | 3,678 | 4,233 |
| Employee-related liabilities and social security contributions | 1,974 | 1,615 |
| Fair value of currency futures | 0 | 17,104 |
| Supervisory Board remuneration | 706 | 466 |
| Debtors with credit balances | 1,066 | 766 |
| Contract liabilities | 7,859 | 0 |
| Other liabilities | 3,073 | 3,323 |
| **Carrying amount** | **34,313** | **37,848** |
| of which non-current | 904 | 6,489 |
| of which current | 33,409 | 31,359 |

Other liabilities in financial year 2017 mainly included the fair value of the foreign currency derivatives acquired as part of the Group's hedging strategy in the amount of EUR 17.1 million. Due to the performance of the US dollar, all of the Company's foreign currency derivatives have a positive fair value as at 31 December 2018, which is why the foreign currency derivatives in financial year 2018 are reported solely in other assets.

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

As a result of the first-time application of IFRS 15, return liabilities for settled customer receivables in connection with refund entitlements under return agreements and customer rights of return are presented in other liabilities in the 2018 reporting period for the first time. The contract liabilities presented in other liabilities arise from the existing customer loyalty programmes and bonus agreements entered into with customers and were moved from other provisions to other liabilities in financial year 2018.

# 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 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 47,668 thousand (2017: EUR 212,950 thousand).

In the year under review, the significant reduction in equity is attributable both to the full impairment of the BONITA brand value in the amount of EUR 184.5 million and to the operating losses incurred in the BONITA segment. In contrast, accumulated other comprehensive income was higher, mainly due to the positive change in the hedge reserve.

In April 2018, the TOM TAILOR Group had arranged financing with the banks with a term of up to 2023 and was thus pursuing a clear financial strategy to strengthen its EBITDA and cash flow and to further improve its balance sheet structure. As at 31 December 2018, the Group was unable to maintain the contractually agreed financial covenants due to the negative performance of the BONITA segment and the resulting impairment of the brand value. This made it necessary to reclassify existing financial liabilities to banks as current. Please refer to the disclosures on financial liabilities.

In February 2019, the Management Board resolved and carried out a capital increase to further reinforce the Group's financial structure. In July 2019, the Fosun Group became the majority shareholder with 76.75% of the voting rights as a result of its voluntary public takeover offer. To secure its overall financing structure in the medium term, TOM TAILOR Holding SE, together with its existing consortium of banks and the main shareholder, reached a new financing agreement in October 2019 based on an independent business review (IBR). This agreement expires on 30 September 2022. In addition to the provision of credit and surety lines by the consortium of banks, the overall structure also includes the provision of a loan by the majority shareholder. For more information, please refer to the comments on the financial position and the report on risks and opportunities in the combined management report of the Company.

The TOM TAILOR Group's financial strategy is to use the cash flow generated from operations to keep sufficient cash reserves for further corporate development available and to reduce its debt. The TOM TAILOR Group seeks to generate a positive free cash flow particularly in the TOM TAILOR Wholesale and TOM TAILOR Retail segments that will cover the Group's funding requirements and hence provide financial stability and flexibility. For the BONITA segment the restructuring activities begun in the fourth quarter of 2018 will be intensified to stabilise the existing business and thus achieve a balanced cash flow. The measures being implemented are intended to ensure that BONITA can finance itself independently in the medium term once again, no longer putting a strain on the Group. However, the Group continues to expect at times distinctly negative cash flows in the BONITA segment for the years up to and including 2022.

The Company is reiterating its objective of reducing the ratio of net debt to reported 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.

## *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 assets and financial liabilities recognised in the consolidated financial statements as of 31 December 2018:

## Fair Values of Financial Instruments

| in EUR thousand | Category under IFRS 9 | Carrying amount 31/12/2018 | Amortised cost | At fair value through other comprehensive income (with recycling) | Carrying amount pursuant to IAS 17 | Fair value 31/12/2018 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Trade receivables and other assets | AC | 77,300 | 77,300 | | | 77,300 |
| Cash and cash equivalents | AC | 25,110 | 25,110 | | | 25,110 |
| Derivatives used to hedge interest rate and currency risk that are part of a hedge | Hedge Accounting | 13,649 | | 13,649 | | 13,649 |
| **Financial liabilities** | | | | | | |
| Liabilities to banks | AC | 139,429 | 139,429 | | | 139,429 |
| Finance lease liabilities | n.a.[1] | 24,969 | | | 24,969 | 24,969 |
| Trade payables and other liabilities | AC | 133,088 | 133,088 | | | 133,088 |

AC = financial assets / liabilities measured at amortised cost

[1] Finance lease liabilities are measured in accordance with IAS 17.

As of 31 December 2017, the carrying amounts and fair values of the financial assets and financial liabilities recognised in the consolidated financial statements were as follows:

| in EUR thousand | Category under IAS 39 | Category under IFRS 9 | Carrying amount 31/12/2017 | Fair value 31/12/2017 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade receivables and other assets | lar | AC | 73,177 | 73,177 |
| Cash and cash equivalents | lar | AC | 24,189 | 24,189 |
| Derivatives used to hedge interest rate and currency risk that are part of a hedge | n.a. | Hedge Accounting | 57 | 57 |
| **Financial liabilities** | | | | |
| Liabilities to banks | flac | AC | 110,110 | 110,110 |
| Finance lease liabilities | flac | n.a.[1] | 27,352 | 27,352 |
| Derivatives used to hedge interest rate and currency risk that are part of a hedge | n.a. | Hedge Accounting | 17,104 | 17,104 |
| Trade payables and other liabilities | flac | AC | 129,083 | 129,083 |

flac = financial liabilities measured at amortised cost
fvtpl = fair value through profit or loss
lar = loans and receivables
AC = financial assets measured at amortised cost
[1] Finance lease liabilities are measured in accordance with IAS 17.

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.

The hedges existing as at the reporting date meet the requirements for hedge accounting under IFRS 9. All changes in the fair value of derivatives in an effective hedging relationship are recognised in accumulated other comprehensive income. Changes in the fair value of 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 do not materially differ from their carrying amounts. This is due primarily to the short terms of such instruments.

Trade receivables and contract assets are measured in accordance with IFRS 9 based on the comments on the impairment model described under “14. TRADE RECEIVABLES”. Based on this measurement, valuation allowances are recognised to account for any losses expected on these receivables.

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 2018 and 2017 that are subsequently measured at fair value.

### Fair Values of Financial Instruments

| in EUR thousand | 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Hedging instruments designated as cash flow hedges (currency forwards) | 13,649 | 0 | 13,649 | 0 |

### Fair Values of Financial Instruments

| in EUR thousand | 2017 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Hedging instruments designated as cash flow hedges (currency forwards) | 57 | 0 | 57 | 0 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Hedging instruments designated as cash flow hedges (currency forwards) | 17,104 | 0 | 17,104 | 0 |

### Net Gains and Net Losses on Financial Instruments

| in EUR thousand | 2018 | 2017 |
|---|---|---|
| Loans and receivables | -3,649 | -7,293 |
| of which net interest income | -260 | -253 |
| Financial liabilities measured at amortised cost | -8,165 | -9,664 |
| of which net interest income | -6,686 | -9,599 |

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 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. This includes 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 2018 and 2017.

The sensitivity analyses were prepared on the basis of the hedging relationships existing on 31 December 2018 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 12. “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, revolving liquidity plans and daily liquidity reports are created and used that show 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 | | |
|---|---|---|---|
| in EUR thousand | Liabilities to banks | Finance Lease | Trade payables and other liabilities |
| **Carrying amount at 31 Dec. 2018** | **139,429** | **24,969** | **133,088** |
| Cash flows 2019 | | | |
| Interest payments | 10,876 | 896 | 0 |
| Principal repayments | 139,429 | 8,700 | 133,088 |
| **Cash flows 2020 – 2023** | | | |
| Interest payments | 0 | 1,257 | 0 |
| Principal repayments | 0 | 15,029 | 673 |
| **Cash flows 2024 f.** | | | |
| Interest payments | 0 | 68 | 0 |
| Principal repayments | 0 | 1,240 | 0 |

### Analysis of Maturity in the Previous Year

| | Non-derivative financial liabilities | | | Derivativeliabilities |
|---|---|---|---|---|
| in EUR thousand | Liabilities to banks | Finance Lease | Other liabilities | Currency hedges |
| **Carrying amount at 31 Dec. 2017** | **110,110** | **27,352** | **129,083** | **17,104** |
| Cash flows 2018 | | | | |
| Interest payments | 4,070 | 630 | 0 | 0 |
| Principal repayments | 30,200 | 5,877 | 128,301 | 11,891 |
| **Cash flows 2019 – 2022** | | | | |
| Interest payments | 5,159 | 2,867 | 0 | 0 |
| Principal repayments | 79,910 | 20,760 | 782 | 5,213 |
| **Cash flows 2023 f.** | | | | |
| Interest payments | 0 | 55 | 0 | 0 |
| Principal repayments | 0 | 715 | 0 | 0 |

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 296.0 million (2017: USD 492.0 million) and falls due ratably over a period up to and including 2020.

## C) CURRENCY RISK

The Group's exposure to currency risk results from its operating activities. The Group purchases most 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 13.6 million (2017: EUR –17.1 million) was recognised net of deferred taxes in the amount of EUR 4.3 million (2017: EUR 5.3 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 240.0 million in 2019 and to USD 56.0 million in 2020.

In financial year 2018, income of EUR 11.9 million (2017: income of EUR 18.3 million) generated when hedged items under currency forwards entered into in 2017 were realised was reclassified from other comprehensive income to profit or loss. Corresponding deferred taxes amounted to EUR 3.7 million (2017: EUR 5.7 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 2018 | | | | | |
|---|---|---|---|---|---|---|
| in EUR thousand | Amount in local currency TCHF | Closing rate CHF / EUR 1.13 | Amount in local currency TUSD | Closing rate USD / EUR 1.15 | Amount in local currency TRUB | Closing rate RUB / EUR 79.72 |
| Trade receivables | 1,616 | 1,434 | 0 | 0 | 484,402 | 6,077 |
| Trade payables | 847 | 752 | 78,380 | 68,454 | 45,463 | 570 |
| | **769** | **682** | **–78,380** | **–68,454** | **438,939** | **5,507** |

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 2017 | | | | | |
|---|---|---|---|---|---|---|
| in EUR thousand | Amount in local currency TCHF | Closing rate CHF / EUR 1.17 | Amount in local currency TUSD | Closing rate USD / EUR 1.20 | Amount in local currency TRUB | Closing rate RUB / EUR 69.39 |
| Trade receivables | 1,235 | 1,055 | 0 | 0 | 311,581 | 4,490 |
| Trade payables | 693 | 592 | 76,664 | 63,924 | 62,114 | 895 |
| | **542** | **463** | **–76,664** | **–63,924** | **249,467** | **3,596** |

Comprehensive income from foreign exchange gains and losses (excluding derivatives) amounted to EUR -2.7 million in financial year 2018 (2017: EUR 2.0 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 6.5 million higher or EUR 7.9 million lower, respectively (2017: EUR 5.7 million higher or EUR 7.0 million lower). By contrast, the hedge reserve recognised in equity for currency forwards entered into in US dollars would have been EUR 22.6 million lower or EUR 26.4 million higher, respectively (2017: EUR 31.3 million lower or EUR 40.6 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 0.4 million higher or EUR 0.5 million lower, respectively (2017: EUR 0.2 million higher or EUR 0.2 million lower).

## D) INTEREST RATE RISK

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

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 1.6 million higher or EUR 0.4 million lower, respectively (2017: EUR 2.0 million higher or EUR 0.8 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.

In the TOM TAILOR Group, net cash provided by operating activities decreased from EUR 70.2 million in the previous year to EUR 16.4 million in the reporting period. This sharp drop is mainly attributable to the weak performance of the BONITA segment, resulting in BONITA no longer being able to finance its operations from its own cash flows. In addition to the operating losses in the BONITA segment, the expansion of inventories owing to comparatively high order volumes and a weather-related revenue decline reduced cash flow from operations in the second half of 2018.

Net cash used in investing activities came to EUR 30.7 million in financial year 2018, a substantial increase on the prior-year figure of EUR 13.2 million. Total capital expenditure of EUR 32.4 million was predominantly channelled into the further expansion of controlled selling spaces, the IT infrastructure and software, and the e-commerce platform and e-commerce applications. Of the capital expenditures made, EUR 7.1 million was attributable to the TOM TAILOR Retail segment, EUR 14.0 million to the TOM TAILOR Wholesale segment and EUR 11.3 million to the BONITA segment.

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 recording a cash outflow in the previous year (EUR 70.7 million), the TOM TAILOR Group generated a cash inflow from its financing activities in the 2018 financial year of EUR 15.2 million. The cash inflow mainly results from the EUR 61.9 million increase in the utilisation of the available overdraft facility as well as from the early refinancing of the syndicated loans in the year under review and the increase in the bank loans by EUR 12.5 million in this context. This is contrasted by the repayment of the remaining tranche of the borrower's note loan in the amount of EUR 15.0 million and the bank loan in the amount of EUR 15.0 million. The scheduled repayment of the loans in the amount of EUR 15.0 million led to further cash outflows.

As at 31 December 2018, financing activities also included an unused current account overdraft facility amounting to EUR 72.9 million (2017: EUR 177.3 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 2018 (2017)

| | Wholesale | Retail | | | |
|---|---|---|---|---|---|
| in EUR thousand | TOM TAILOR | TOM TAILOR | BONITA | Total | Group |
| **Third-party revenue** | **335,102** | **283,000** | **225,716** | **508,716** | **843,818** |
| | (350,058) | (303,985) | (267,732) | (571,717) | (921,775) |
| **Gross profit** | **182,017** | **167,715** | **140,127** | **307,842** | **489,859** |
| | (169,490) | (181,718) | (186,482) | (368,200) | (537,690) |
| **Gross margin** | **54.3%** | **59.3%** | **62.1%** | **60.5%** | **58.1%** |
| | (48.4%) | (59.8%) | (69.7%) | (64.4%) | (58.3%) |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | **59,564** | **4,407** | **–38,238** | **–33,831** | **25,733** |
| | (52,012) | (15,466) | (15,597) | (31,063) | (83,075) |
| **EBITDA margin** | **17.8%** | **1.6%** | **–16.9%** | **–6.7%** | **3.0%** |
| | (14.9%) | (5.1%) | (5.8%) | (5.4%) | (9.0%) |
| **Earnings before interest and taxes (EBIT)** | **41,418** | **–11,017** | **–246,626** | **–257,643** | **–216,225** |
| | (38,831) | (2,547) | (2,525) | (5,072) | (43,903) |
| **EBIT margin** | **12.4%** | **–3.9%** | **–109.3%** | **–50.6%** | **–25.6%** |
| | (11.1%) | (0.8%) | (0.9%) | (0.9%) | (4.8%) |
| **Material non-cash expenses / income (within EBITDA)** | **13,981** | **6,742** | **25,117** | **31,859** | **45,840** |
| | (12,326) | (4,040) | (–2,850) | (1,190) | (13,516) |

## Information about Regions 2018 (2017)

| | Germany | International markets | Group |
|---|---|---|---|
| **Revenue** | **511,736** | **332,082** | **843,818** |
| | (575,427) | (346,348) | (921,775) |
| **Non-current assets** | **178,693** | **15,429** | **194,122** |
| | (370,149) | (30,555) | (400,704) |

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 following as performance indicators: earnings before interest, taxes, depreciation, amortisation and impairment (EBITDA) used for management and reporting, EBITDA margin, earnings before interest and taxes (EBIT), EBIT margin, revenue less corresponding cost of goods sold (gross profit), gross margin, and revenue. The margin of a performance indicator is defined as the respective performance indicator of the period expressed as a percentage of revenue for the same period.

In the year under review, due to the negative performance in 2018 and the assumption of a sustained loss situation in the BONITA segment, impairment losses on non-current assets totalling EUR 200.7 million were recognised in net income / loss for the period. Of the impairment losses, EUR 186.7 million relate to intangible assets, specifically EUR 184.5 million to the BONITA brand value, and EUR 14.0 million to property, plant and equipment.

Impairment losses on property, plant and property recognised in profit or loss for the TOM TAILOR Retail segment amounted EUR 3.6 million in financial year 2018.

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 9.6 million (2017: EUR 11.0 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 2018

| | 31 December 2018 | | | |
|---|---|---|---|---|
| in EUR thousand | Within 1 year | Between 1 and 5 years | More than 5 years | Total |
| Leases | 74,767 | 188,156 | 36,565 | 299,488 |
| Other operating leases | 1,504 | 1,748 | 0 | 3,252 |
| Other | 21,335 | 66,823 | 48,400 | 136,558 |
| | 97,606 | 256,727 | 84,965 | 439,298 |

#### Other Financial Obligations in 2017

| | 31 December 2017 | | | |
|---|---|---|---|---|
| in EUR thousand | Within 1 year | Between 1 and 5 years | More than 5 years | Total |
| Leases | 87,273 | 218,494 | 48,824 | 354,592 |
| Other operating leases | 2,573 | 4,901 | 0 | 7,474 |
| Other | 22,135 | 72,458 | 32,700 | 127,293 |
| | **111,981** | **295,854** | **81,524** | **489,359** |

Financial obligations from rental agreements were largely attributable to the leasing of retail and outlet stores and office buildings.

Other financial obligations primarily consist of minimum purchase obligations under a logistics outsourcing contract entered into in 2013 with a term until 2024.

As at 31 December 2018, the Group had obligations to purchase goods in 2019 amounting to EUR 77.2 million (2017: EUR 68.4 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 3.8 million (2017: EUR 4.9 million). These related solely to minimum lease payments. Contingent lease payments are largely revenue-based and amounted to EUR 1.1 million in the reporting period (2017: EUR 1.2 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 2018 or 2017.

Expenses for other operating leases of EUR 3.8 million were recognised in the reporting period (2017: EUR 3.8 million).

Subleases in both the reporting period and the previous year mainly concerned the subletting of space rented by the Company. 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.

## UNCONSOLIDATED ENTITIES

TOM TAILOR Group holds an interest in a company in Northern Ireland and Canada; 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. was operated by the partner. The Company discontinued operations in financial year 2018. The goods and services provided to the company amounted to EUR 148 thousand in the reporting period (2017: EUR 424 thousand). The receivables from the company (net of valuation allowances) amounted to EUR 0 thousand both at 31 December 2018 and at 31 December 2017. Valuation allowances on receivables from TT OFF SALE (NI) LTD. of EUR 93 thousand were recognised as expenses in financial year 2018 (2017: EUR 77 thousand).

The Canadian entity is TOM TAILOR CND INC., Montreal/Canada, in which TOM TAILOR GmbH holds 100% of the interests.

The goods supplied to the company amounted to EUR 527 thousand in the reporting period (2017: EUR 738 thousand). As at 31 December 2018, the Group recognised trade receivables including valuation allowances of EUR 698 thousand (2017: EUR 510 thousand). The reversal to profit or loss of valuation allowances on receivables vis-à-vis TOM TAILOR CND INC. amounted to EUR 0 thousand in the 2018 financial year (2017: EUR 601 thousand).

## RELATED PARTIES (PERSONS)

***a) Management Board***

- Dr Heiko Schäfer,
  Chief Executive Officer, Munich / Germany

- Mr Thomas Dressendörfer,
  Chief Financial Officer, Baar / Switzerland

- Mr Liam Devoy,
  Chief Operating Officer (purchasing, logistics and IT),
  Hamburg / Germany

- Mr Carsten Oberheide,
  Member of the Management Board, BONITA, Dortmund
  (since 1 January 2019)

## OTHER APPOINTMENTS OF THE MEMBERS OF THE MANAGEMENT BOARD

Mr Dressendörfer is also an operating partner at WP Management in Bad Homburg / Germany. Thomas Dressendörfer also served as Deputy Chairman of the Supervisory Board of Wolford AG in Bregenz / Austria, and has served as a member of the Advisory Board of nt-Trading GmbH & Co. KG in Karlsruhe since August 2018.

## MANAGEMENT BOARD REMUNERATION

***Share-based Remuneration System***

With regard to the Long-term Incentive Programme (LTI), please refer to the disclosures under note 21 “Other Provisions”.

In June 2013, the Annual General Meeting adopted a resolution to implement a stock option programme (Stock Option Programme 2013; SOP 2013), which is described under note 18 “Stock Option Programme”. Under the SOP 2013, 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.

In May 2017, the Annual General Meeting voted to introduce a new stock option programme (Stock Option Programme 2017; SOP 2017), which is outlined in note 17, “Stock Option Programme”. Under the SOP, up to 190,000 stock options can be issued to members of the Management Board of TOM TAILOR Holding AG. In the 2017 financial year, 150,000 stock options were granted to the Management Board members. The measurement of the stock option rights issued to Management Board members led to a ratable expense of EUR 154 thousand for 2018 (2017: EUR 73 thousand).

In financial year 2018, TOM TAILOR Holding SE launched a Performance Share Unit Plan as a long-term variable remuneration instrument for Management Board members and selected employees. This remuneration instrument is explained in more detail in Note 18 “Performance Share Unit Plan”. Of the total of 1,320,000 Performance Share Units (PSU) issued from the 2018 tranche, 685,000 are attributable to Management Board members. The fair value per performance share unit is EUR 0, as based on current planning the overall target achievement of 75% within the performance period will not be achieved.

The following table shows the governing body remuneration recognised in profit or loss:

### Governing Body Remuneration

| in EUR thousand | 2018 | 2017 |
|---|---|---|
| Salaries and short-term benefits | 2,454 | 3,659 |
| Other long-term incentives (LTI) | 0 | 116 |
| Stock Option Programme (SOP) | 0 | 73 |
| | **2,454** | **3,848** |

In the event of termination of an employment contract by the Company without cause, all members of the Management Board are 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. 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 combined Management Report.

## RELATED PARTY DISCLOSURES (PERSONS)

In accordance with IAS 19, a provision of EUR 605 thousand was recognised for pension obligations to former members of the management and their surviving dependants (2017: EUR 613 thousand).

## SHAREHOLDINGS OF MEMBERS OF THE MANAGEMENT BOARD

The Chairman of the Management Board, Dr Heiko Schäfer, directly held 57,000 shares of the Company as at 31 December 2018. As at said date, Thomas Dressendörfer (Chief Financial Officer) directly held 35,000 shares of the Company.

***b) Supervisory Board***

At the Company’s Annual General Meeting on 31 May 2017, an amendment of section 9 (2) sentences 1 and 2 of the Articles of Association of TOM TAILOR Holding SE was agreed in accordance with section 9 (2) of the agreement dated 6 July 2016, on the involvement of employees in the Company in accordance with section 21 of the SE-Beteiligungsgesetz, or Act on Employee Involvement in an SE, (“Employee Participation Agreement”) and supplement dated 19 May 2017, that stipulates that the Supervisory Board of TOM TAILOR Holding SE consists of ten members appointed by the Annual General Meeting. Of the ten members, five members are appointed upon recommendation of the employees, with the Annual General Meeting bound by these proposals.

The Supervisory Board was / is composed of the following shareholder representatives:

- Dr Thomas Tochtermann, Management Consultant, Hamburg / Germany (Chairman, until 17 June 2019)
- Mr Andreas Karpenstein, Lawyer, Düsseldorf / Germany
- Ms Yun (Joann) Cheng, Chief Executive Officer of the Fosun Fashion Group, Shanghai / China
- Dr Junyang (Jenny) Shao, Executive Director of the German unit of the Fosun Group, Frankfurt am Main / Germany (Chairwoman since 19 June 2019)
- Mr Otmar Debald, Management Consultant, Frankfurt am Main / Germany
- Mr Michael Chou, Chief Financial Officer of the Fosun Fashion Group, Shanghai / China (since 17 June 2019)

The Supervisory Board was / is composed of the following employee representatives:

- Ms Barbara Pfeiffer, Chairwoman of the Works Council at TOM TAILOR GmbH, Hamburg / Germany (Vice Chairwoman)
- Ms Stefanie Branahl, Purchaser, Hamminkeln / Germany
- Mr Oliver Kerinnes, Purchaser, Hamminkeln / Germany
- Ms Kitty Cleijne-Wouters, Assistant in the HR department, Druten / The Netherlands
- Mr Sven Terpe, Import employee, Hamburg / Germany

Apart from being reimbursed for their expenses, the members of the Supervisory Board receive remuneration (plus statutory value added tax in case such tax is incurred) for the relevant financial year, which amounts to EUR 25 thousand for each individual member and EUR 100 thousand for the Chairman of the Supervisory Board. Members of Supervisory Board committees receive additional remuneration for the relevant financial year for each membership in a committee, which amounts to EUR 20 thousand for each individual member and EUR 30 thousand for the Chairman of the committee. 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.

## OTHER APPOINTMENTS OF THE MEMBERS OF THE SUPERVISORY BOARD

Members of TOM TAILOR Holding SE's Supervisory Board are also members of a governing body of the following companies:

**Dr Junyang (Jenny) Shao:**
**(Chairwoman of the Supervisory Board)**

- Managing Director Koller Beteiligungs-GmbH, Dietfurt
- Chairwoman of the Supervisory Board of Wolford AG, Bregenz / Austria

**Dr. Thomas Tochtermann:**

- Chairman of the Supervisory Board of Vapiano SE, Bonn (until 31 January 2019)
- Member of the Supervisory Board of Dansk Supermarked Group, Braband / Denmark
- Member of the Advisory Board of Jahr Holding GmbH & Co. KG, Hamburg

**Otmar Debald**

- Member of the Advisory Board of POS Pulse / 24 insights GmbH, Berlin
- Managing Director of PP Picture Partners GmbH, Frankfurt am Main / Germany

**Mr Andreas Karpenstein:**

- Partner and Managing Director of Deloitte Legal Rechtsanwaltsgesellschaft mbH, Düsseldorf / Germany
- Member of the Supervisory Board (Deputy Chairman) of Trusted Advice AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf / Germany

**Ms Yun (Joann) Cheng**

- Member of the Supervisory Board of Wolford AG, Bregenz / Austria
- Chief Executive Officer of JEANNE LANVIN S.A., Paris / France

**Mr Michael Chou:**

- Member of the Board of St. John Knits International Inc. in Irvine, California / USA

None of the employee representatives on the Supervisory Board are members of any other statutory supervisory boards and do not hold positions in comparable domestic or foreign corporate governing bodies.

## SHAREHOLDINGS OF MEMBERS OF THE MANAGEMENT BOARD

The Deputy Chairwoman of the Supervisory Board, Ms Barbara Pfeiffer directly held 1 share of the Company as at 31 December 2018.

# DISCLOSURES ON SHAREHOLDINGS IN TOM TAILOR HOLDING SE

## Disclosures on Shareholdings in TOM TAILOR Holding SE

| Notifying party | Date on which the shareholding exceeded or fell below the threshold(s) | Reportable threshold | Attribution | Attribution acc. to WpHG | Interest in %[15] | Interest in voting rights[26] |
|---|---|---|---|---|---|---|
| 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[3] | 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[5] and section 22 (2) WpHG | 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[6] and section 22 (2) WpHG[7] | 23.16 | 6,028,050 |
| Millennium Gain Limited, Hong Kong / 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[9] | 23.16 | 6,028,050 |
| Fosun Financial Holdings Limited, Hong Kong / 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[11] | 23.16 | 6,028,050 |
| **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** |
| Fosun International Limited, Hong Kong / 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[13] | 23.16 | 6,028,050 |
| Fosun Holdings Limited, Hong Kong / China | 8 August 2014 | Exceeded 3 %, 5 %, 10 %, 15 %, 20 % | indirect | section 22 (1), sentence 1, no. 1 WpHG[14] and section 22 (2) WpHG[15] | 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[16] and section 22 (2) WpHG[17] | 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[18] | 5.33 | 1,387,704 |
| CASO Asset Management S.A., Senningerberg / Luxembourg | 20 November 2015 | Exceeded 5% | indirect | section 22 (1), sentence 1, no. 6 WpHG[19] | 7.06 | 1,841,425 |
| Internationale Kapitalanlagegesellschaft mbH, Düsseldorf / Germany | 22 June 2016 | Exceeded 5% | indirect | section 21 (1), sentence 1 WpHG | 5.02 | 1,307,500 |
| Herr Rudolf Bohli, Switzerland | 13 Dezember 2016 | Exceeded 3% | indirect | section 22 (1), sentence 1, no. 6 WpHG | 3.13 | 895,500 |
| Farringdon I Luxembourg / Luxembourg | 23 February 2017 | Exceeded 5% | direct | | 4.79 | 1,372,759 |
| Carne Global Fund Managers S.A., Luxembourg / Luxembourg | 23 February 2017 | Exceeded 5% | indirect | section 22 (1), sentence 1, no. 6 WpHG[20] | 4.79 | 1,372,759 |
| Herr Bram Cornelisse, the Netherlands | 3 March 2017 | Fell below 5% | indirect | section 21 (1), sentence 1 WpHG[21] | 4.99 | 1,427,782 |
| Internationale Kapitalanlagegesellschaft mbH, Düsseldorf / Germany | 20 March 2017 | Fell below 5% | indirect | section 21 (1), sentence 1 WpHG | 4.90 | 1,401,728 |
| Herr Guo Guangchang; People's Republic of China | 26 June 2017 | Exceeded 25% | indirect | section 22 (1), sentence 1, no. 1 WpHG in conjunction with section 22 (2) and section 25 (1) no. 2 WpHG[22] | 28.89 | 11,119,995 |
| Dorval Asset Management, Paris, France | 3 July 2017 | Exceeded 5% | direct | section 33 (1), sentence 1 WpHG | 5.026 | 1,934,775 |
| Dorval Asset Management, Paris, France | 28 June 2018 | Exceeded 10% | direct | section 33 (1), sentence 1 WpHG | 10.08 | 3,878,571 |

| Notifying party | Date on which the shareholding exceeded or fell below the threshold(s) | Reportable threshold | Attribution | Attribution acc. to WpHG | Interest in % [15] | Interest in voting rights [26] |
|---|---|---|---|---|---|---|
| Polygon Credit Holding II Limited, Grand Cayman, Cayman Islands | 18 September 2018 | Exceeded 5% | indirect | section 38 WpHG[23] | 5.02 | 1,933,085 |
| Herr Reade Griffith | 18 September 2018 | Exceeded 5% | indirect | section 38 WpHG[24] | 5.02 | 1,933,085 |
| Dorval Asset Management, Paris, France | 22 November 2018 | Fell below 10% | direct | section 33 (1), sentence 1 WpHG | 9.83 | 3,783,785 |
| Herr Bram Cornelisse, the Netherlands | 11 Dezember 2018 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[25] | 3.04 | 1,169,589 |
| Herr Bram Cornelisse, the Netherlands | 13 Dezember 2018 | Exceeded 5% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[26] | 5.5 | 2,118,636 |
| Duke University, North Carolina, USA | 13 Dezember 2018 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[27] | 3.7 | 1,422,484 |
| UBS Group AG, Zurich, Switzerland | 31 January 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[28] | 4.49 | 1,727,725 |
| UBS Group AG, Zurich, Switzerland | 13 February 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 2.28 | 878,942 |
| UBS Group AG, Zurich, Switzerland | 20 February 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[29] | 4.52 | 1,738,219 |
| Herr Guo Guangchang, People’s Republic of China | 21 February 2019 | Exceeded 30% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[30] | 35.35 | 14,969,521 |
| UBS Group AG, Zurich, Switzerland | 1 March 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 3.2 | 1,353,900 |
| UBS Group AG, Zurich, Switzerland | 4 March 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[31] | 4.08 | 1,726,603 |
| UBS Group AG, Zurich, Switzerland | 21 March 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 3.2 | 1352956 |
| UBS Group AG, Zurich, Switzerland | 27 March 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[32] | 3.80 | 1,608,313 |
| UBS Group AG, Zurich, Switzerland | 3 April 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.36 | 153,085 |
| UBS Group AG, Zurich, Switzerland | 4 April 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[33] | 4.65 | 1,968,519 |
| UBS Group AG, Zurich, Switzerland | 12 April 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.34 | 143,180 |
| UBS Group AG, Zurich, Switzerland | 15 April 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[34] | 4.74 | 2,005,798 |
| UBS Group AG, Zurich, Switzerland | 16 April 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 2.24 | 947,612 |
| UBS Group AG, Zurich, Switzerland | 18 April 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[35] | 4.74 | 2,005,798 |
| UBS Group AG, Zurich, Switzerland | 16 May 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.33 | 140,880 |
| UBS Group AG, Zurich, Switzerland | 21 May 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[36] | 4.73 | 2,003,498 |
| UBS Group AG, Zurich, Switzerland | 24 May 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 1.75 | 739,481 |
| ODDO BHF ASSET MANAGEMENT SAS, Paris, France | 24 May 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 3.59 | 1,522,028 |
| UBS Group AG, Zurich, Switzerland | 28 May 2019 | Exceeded 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[37] | 4.73 | 2,003,498 |
| UBS Group AG, Zurich, Switzerland | 3 June 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.33 | 140,880 |
| ODDO BHF ASSET MANAGEMENT SAS, Paris, France | 12 July 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.00 | 0 |
| Herr Guo Guangchang, People’s Republic of China | 12 July 2019 | Exceeded 75% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG[38] | 76.75 | 32,497,966 |

| Notifying party | Date on which the shareholding exceeded or fell below the threshold(s) | Reportable threshold | Attribution | Attribution acc. to WpHG | Interest in % [15] | Interest in voting rights [26] |
|---|---|---|---|---|---|---|
| Herr Bram Cornelisse, the Netherlands | 12 July 2019 | Fell below 5% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.00 | 0 |
| Herr Reade Griffith | 12 July 2019 | Fell below 5% | indirect | section 38 WpHG | 0.00 | 0 |
| Polygon Credit Holding II Limited, Grand Cayman, Cayman Islands | 12 July 2019 | Fell below 5% | indirect | section 38 WpHG | 0.00 | 0 |
| Duke University, North Carolina, USA | 12 July 2019 | Fell below 3% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.00 | 0 |
| Dorval Asset Management, Paris, France | 12 July 2019 | Fell below 5% | indirect | section 34 (1) WpHG in conjunction with section 34 (2) WpHG | 0.00 | 0 |

[25] Incl. instruments as defined in section 38 (1), no. 1 WpHG and instruments as defined in section 38 (1) no. 2 WpHG

[26] Incl. instruments as defined in section 38 (1), no. 1 WpHG and instruments as defined in section 38 (1) no. 2 WpHG

[27] Held through the following shareholder (share of voting rights > 3%): Companhia de Seguros, S.A.

[28] Held through the following shareholder (share of voting rights > 3%): FCM Beteiligungs GmbH

[29] Held through the following shareholder (share of voting rights > 3%): FCM Beteiligungs GmbH

[30] Held through the following shareholder (share of voting rights > 3%): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[31] Held through the following shareholder (share of voting rights > 3%): Fidelidade-Companhia de Seguros, S.A;  FCM Beteiligungs GmbH

[32] Held through the following shareholder (share of voting rights > 3%): Longrun Portugal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[33] Held through the following shareholder (share of voting rights > 3%): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[34] Held through the following shareholder (share of voting rights > 3%): Millennium Gain Limited; Longrun Portugal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[35] Held through the following shareholder (share of voting rights > 3%): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[36] 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

[37] Held through the following shareholder (share of voting rights > 3%): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[38] Held through the following shareholder (share of voting rights > 3%): Fosun International Limited; Fosun Financial Holdings Limited; Millennium Gain Limited; Longrun Portugal, SGPS, S.A.; Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[39] Held through the following shareholder (share of voting rights > 3%): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[40] Held through the following shareholder (share of voting rights > 3%): 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

[41] Held through the following shareholder (share of voting rights > 3%): Fidelidade-Companhia de Seguros, S.A; FCM Beteiligungs GmbH

[42] Attributed through the following shareholder (share of voting rights > 3%): Farringdon I – SICAV

[43] Attributed through the following shareholder (share of voting rights > 3%): Farringdon I – SICAV

[44] Attributed through the following shareholder (share of voting rights > 3%): Farringdon I – SICAV

[45] Attributed through the following shareholder (share of voting rights > 3%): Farringdon I – SICAV

[46] Attributed through the following shareholder (share of voting rights > 25%): Fosun International Limited; Fidelidade-Companhia de Seguros, S.A.; FCM Beteiligungs GmbH

[47] Attributed through the following shareholder (share of voting rights > 5%): Polygon Global Partners LP

[48] Attributed through the following shareholder (share of voting rights > 5%): Polygon Global Partners LLP

[49] Attributed through the following shareholder (share of voting rights > 3%): Farringdon Netherlands B.V.

[50] Attributed through the following shareholder (share of voting rights > 5%): Blackwell Partners LLC - Series A; Farringdon Netherlands B.V.

[51] Attributed through the following shareholder (share of voting rights > 3%): Blackwell Partners LLC - Series A; DUMAC, Inc.

[52] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[53] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[54] Attributed through the following shareholder (share of voting rights > 30%): Fosun International Limited; Fidelidade-Companhia de Seguros, S.A.; FCM Beteiligungs GmbH

[55] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[56] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[57] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[58] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[59] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[60] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[61] Attributed through the following shareholder (share of voting rights > 3%): UBS AG

[62] Attributed through the following shareholder (share of voting rights > 75%): Fosun International Limited; Shanghai Yujin GmbH

Section 21 WpHG, replaced on 3 January 2018 by Section 33 WpHG by way of Article 1 no. 32 Third Regulation Amending the Securities Trading Notification and Insider Directory Regulation

Section 22 WpHG, replaced on 3 January 2018 by Section 34 WpHG by way of Article 1 no. 32 Third Regulation Amending the Securities Trading Notification and Insider Directory Regulation

Section 25 WpHG, replaced on 3 January 2018 by Section 38 WpHG by way of Article 1 no. 32 Third Regulation Amending the Securities Trading Notification and Insider Directory Regulation

# DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of Holding SE 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 SE's website (http://ir.tom-tailor-group.com) in December 2018.

# FEES OF THE AUDITORS (DISCLOSURE IN ACCORDANCE WITH SECTION 314 (1) NO. 9 HGB)

The fees recognised as an expense in financial year 2018 amounted to EUR 758 thousand (2017: EUR 371 thousand) for the audit of the financial statements (including expenses), EUR 55 thousand (2017: EUR 207 thousand) for other assurance services, and EUR 24 thousand (2017: EUR 23 thousand) for tax advisory services.

The other assurance services in financial year 2018 mainly concern the review of the separate non-financial report and assurances in connection with the European Market Infrastructure Regulation (EMIR).

# EVENTS AFTER THE REPORTING PERIOD

The following events with a material effect on the net assets, financial position and results of operations of the Group occurred after the reporting date and prior to the publication of the annual financial statements:

### *Capital increase agreed, Fosun's equity interest exceeds 30%*

In February the Management Board, with the approval of the Supervisory Board, agreed to carry out a 10% capital increase in return for cash contributions utilising a portion of authorised capital. The new registered shares were exclusively and directly allocated to Fosun International Ltd. as part of a private placement. This increased Fosun's equity interest in TOM TAILOR Holding SE to more than 30%.

### *TOM TAILOR Group postpones presentation of 2018 financial statements*

March: This was due to additional organisational efforts and time resulting from the capital increase implemented in February.

### *TOM TAILOR Group announces sale of BONITA*

In March, the TOM TAILOR Group signed a purchase agreement for the sale of BONITA GmbH to Victory & Dreams International Holding B.V. The parties agreed not to disclose the terms of this transaction. The transaction was to be completed subject to the usual conditions.

### *Fosun publishes offer document*

In April, Fosun International published a voluntary public takeover offer for the shares of TOM TAILOR Holding SE at a price of EUR 2.31 per share. Although the Management Board and Supervisory Board welcome the offer in principle from a strategic point of view, the offer price was considered financially inadequate.

***Preliminary figures for 2018 and Q1 2019***

In May, the Company continued to conduct negotiations with the syndicate banks about their consent to sell the equity interest in BONITA, the adjustment of key financial figures (financial covenants) under the syndicated loan agreement and a financing contribution from Fosun. These negotiations turned out to be more difficult than originally expected with regard to Fosun's financing contribution. With the agreement of the syndicate banks and Fosun, the Management Board commissioned Boston Consulting Group to carry out an independent business review to support the negotiations. On 13 May 2019, the Company published further preliminary figures for the 2018 financial year and the first quarter of 2019.

***Changes in Supervisory Board***

According to a resolution passed on 28 May 2019, Dr Thomas Tochtermann, Chairman of the Supervisory Board of TOM TAILOR Holding SE, stepped down from his role effective no later than 25 June 2019. This was because major shareholder Fosun International is seeking stronger representation on the Supervisory Board in light of the Company's current exceptional situation and regarded this as one of the prerequisites for its continued participation in financing discussions. As part of the reorganisation of the Supervisory Board, former Supervisory Board member and vice president of the Fosun Fashion Group Dr Junyang (Jenny) Shao took over as Chairwoman of the Supervisory Board. Michael Chou, CFO of the Fosun Fashion Group, was also appointed to the Supervisory Board as a new member.

***Syndicate banks reject BONITA sale***

On 31 May 2019, the syndicate banks announced that there was no sufficient majority to approve the implementation of the sale of the BONITA subgroup. As a result, the Management Board announced that it would review all strategic alternatives for BONITA, including a resumption of the sale process. At the same time, the restructuring measures were intensified further.

***Bridge financing agreed in principle***

In June, discussions with the syndicate banks and major shareholder Fosun reached an initial agreement concerning bridge financing until mid-August. This additional time should make it possible to finalise the independent business review and agree the final financing structure and the contributions to be made by each party.

***Preliminary figures for Q2 2019***

On 14 August 2019, the Company published its preliminary figures for the second quarter of 2019.

***Bridge financing extended***

In August 2019, the bridge financing agreement reached by TOM TAILOR Holding SE and its syndicate banks was extended until mid-September in order to finalise the independent business review and agree the final financing structure and the contributions to be made by each party. The short-term loan from Fosun was also extended.

***Discussions about the possible departure of Dr Heiko Schäfer and Thomas Dressendörfer from the Management Board***

The Supervisory Board of TOM TAILOR Holding SE is currently holding talks with the CEO Dr Heiko Schäfer and the CFO Thomas Dressendörfer regarding their early departure from the Company.

***Change in stock exchange segment***

On 18 September 2019, the Management Board of TOM TAILOR Holding SE (ISIN DE000A0STST2) adopted a resolution to change its stock exchange listing from Prime Standard to General Standard on the regulated market of the Frankfurt Stock Exchange, with approval granted by the Supervisory Board on the same day. The subsequent application to revoke the admission of the shares of TOM TAILOR Holding SE to the segment of the regulated market with further post-admission duties (Prime Standard) was submitted to the Board of Management of the Frankfurt Stock Exchange on 19 September 2019 in accordance with section 57 of the Exchange Regulations of the Frankfurt Stock Exchange, which will bring about the official commencement of trading of TOM TAILOR shares on the regulated market (General Standard). The revocation of admission was published on 27 September 2019 on the website of the Frankfurt Stock Exchange (www.deutsche-boerse.com). Trading of the TOM TAILOR shares on the regulated market (General Standard) will then commence on 30 December 2019.

Some post-admission duties, including specific reporting and publication requirements, will no longer apply following the change of stock exchange segment. This will enable the Company to reduce stock exchange listing costs and use its existing resources more efficiently. TOM TAILOR Holding SE will continue to meet the strict transparency requirements of the regulated market in the General Standard in future. The trading of TOM TAILOR shares on the regulated market of the Frankfurt Stock Exchange will also remain unrestricted following the change of segment.

### *Change at the top of the Management Board*

The Supervisory Board appointed Dr Gernot Lenz as the new CEO of TOM TAILOR Holding SE. The decision was communicated on 21 October 2019. Dr. Lenz will take office on 1 November 2019 and succeed Dr. Heiko Schäfer, who leaves the Company at his own request. Dr Lenz was most recently CEO of the s.Oliver Group.

### *TOM TAILOR Holding SE Signs New Loan Agreement and Publishes Restated Preliminary Results for 2018*

In early October 2019, TOM TAILOR Group reached an agreement with the consortium banks and major shareholder Fosun on a new financing structure and the associated contributions to be made by the respective parties, and they signed a corresponding term sheet. The parties then finalised the contractual documentation by the end of October and the loan agreement signed at the end of October became effective on 30 October 2019 after all conditions precedent had been met. The new agreement, which will run until the end of September 2022 and has a total volume of EUR 375 million, will secure the long-term financing of the TOM TAILOR Group and allows for more flexibility with regard to future growth. Due to the planning horizon up to and including 2022, as laid out in the term sheet and based on the independent business review (IBR) carried out for this period, the Management Board is restating the preliminary results for the 2018 financial year that were published on 13 May 2019.

## *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, Hamburg / Germany
- BONITA GmbH, Hamminkeln / Germany
- GEWIB GmbH, Hamminkeln / Germany
- BONITA Deutschland Holding Verwaltungs GmbH, Hamminkeln / Germany
- BONITA E-commerce GmbH, Hamburg / 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 preparation of a 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, Hamburg / Germany
- GEWIB GmbH & Co. KG, Pullach / Germany
- TOM TAILOR GmbH, Hamburg / Germany
- TOM TAILOR Retail GmbH, Hamburg / Germany
- TOM TAILOR E-Commerce GmbH, Hamburg / 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 30 October 2019.

Hamburg, 30 October 2019.

The Management Board

**Dr Heiko Schäfer**
Chief Executive Officer

**Thomas Dressendörfer**
Chief Financial Officer

**Liam Devoy**
Chief Operating Officer

**Karsten Oberheide**
Management Board member for BONITA


TOM TAILO

# CONFIRMATIONS

# 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, which is combined with the management report of TOM TAILOR Holding SE, 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, 30 October 2019

The Management Board

Dr Heiko Schäfer
(CEO)

Thomas Dressendörfer
(CFO)

Liam Devoy
(COO)

Karsten Oberheide
(BONITA)

# AUDIT OPINION OF THE INDEPENDENT AUDITOR

To TOM TAILOR Holding SE, Hamburg

## AUDIT OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

### *Audit conclusions*

We have audited the consolidated financial statements of **TOM TAILOR HOLDING SE**, HAMBURG, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the group management report of TOM TAILOR Holding SE, Hamburg, for the financial year from 1 January to 31 December 2018, which has been combined with the management report (subsequently referred to as the combined management report). In accordance with the requirements of German law, we have audited neither the content of the Group's separate non-financial report pursuant to sections 315b, 315c HGB (subsequently referred to as "separate non-financial report") made publicly available on the Company's website and referenced in the section of the combined management report titled "Separate non-financial report", nor the content of the corporate governance declaration pursuant to sections 289f and 315d HGB, made publicly available on the Company's website and referenced in the section of the combined management report titled "Corporate governance declaration".

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German law pursuant to section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the net assets and financial position of the Group as at 31 December 2018 and of its results of operations for the financial year from 1 January to 31 December 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with the requirements of German law and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report covers neither the contents of the separate non-financial report made publicly available on the Company's website and referenced in the section of the combined management report titled "Separate non-financial report", nor the corporate governance declaration pursuant to sections 289f and 315d HGB made publicly available on the Company's website and referenced in the section of the combined management report titled "Corporate governance declaration".

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the propriety of the consolidated financial statements and of the combined management report.

### *Basis for audit conclusions*

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German generally accepted standards for financial statement audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report" section of our audit opinion. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) item f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit conclusions on the consolidated financial statements and on the combined management report

### *Information on the emphasis of a special matter: Refinancing arrangement in the new financial year*

As a consequence of the adverse performance of the BONITA segment in particular, the financial ratios of the syndicated credit agreement entered into in 2018 could not be complied with as at 31 December 2018. In order to ensure the necessary medium-term liquidity of the TOM TAILOR Group for the year 2019 and subsequent years, the syndicated credit agreement was restructured taking into account the results of an independent business review, and the resulting new agreement was entered into in October 2019 for a term ending on 30 September 2022. The new financing structure is contingent on the compliance with certain financial ratios and achievement of milestones for the implementation of the legal and financial measures agreed upon. Compliance with these ratios and measures will depend in part on the future development of the BONITA segment in particular. Please refer to the Company's discussion of its liquidity risks in the risks and opportunities report and of its financial position in the combined management report as well as to note E to the consolidated financial statements. Our audit conclusions on the consolidated financial statements and the combined management report have not been modified with respect to this matter.

### *Key audit matters in the audit of the consolidated financial statements*

Key audit matters are those matters that, in our professional judgment, were most significant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit conclusion thereon; we are not providing a separate audit conclusion on these matters.

We consider the key audit matters to be the following:

1) Valuation of the cash-generating unit “BONITA”
2) Accounting treatment of planned store closures
3) Valuation of inventories

### *Re 1) Valuation of the cash-generating unit “BONITA”*

#### *a) The risk for the financial statements*

The consolidated financial statements as at and for the year ended 31 December 2018 include EUR 100.1 million in equity that is attributable to the BONITA segment or cash-generating unit, and largely represents the carrying amount of the BONITA cash-generating unit in accordance with IAS 36.

The carrying amount of the BONITA cash-generating unit is tested for impairment in accordance with the relevant accounting standards annually and when there are indications that impairment may exist. The net assets of the cash-generating unit are tested for impairment by comparing the recoverable amount to the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use of the cash-generating unit.

As a result of this impairment test, the Company has recognized EUR 188.9 million in additional impairment losses over and above the impairment losses discussed below under “Re 2) Accounting treatment of planned store closures”. This figure mainly consists of the write-off of the EUR 184.5 million carrying amount of the BONITA brand. Net of the reversal of deferred tax liabilities relating to these assets, this has reduced consolidated net income for 2018 by EUR 133.7 million.

The impairment test of the BONITA cash-generating unit was performed in accordance with International Financial Reporting Standard IAS 36. With respect to allocating the resulting impairment loss to the assets and liabilities of the cash-generating unit, this standard stipulates that an entity shall not reduce the carrying amount of any specific asset below its individually determined recoverable amount, and that certain assets, mainly current ones, are excluded from the scope of IAS 36. If the estimated impairment loss is greater than the amount by which the carrying amount of the assets can be reduced in accordance with these requirements, a liability shall be recognized for any remaining amount of the impairment loss if, and only if, that is required by another International Financial Reporting Standard.

The assets in the scope of IAS 36 were either written off in full or written down to the amount of their recoverable amount, if their individual recoverable amount was determinable. EUR 22.8 million in write-downs of non-current assets of the stores and of corporate assets allocated to these stores, whose recoverable amount was estimated in accordance with the approach described below under “Re 2) Accounting treatment of planned store closures”, were not recognized because the cash-generating units (stores) tested are generating net cash inflows. In addition, the BONITA cash-generating unit also includes inventories, in particular, that were tested for impairment as described below under “Re 3) Valuation of inventories”, cash and cash equivalents as well as EUR 93 m in receivables from the TOM TAILOR Wholesale segment which are unquestionably collectible given the successful conclusion of the financing negotiations in October 2019. Therefore, the Company has not recognized any additional liabilities over and above the provisions for onerous contracts for loss-making stores discussed in section 2).

As a consequence of this approach, it was not possible to recognize sufficient impairment losses to reduce the carrying amount of the cash-generating unit to its recoverable amount. The segment's carrying amount exceeds the recoverable amount by approximately EUR 100 million. This difference represents expected future losses that cannot be recognized in the financial statements as at 31 December 2019, but will likely be realized in the coming years in the form of losses of the BONITA segment. The forecast for the BONITA segment for the coming years reflects this.

The Company's disclosures on the BONITA segment are included in notes B, D.10 and G to the consolidated financial statements and in the chapters "TOM TAILOR GROUP's results of operations" and "Net assets of the TOM TAILOR GROUP" of the combined management report.

The impairment test is complex and is based on a number of assumptions that represent judgements.

These include, among other things, the detailed forecast of the expected performance and earnings of the BONITA cash-generating unit for the next four years, the assumed cash flows for subsequent periods and the long-term growth rates as well as the discount rate used. There is a risk for the consolidated financial statements that the impairments recognized are not appropriate. In light of this, valuation of the BONITA cash-generating unit was a key audit matter.

*b) Audit approach and conclusions*
Our audit included evaluating the methodology and approach used to perform the impairment test and tested the mechanical accuracy of the model. To this end, we reviewed whether the underlying future cash flows and the cost of capital applied represent an appropriate basis overall. Our evaluation was based, among other things, on the forecasts used by the Management Board, general and industry-specific market expectations and on extensive explanations provided by the Management Board. In addition, we reviewed whether the current economic and legal situation of BONITA GmbH and the interrelations between BONITA GmbH and TOM TAILOR Holding SE as well as TOM TAILOR GmbH were taken into account appropriately.

Furthermore, we have evaluated whether the discussion regarding the BONITA segment in the notes to the consolidated financial statements and in the combined management report is sufficiently detailed and appropriate.

The valuation model used by TOM TAILOR Holding SE to test the carrying amount of the BONITA cash-generating unit for impairment is appropriate and in accordance with the applicable valuation principles. The assumptions underlying the valuation of the BONITA cash-generating unit are appropriate overall.

The related disclosures in the notes to the consolidated financial statements and in the combined management report have been made appropriately.

*Re 2) Accounting treatment of planned store closures*
*a) The risk for the financial statements*
As of 31 December 2018, the TOM TAILOR Group owned and operated 1,211 retail stores und has recognized EUR 38.7 million in store fittings and fixtures in its balance sheet. In addition, corporate assets of EUR 18 million also included in the "Property, plant and equipment" line item in the consolidated balance sheet have been allocated to the stores on a pro-rata basis. These assets are measured at historical cost less depreciation and impairment losses.

As part of the RESET programme initiated in 2016, the Company has already closed numerous stores and plans to close further loss-making stores in the coming years. The impairment test performed on the store fittings and fixtures of these stores in 2017 was updated in 2018 taking into account the company forecast prepared by the Management Board and refined by an independent expert.

Impairment exists if the carrying amount of the store fittings and fixtures of a given store and the corporate assets allocated to the store for purposes of the impairment test exceeds the recoverable amount. The Company performed the impairment test at the level of individual stores, as these have been identified by management as the smallest identifiable cash-generating units. The impairment test was based on the TOM TAILOR Group's three-year operating forecast prepared at store level by the Company's Management Board and approved by the Supervisory Board. The weighted average cost of capital (WACC) used to discount the cash flows was determined using market data from a peer group.

Where the discounted negative cash flows expected for the period up to the date of the expected store closure exceeds the carrying amount of the property, plant and equipment of the relevant store, the Company recognized a provision for onerous contracts in the amount of the excess. As at 31 December 2018, the balance sheet line item "Other provisions" includes EUR 35.8 million in provisions for onerous contracts.

These provisions were determined on the basis of the unavoidable costs to fulfil each individual contract discounted using the market interest rate for the average remaining term of the contracts.

The Company's disclosures on the accounting treatment of planned store closures are included in notes C.5., C.6., D.11. and D.21. to the consolidated financial statements and in the "TOM TAILOR GROUP's results of operations" chapter of the combined management report.

The calculation of impairment losses at store level and of the provisions for onerous contracts is complex and highly dependent on the Management Board's judgements regarding future cash flows and is therefore subject to considerable uncertainty. In light of this, we consider the appropriate accounting treatment of planned store closures of key significance to the consolidated financial statements.

***b) Audit approach and conclusions***
Our audit included evaluating the methodology and approach used to perform the impairment test at store level and to calculate the provisions for onerous contracts. To this end, we reviewed whether the underlying future cash flows and the cost of capital applied represent an appropriate basis overall. Our assessment was based, among other things, on the forecasts refined by the independent expert, general and industry-specific market expectations and extensive explanations provided by the Management Board. Knowing that even relatively small changes in the discount rate used can have a significant impact on the resulting recoverable amount and on the amount of the provisions for onerous contracts, we reviewed the parameters used to derive the discount rate and re-performed the calculation.

Overall, the assumptions and judgements made by the Management Board in evaluating the recoverability of store fittings and fixtures and in measuring the provisions for onerous contracts are balanced and transparent.

***Re 3) Valuation of inventories***
***a) The risk for the financial statements***
Inventories recognized in the consolidated financial statements of TOM TAILOR Holding SE, Hamburg, mainly representing merchandise, amount to EUR 145.2 million. The year-end valuation of inventories is not fully automated and systems-based; rather, it is partially performed manually based on data extracted from the ERP system. Inventories are recognized at acquisition cost at the time of purchase. Subsequent to initial acquisition, inventories are measured based on a valuation matrix that refers to the inventory aging. Additional specific write-downs are recognized in certain cases where, due to exceptional effects, the valuation methods set out above do not result in the recognition of appropriate impairments. Specifically, in 2018, the recoverability of inventories of the BONITA segment was evaluated based on sales figures derived from the Company's forecast.

The Company's disclosures on the valuation of inventories are included in notes B., D.14. and C.3. to the consolidated financial statements and in the "TOM TAILOR GROUP's results of operations" and "Net assets of the TOM TAILOR GROUP" chapters of the combined management report.

Especially due to part of the valuation of inventories as at the balance sheet date being performed manually, there is a risk that inventory valuation contains misstatements material to the consolidated financial statements. Consequently, we considered this matter to be a key audit matter.

***b) Audit approach and conclusions***
As part of our audit, we satisfied ourselves that acquisition cost was determined appropriately taking into account cost reductions.

Further, as part of our audit, we performed an analysis of the valuation of inventory data subsequent to initial acquisition, and determined whether the inventory valuation based on the valuation matrix was transparent.

As part of our audit of the valuation of BONITA segment inventories subsequent to initial acquisition, we also satisfied ourselves that the valuation performed was reasonable and performed using current sales statistics and transparently documented sales forecasts.

In our opinion, the valuation system used by the Management Board, including the relevant assumptions and judgements made, is suited to facilitating the appropriate valuation of inventories.

## OTHER INFORMATION

The Management Board is responsible for the other information. The other information comprises:

- the separate non-financial report made publicly available on the Company's website and referenced in the section of the combined management report titled "Separate non-financial report",

- the corporate governance declaration pursuant to sections 289f and 315d HGB made publicly available on the Company's website and referenced in the section of the combined management report titled "Corporate governance declaration",

- the responsibility statement pursuant to section 297 (2) sentence 4 HGB regarding the consolidated financial statements and the responsibility statement pursuant to section 315 (1) sentence 5 HGB regarding the combined management report,

- the corporate governance report in accordance with Number 3.10 of the German Corporate Governance Code and

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the combined management report and our audit opinion.

Our audit conclusions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently, we do not express an audit conclusion or any other form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the sections of the combined management report whose content we have audited or with knowledge we have obtained in our audit, or

- otherwise appears to be materially misstated.

If, based on the work performed by us, we come to the conclusion that this other information is materially misstated, we are required to report on that fact. We have nothing to report in this regard.

***Responsibilities of the Management Board and the Supervisory Board for the consolidated financial statements and the combined management report***

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German law pursuant to section 315e (1) HGB and for ensuring that the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in compliance with these requirements. In addition, the Management Board is responsible for such internal control as it has determined necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for evaluating the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with the requirements of German law and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as it has considered necessary to facilitate the preparation of a combined management report that is in accordance with the applicable requirements of German law, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

***Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the requirements of German law and appropriately presents the opportunities and risks of future development, as well as to issue an audit opinion that includes our audit conclusions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German generally accepted standards for financial statement audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit conclusions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit conclusion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates presented by the Management Board and related disclosures.

- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in the audit opinion to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit conclusion. Our conclusions are based on the audit evidence obtained up to the date of our audit opinion. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in compliance with IFRS as adopted by the EU and the additional requirements of German law pursuant to section 315e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit conclusions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit conclusions.

- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with the law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the Management Board in the combined management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit conclusion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit opinion unless law or regulation precludes public disclosure of the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

***Further information pursuant to Article 10 of the EU Audit Regulation***

We were elected auditors by the annual general meeting on 30 May 2018. We were engaged by the Audit Committee on 28 November 2018. We have been the auditors of TOM TAILOR Holding SE, Hamburg, without interruption since the 2010 financial year.

We declare that the audit conclusions expressed in this audit opinion are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Mr. Thomas Wülfing."

Hamburg, 30 October 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

**Thomas Götze**
Wirtschaftsprüfer

**Thomas Wülfing**
Wirtschaftsprüfer

# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289F 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 SE submitted a declaration of compliance in accordance with section 161 AktG in October 2019.

***Text of the Declaration by the Management Board and the Supervisory Board of TOM TAILOR Holding SE on the German Corporate Governance Code in Accordance with Section 161 AktG (Declaration of Compliance)***
*TOM TAILOR Holding SE, Hamburg*
ISIN: DE000A0STST2

Since submitting its most recent Declaration of Compliance in September 2019, 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 in the Federal Gazette, most recently in the version dated 07 February 2017, with the exception of section 4.1.3 sentence 2 (compliance management system), section 5.4.1 (2) sentence 1, (4) sentence 1 (profile of skills of the Supervisory Board), section 5.4.6 (1) sentence 2 (remuneration of Supervisory Board members), and section 7.1.2 sentence 3 (financial statements):

- In April 2017, the Management Board began developing and introducing a specific Group-wide compliance management system within the meaning of section 4.1.3 sentence 2 of the German Corporate Governance Code (GCGC). This system provides the framework for taking suitable measures aligned with the Company's risk situation to ensure that all statutory provisions and internal corporate guidelines are observed. This compliance management system was further expanded in 2018. With the entry into force of the General Data Protection Regulation on 25 May 2018, the issue of data protection compliance was a particular focus. The Company also added personnel for the expansion of its compliance management system.

- In the Supervisory Board's assessment, its members possess all of the skills and expertise required for the Supervisory Board's activities to be conducted efficiently. Hence, the Supervisory Board does not consider it necessary at this time to write up a special profile of skills and expertise as stipulated in the GCGC recommendation in section 5.4.1 (2) sentence 1. The candidates proposed by the Supervisory Board to the Annual General Meeting therefore cannot – as stipulated in section 5.4.1 (4) sentence 1 of the GCGC – aim to fill out a special profile of skills and expertise, and the status of implementation is not published in the Corporate Governance Statement as recommended in section 5.4.1 (4) sentence 2 of the GCGC.

- In a departure from the recommendation in section 5.4.6 (1) sentence 2 of the GCGC, the position of deputy chairman is not considered in the remuneration of the Supervisory Board members, since the deputy chairman does not currently fulfil any additional duties that would result in a greater burden on the deputy chairman than on a regular member of the Supervisory Board.

- In a departure from section 7.1.2 sentence 3 GCGC, the consolidated financial statements and Group management report were not made publicly accessible within 90 days of the end of the financial year. This was due to the additional organisational demand and time required for the capital increase carried out in February and the ongoing negotiations between the Company, the syndicate banks and the major shareholder Fosun regarding a final financing structure. The Management Board plans to meet the deadlines going forward.

TOM TAILOR Holding SE intends to comply with the recommendations of the German Corporate Governance Code in future as well – with the exception of the deviations listed above.

Hamburg, October 2019

This Declaration of Compliance and all previous Declarations of Compliance are published on TOM TAILOR Holding SE's website at http://ir.tom-tailor-group.com.

# DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

## RESPONSIBLE CORPORATE GOVERNANCE

TOM TAILOR Holding SE is the management holding company and parent of the TOM TAILOR Group. The various TOM TAILOR Holding SE subsidiaries conduct the operating business (the subsidiaries and TOM TAILOR Holding SE are also referred to jointly as "TOM TAILOR" or the "TOM TAILOR Group"). TOM TAILOR Holding SE 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 SE is a stock corporation established in accordance with European law. The legal framework for corporate governance is therefore provided by the provisions of Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE) and by German stock corporation law, particularly the provisions governing the Management Board and the Supervisory Board.

## MANAGEMENT BOARD

The Management Board conducts TOM TAILOR Holding SE'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 had three members in the 2018 financial year: Dr Heiko Schäfer (Chief Executive Officer, CEO), Thomas Dressendörfer and Liam Devoy.

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.

Karsten Oberheide was appointed as an additional member of the Management Board with effect from 1 January 2019. Mr Oberheide has many years of experience in the fashion industry. After studying economics at Carl von Ossietzky University in Oldenburg, he began his professional career as a trainee at Sinn AG before becoming a department head and buyer. After spending time as a managing director for Stuttgart, Neunkirchen and Trier with SinnLeffers GmbH, he became the managing director of SinnLeffers Marken Textil Vertriebs GmbH. Mr Oberheide then worked as a purchasing manager back at SinnLeffers GmbH and was subsequently promoted to managing director for purchasing, marketing, personnel, organisation and, temporarily, sales between January 2007 and July 2013. After the company was acquired by Wöhrl, he was appointed to the Management Board as Director of Purchasing and Marketing from August 2013 to July 2015. Following this, he was Managing Director Retail at Gerry Weber between November 2015 and August 2018 with responsibility for managing sales in the company's own channels.

The Company's Management Board therefore comprised the following members as at 31 December 2018; the member of the Management Board were appointed at different times:

| | First Appointment | | Current Appointment |
|---|---|---|---|
| Dr Heiko Schäfer<br>Born in 1972<br>Chief Executive Officer / CEO | Since 22 September 2016<br><br>From 2015 to 2016 | Chief Executive Officer<br><br>Chief Operating Officer / COO (Purchasing, Logistics, IT, Project and Process Management) | Until 31 October 2019 |
| Thomas Dressendörfer<br>Born in 1958<br>Chief Financial Officer / CFO | Since 15 June 2016 | Member of the Management Board | Until 31 October 2019 |
| Liam Devoy<br>Born in 1962<br>Chief Operating Officer / COO | Since 1 August 2017 | Member of the Management Board | Until 31 July 2020 |

CEO Dr Heiko Schäfer (born 1972) joined the Management Board of the TOM TAILOR Group as at 1 December 2015. In his function as Chief Operating Officer (COO) at that time, he was responsible for purchasing, logistics and IT, as well as project and process management. The Supervisory Board additionally appointed him the new Chief Executive Officer (CEO) on an interim basis with effect from 22 September 2016. In this position Dr Heiko Schäfer is responsible for strategy, sales, e-commerce and public relations. He was permanently appointed to this position by the Supervisory Board with effect from 15 March 2017. Dr Heiko Schäfer's term on the Management Board ran until 14 March 2020. He resigned from the Management Board at his own request with effect from 31 October 2019.

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 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 Senior Vice President with responsibility for product development, sourcing and logistics for the four lifestyle / fashion labels of the adidas umbrella brand.

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.

Thomas Dressendörfer (born in 1958) assumed the position of Chief Financial Officer (CFO) within the TOM TAILOR Group with effect from 15 June 2016. As CFO, he is responsible for finance and accounting, controlling, investor relations, human resources, internal audit, tax and legal affairs. By resolution of the Supervisory Board, the term of his three-year Director's contract was initially extended until 31 March 2020. Following the successful completion of the new financing of the Group, his appointment was terminated early effective 31 October 2019 by resolution of the Supervisory Board.

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 has also served as an Operating Partner of WP Management in Bad Homburg since January 2016, as Deputy Chairman of the Supervisory Board of Wolford AG in Bregenz / Austria since May 2018, and as a member of the Advisory Board of nt-Trading GmbH & Co. KG in Karlsruhe since August 2018. From April 2016 to April 2017, he was also a member of the Supervisory Board of Pax Anlage AG in Basle / Switzerland.

Thomas Dressendörfer has a master's degree in business administration from the University Erlangen-Nuremberg.

Liam Devoy has been a member of the Management Board of TOM TAILOR Holding SE since 1 August 2017. As Chief Operating Officer (COO), he is the Management Board member responsible for operations with a focus on purchasing, logistics and IT. His appointment as a Management Board member runs until 31 July 2020.

Liam Devoy has logged more than 20 years of experience in the fashion and sportswear industry. He worked in operations roles for companies including Quicksilver, Marc Jacobs, The Children's Place and Reebok.

Most recently, Liam Devoy was responsible for the strategic focus of the worldwide supply chain of the adidas Group as Vice President Global Supply Chain Strategy. His responsibilities in earlier roles with adidas and Reebok also included setting up the global warehouse network.

Liam Devoy studied English and Politics at Bridgewater State University.

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 SE 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 SE 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.

On 28 May 2019, former Chairman of the Supervisory Board Dr Thomas Tochtermann stepped down as Chairman and as a member of the Company's Supervisory Board with effect from the time that a new Supervisory Board member is appointed by the court but no later than midnight on 25 June 2019. Hamburg Local Court appointed Michael Chou as a member of the Company's Supervisory Board in his place with effect from 17 June 2019 and limited this appointment until the shortage of Supervisory Board members is rectified in accordance with Section 104 (6) of the Aktiengesetz (AktG – German Stock Corporation Act).

On 19 June 2019, the Supervisory Board of the Company elected Dr Junyang (Jenny) Shao as its new Chairwoman.

Accordingly, the Supervisory Board of the Company is composed of the following members:

The shareholder representatives are Dr Junyang (Jenny) Shao (Chairwoman of the Supervisory Board), Otmar Debald, Andreas Karpenstein, Yun (Joann) Cheng and Michael Chou.

The employee representatives on the Supervisory Board are Barbara Pfeiffer (Deputy Chairwoman of the Supervisory Board), Stefanie Branahl, Kitty Cleijne-Wouters, Sven Terpe and Oliver Kerinnes.

As a general rule, their term of office is for a period of five years.

*Dr Junyang (Jenny) Shao*
*(Chairwoman of the Supervisory Board)*
Vice President of the Fosun Fashion Group, Shanghai / China

Born in 1981, Dr Junyang (Jenny) Shao currently holds the position of Vice President at the Fosun Fashion Group. She has many years of experience working at various management consulting firms. From 2012 to 2016, she was a Director at Acxit Capital Partners in Frankfurt / Main and prior to that a Senior Consultant at PwC in Düsseldorf from 2011 to 2012.

Dr Junyang (Jenny) Shao studied business administration at Georg August University in Göttingen from 2001 to 2005. From 2006 to 2009, she subsequently completed post-graduate studies at the Supply Management Institute of EBS University of Business and Law in Oestrich-Winkel, ultimately receiving the academic title of Ph.D. (Doctor of Philosophy).

*Barbara Pfeiffer*
*(Deputy Chairwoman of the Supervisory Board)*
Employee and Chairwoman of the Works Council at TOM TAILOR GmbH, Hamburg, Chairwoman of the SE Works Council and member of the Group Works Council

Born in 1966, Barbara Pfeiffer has worked at TOM TAILOR GmbH in Hamburg since 2006. She was employed in various purchasing and CSR positions at the TOM TAILOR Group, most recently as Director Strategic Buying. Since 2014, she has been Chairwoman of the Works Council of TOM TAILOR GmbH in Hamburg and as such has been released from these duties. She has been Chairwoman of the SE Works Council since 2016 and a member of the Group Works Council since 2018.

Ms Pfeiffer began her career at Levi Strauss Germany in 1993, where her last position was Product Manager. From 1997 to 2006, she worked at Esprit Germany in various sourcing positions.

From 1987 to 1992, Barbara Pfeiffer studied apparel technology at Albstadt-Sigmaringen University and completed her studies with a Dipl. Ing. (University of Applied Sciences) qualification.

*Otmar Debald*
Independent management consultant, working under his own name and for his own company

Born in 1954, Otmar Debald was employed for 30 years in various positions at consumer goods company Procter & Gamble, most recently as Director of Finance in Germany with additional responsibility for logistics and customer service in Germany, Austria and Switzerland. Since 2013, he has been a Senior Advisor at Corfina AG, additionally acting as that company's shareholder since January 2018.

Otmar Debald studied at the University of Freiburg, where he completed his degree in economics (Diplom-Volkswirt) in 1979.

*Andreas Karpenstein*
Partner and Managing Director of Deloitte Legal Rechtsanwaltsgesellschaft mbH, Düsseldorf

Andreas Karpenstein (born in 1963) has been Partner and Managing Director at Deloitte Legal Rechtsanwaltsgesellschaft mbH, since 2002. His career as a lawyer began in 1995 at Andersen Luther Rechtsanwaltsgesellschaft mbH.

Andreas 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*
Chairwoman of the Fosun Fashion Group, Shanghai / China

Born in 1976, Yun (Joann) Cheng currently holds the position of Chairwoman of the Fosun Fashion Group. 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.

*Michael Chou*
Chief Financial Officer of the Fosun Fashion Group, Shanghai / China

Michael Chou has been the Chief Financial Officer of Fosun Fashion Group since June 2018. He previously spent several years as the Finance Director of Royal FrieslandCampina, also in Shanghai, China, and worked as a senior manager in KPMG's Corporate Finance, Mergers & Acquisitions division in locations including Sydney, Australia.

Michael Chou earned a Bachelor of Commerce (Accounting and Finance) at the University of Melbourne between 2001 and 2003. He then obtained an honours degree in finance between 2003 and 2004.

*Sven Terpe*
Employee of TOM TAILOR GmbH, Hamburg, in the Import department, Deputy Chairman of the SE Works Council and member of the Executive Committee of the SE Works Council

Born in 1980, Sven Terpe has worked in the Import department at TOM TAILOR GmbH as an Import Specialist since 2005.

He began his career at Kube & Kubenz in 1999, where he completed vocational training as a forwarding agent in 2001. In the period from 2002 to 2004, he was employed at Nord-Süd-Transporte (NST).

*Oliver Kerinnes*
Employee of BONITA GmbH, Hamminkeln, in the position of Senior Specialist Buying; member of the BONITA GmbH Works Council, the Central Works Council of BONITA GmbH, the SE Works Council of TOM TAILOR Holding SE, and the Group Works Council of TOM TAILOR Holding SE.

Born in 1969, Oliver Kerinnes has been a Senior Specialist Buying at the TOM TAILOR Group since 2013. He has many years of experience in the procurement sector. Among other positions, he was previously a buyer at BONITA GmbH & Co KG, HOLTEX Edith Pohl e.K., EDUSCHO Versand GmbH & Co. KG, Annabell's GmbH and Lloyd Textil Handelsgesellschaft mbH.

From 1987 to 1989, Oliver Kerinnes completed an apprenticeship as a wholesale and export merchant at Ospig Textil-Gesellschaft W. Ahlers GmbH & Co.

*Stefanie Branahl*
Employee of BONITA GmbH, Hamminkeln, in the position of Buyer, member of the BONITA GmbH Works Council and of the SE Works Council

Stefanie Branahl, born 1968, joined BONITA GmbH as a Buyer in January 2009.

From 1988 to 1991, she completed an apprenticeship as an industrial clerk at Klaus Steilmann GmbH & Co. KG.

*Kitty Cleijne-Wouters*
Employee of BONITA GmbH, Hamminkeln, in the position of Assistant Senior Manager Retail

Born in 1961, Kitty Cleijne-Wouters has been an employee of BONITA GmbH in the position of Assistant Senior Manager Retail since 2016. Her primary responsibility in this position is supporting the Human Resources department with regard to the BONITA GmbH stores in the Netherlands. Previously, she worked at BONITA GmbH for ten years as Area Manager and in the period prior to that as a store manager at various Netherlands-based companies, including fashion retailer Ter Horst van Geel and electronics wholesaler E.T.G. Zeddam B.V.

In the period from 1985 to 1999, she completed training in various fields such as computer science, bookkeeping and business and tax law.

### *Other Appointments of the Members of the Supervisory Board*

*Dr Junyang (Jenny) Shao*
- Chairwoman of the Supervisory Board of Wolford AG, Bregenz / Austria
- Managing Director Koller Beteiligungs-GmbH, Dietfurt

*Otmar Debald*
- Member of the Advisory Board of POS Pulse / 24 insights GmbH, Berlin
- Managing Director of PP Picture Partners 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*
- Member of the Supervisory Board of Wolford AG, Bregenz / Austria
- Chairman of the Board of JEANNE LANVIN S.A., Paris / France

*Michael Chou*
- Member of the Board of St. John Knits International Inc. in Irvine, California / USA

None of the employee representatives on the Supervisory Board are members of any other statutory supervisory boards and do not hold positions in comparable domestic or foreign corporate governing bodies.

### *Composition of the Supervisory Board*

In December 2018 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 SE 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, 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. A diversity plan with more extensive provisions regarding the composition of the governing and supervisory bodies of the Company is not currently being pursued. The goals aligned with the recommendations of the German Corporate Government Code for the composition of the Supervisory Board stipulate sufficiently specific requirements to ensure diverse Board membership overall. Individuals selected to fill a specific Management Board positions are chosen by the Supervisory Board in line with the Company's interests and taking into account all of the circumstances of the particular situation.

According to section 17 (2) of the SE Implementation Act, the Supervisory Board of a stock exchange-listed company with a Supervisory Board with an equal number of shareholder and employee representatives must comprise at least 30% women and at least 30% men.

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.

As at 31 December 2018 the Management Board of TOM TAILOR Holding SE did not have any female members. The Supervisory Board did not specify a minimum quota for the representation of women on the Management Board of TOM TAILOR Holding SE. The share of female executives on the two management levels below the Management Board of the TOM TAILOR Group as at 31 December 2018 was 36%. This share should not fall below 30%.

### *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 7 February 2017 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.

In accordance with section 5.4.2 of the German Corporate Governance Code, the Supervisory Board discloses that Dr Junyang (Jenny) Shao, Yun (Joann) Cheng and Michael Chou hold executive positions at companies of the FOSUN Group. FOSUN International Ltd., a company of the FOSUN Group, is a shareholder holding a material indirect interest in the Company. The Supervisory Board is of the opinion that the persons proposed for election otherwise have no personal or professional relationships with the Company or Group member companies, the bodies of the Company or a shareholder holding a material interest in the Company which would have to be disclosed pursuant to section 5.4.2 of the German Corporate Governance Code.

In the Supervisory Board's opinion, there are no personal or business relationships between the employee representatives and the Company, the Company's governing bodies or a shareholder holding a material interest in the Company, the disclosure of which is recommended by section 5.4.2 of the German Corporate Governance Code.

The Supervisory Board currently considers seven of its members to be independent within the meaning of the German Corporate Governance Code, including two shareholder representatives (Otmar Debald and Andreas Karpenstein) und five employee representatives (Barbara Pfeiffer, Stefanie Branahl, Kitty Cleijne-Wouters, Sven Terpe and Oliver Kerinnes).

### *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 five female members – Dr Junyang (Jenny) Shao, Barbara Pfeiffer, Yun (Joann) Cheng, Stefanie Branahl and Kitty Cleijne-Wouters – and five male members – Dr Thomas Tochtermann (until 17 June 2019), Michael Chou (since 17 June 2019), Otmar Debald, Andreas Karpenstein, Oliver Kerinnes and Sven Terpe. This means that the statutory quota of 30% each has been met.

The members of the Supervisory Board also include finance experts (Otmar Debald and Michael Chou), a representative of the legal profession (Andreas Karpenstein) and representatives with professional expertise in relation to the fashion industry (Yun (Joann) Cheng and Dr Junyang (Jenny) Shao).

The major shareholder Fosun International Limited is committed to the long-term strategy of the Company, and its interests are represented by Supervisory Board members Dr Junyang (Jenny) Shao, Vice President of the Fosun Fashion Group, Yun (Joann) Cheng, Chairwoman of the Fosun Fashion Group, and Michael Chou, Chief Financial Officer of the Fosun Fashion Group.

# MANAGEMENT BOARD AND SUPERVISORY BOARD COMMITTEES

The Management Board has not currently established any committees.

The Supervisory Board has established three standing committees to efficiently perform its tasks: an Executive Committee, an Audit and Finance Committee and a Personnel Committee. It also set up a Nomination Committee in March 2019. In addition, the Supervisory Board temporarily established a Restructuring Committee in June 2019 and decided to temporarily suspend the Executive Committee's activities while the Restructuring Committee exists.

The Executive Committee is responsible for preparing the Supervisory Board meetings and coordinating the work of the Supervisory Board. The Executive Committee lays the groundwork for corporate governance-related decisions by the Supervisory Board and, in the place of the Supervisory Board, resolves amendments to the annual Declaration of Compliance to address changes in circumstances. It also checks compliance with the Declaration of Compliance.

Mitglieder:

– Dr Thomas Tochtermann (Chairman of the Executive Committee), Andreas Karpenstein and Barbara Pfeiffer (as at 31 December 2018).

– Dr Junyang (Jenny) Shao (Chairwoman of the Executive Committee), Andreas Karpenstein and Barbara Pfeiffer (since June 2019 - committee memberships currently inactive).

The Audit and Finance Committee is tasked with monitoring the Company's accounting and financial reporting and the accounting process, the effectiveness of the internal control system, internal risk management system and internal audit system, as well as compliance and the financial statements audit. To this end, it may exercise the inspection and audit duties to which the Supervisory Board is entitled in accordance with section 111 (2) AktG. The Audit and Finance Committee also issues a recommendation to the Supervisory Board for its proposal to the Annual General Meeting on the election of the auditors. In the place of the Supervisory Board, it adopts a resolution on the agreement with the auditors (especially the audit engagement, determination of the areas of emphasis for the audit and the fee agreement). It takes suitable measures to determine and monitor the independence of the auditors. Prior to publication, the Audit and Finance Committee and the Management Board discuss the quarterly and half-yearly reports and other interim reports, if these are prepared for specific reasons. The Audit and Finance Committee additionally prepares the meetings and decisions of the Supervisory Board relating to the annual budget and three-year planning of the TOM TAILOR Group.

Members:

– Otmar Debald (Chairman of the Audit and Finance Committee), Yun (Joann) Cheng (until 12 November 2018), Dr Junyang (Jenny) Shao (since 12 November 2018) and Kitty Cleijne-Wouters (as at 31 December 2018).

– Otmar Debald (Chairman of the Audit and Finance Committee), Michael Chou and Kitty Cleijne-Wouters (since June 2019).

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.

The Personnel Committee prepares the decisions of the Supervisory Board on appointment of Management Board members, the election of the Management Board chairman and determination of the remuneration structure of the Management Board as well as the remuneration, including target agreements, of the individual Management Board members. The Supervisory Board by-laws confer on this Committee the authority to pass resolutions on the following issues:

– Signing, amending and terminating employment contracts with the members of the Management Board with the exception of the decisions which are the domain of the Supervisory Board pursuant to section 87 (1) and (2) sentence 1 and sentence 2 AktG (prepared by the Personnel Committee);

– other legal transactions with respect to Management Board members or their affiliated companies (sections 15ff. AktG) or their related parties as defined in section 15 of the Abgabenordnung (AO – German Fiscal Code);

– extending loans to the persons named in sections 89, 115 AktG;

– approving other activities of Management Board members as per section 88 AktG;

– approving contracts with Supervisory Board members in accordance with section 114 AktG.

Members:

– Dr Thomas Tochtermann (Chairman of the Personnel Committee), Dr Junyang (Jenny) Shao and Sven Terpe (as at 31 December 2018).

– Dr Junyang (Jenny) Shao (Chairman of the Personnel Committee), Michael Chao and Sven Terpe (since June 2019).

The Nomination Committee is composed exclusively of shareholder representatives. It is tasked with proposing suitable candidates to the Supervisory Board for its recommendations to the General Meeting.

Members: Dr Thomas Tochtermann, Dr Junyang (Jenny) Shao and Joann Cheng (as of March 2019).

Dr Junyang (Jenny) Shao (Chairwoman of the Nominating Committee), Otmar Debald and Joann Cheng (since July 2019).

The Restructuring Committee is responsible for providing advice on the Company's planned restructuring measures and making recommendations to the full Supervisory Board on decision-making in this context.

Members: Dr Junyang (Jenny) Shao (Chairwoman of the Restructuring Committee), Joann Cheng and Barbara Pfeiffer (since June 2019).

## *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 50 ff.

## *SHAREHOLDINGS*

### SHAREHOLDINGS OF THE MEMBERS OF THE MANAGEMENT BOARD

Dr Heiko Schäfer (CEO) directly held 57,000 shares of the Company as at 31 December 2018, corresponding to 0.15% of the Company's shares. Thomas Dressendörfer (CFO) directly held 35,000 shares of the Company as at 31 December 2018, corresponding to 0.09% of the Company's shares. Both Dr Heiko Schäfer and Thomas Dressendörfer have accepted the voluntary public takeover offer of Fosun International Limited dated 1 April 2019 and each sold their entire shares at a price of EUR 2.31 per share; neither of them currently holds any shares in TOM TAILOR Holding SE.

### SHAREHOLDINGS OF THE MEMBERS OF THE SUPERVISORY BOARD

One member of the Supervisory Board, Barbara Pfeiffer (Deputy Chairwoman) directly held 1 share of the Company as at 31 December 2018, corresponding to 0.00% of the Company's shares. Ms Pfeiffer still holds the share after the voluntary public takeover offer by Fosun International Limited.

## *DIRECTORS' DEALINGS*

In accordance with section 19 of the Market Abuse Regulation (MAR), the members of the Management Board and the Supervisory Board of TOM TAILOR Holding SE 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 until the end of a calendar year. Further details as well as the individual transactions disclosed can be found at http://ir.tom-tailor-group.com.

## *SHAREHOLDERS*

TOM TAILOR Holding SE received voting right notifications in accordance with section 33 (1) of the WpHG from institutional investors in China, France, the United Kingdom, Switzerland, the Netherlands and the United States.

## *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.

Hamburg, October 2019

# REPORT OF THE SUPERVISORY BOARD

In financial year 2018, 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, in particular the Chairman of the Supervisory Board and the Chairman of the Finance and Audit Committee, were in close written and oral contact with the Management Board outside of the regular Supervisory Board meetings as well and discussed questions relating to strategy, corporate planning, business development, the risk situation, risk management and compliance.

The Supervisory Board's work in the past year focused on the core business strategy, the strategy for each business unit including the current business development of the Group, the annual and multi-year plans for the Company and Group, as well as the position of the Group, particularly the financial position and results of operations.

The Supervisory Board also focused on preparing the non-financial statement (CSR report) for the 2018 financial year in accordance with sections 289b and 315b of the Handelsgesetzbuch (HGB – German Commercial Code).

Where legally permissible, the Supervisory Board's decision-making powers were transferred to its committees. The committee chairs provided the Supervisory Board with comprehensive reports about the committees' work at each subsequent meeting.

## SUPERVISORY BOARD MEETINGS

The Supervisory Board held a total of seven meetings during the 2018 financial year. The Supervisory Board addressed current business developments and approved significant individual transactions, examined the reports by the Management Board and committee chairs and discussed strategic corporate planning in four regular meetings. Resolutions were also passed when required in two extraordinary Supervisory Board meetings held via conference call as well as by written circular.

In its ordinary meeting on 19 March 2018, the Supervisory Board approved the annual and consolidated financial statements for the 2017 financial year. The annual financial statements are thus adopted. The Supervisory Board also reviewed and approved the non-financial statement (CSR report) pursuant to sections 289b and 315b of the HGB for the 2017 financial year and the report submitted by the Management Board on TOM TAILOR Holding SE's relationships with affiliated companies pursuant to section 312 of the Aktiengesetz (AktG – Stock Corporation Act) (dependent company report) for the 2017 financial year. Other focal points at this meeting included discussion of the latest financial figures, the Management Board's outlook for the 2018 financial year and reports from the committees established by the Supervisory Board. The Supervisory Board also addressed the refinancing of the syndicated credit lines and approved their restructuring. The meeting also served as preparation for the Annual General Meeting held on 30 May 2018.

The ordinary Supervisory Board meeting on 29 May 2018 focused on the financial figures for the first quarter of 2018 and the month of April 2018. The Management Board and Supervisory Board also deliberated on additional strategic measures to expand existing business areas. Business development in the Eastern European market and the revision of the Group's long-term incentive plan as a phantom stock plan were also discussed in detail.

In the extraordinary meeting held as a conference call on 4 July 2018, the Supervisory Board once again dealt in depth with the content of the aforementioned long-term incentive plan and unanimously approved its implementation.

In its ordinary meeting on 20 September 2018, the Management Board and Supervisory Board discussed the latest financial figures for the month of August 2018 as well as the Management Board's outlook for the fourth quarter of 2018. The meeting also focused on the reports presented by the chairs of the Finance and Audit Committee and the Personnel Committee as well as discussing the growth strategy and other strategic projects.

At its extraordinary meeting held as a conference call on 12 November 2018, the Supervisory Board addressed the extension of Thomas Dressendörfer's contract and appointments to the Audit and Finance Committee.

The ordinary meeting on 6 December 2018 focused on the latest financial figures, the strategic adjustments to corporate planning resulting from the financials for the third quarter of 2018, and the reports presented by the chairs of the Audit and Finance Committee and the Personnel Committee. The Supervisory Board also discussed strategies for implementing the economic turnaround of the Group's BONITA subsidiary. In addition, the Supervisory Board approved the 2019 budget as well as the financial and corporate plans for 2020 and 2021. Finally, the Supervisory Board informed itself about the current status of the SAP project and other special transactions.

On 17 December 2018, Karsten Oberheide was appointed to the Management Board for three years with effect from 1 January 2019 by written circular.

## CORPORATE GOVERNANCE

In its meeting on 6 December 2018, the Supervisory Board approved the 2018 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 7 February 2017. The declaration of compliance was made permanently available to shareholders on the http://ir.tom-tailor-group.com website.

There were no conflicts of interest of members of the Management Board or Supervisory Board that should have been disclosed to the Supervisory Board pursuant to sections 4.3.3 and 5.5.2.

## SUPERVISORY BOARD COMMITTEES

In the 2018 financial year, the Supervisory Board established an Executive Committee, an Audit and Finance Committee, and a Personnel Committee, each comprising three members.

The Audit and Finance Committee held four regular meetings in financial year 2018. Its meetings, which took place on 15 March 2018, 29 May 2018, 5 September 2018 and 28 November 2018, primarily served to discuss the financial statements and the management report that was combined with the Group management report (combined management report), 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 Vice President Finance – the Chairman of the Supervisory Board, or the auditors.

The meeting held on 15 March 2018, which was also attended by the auditors, focused on discussing the audit of the 2017 financial statements. A particular emphasis was placed on explaining and discussing in detail the key areas of emphasis of the audit and the results of the audits of all single-entity financial statements and the key findings of the audit of the consolidated financial statements. The Audit and Finance Committee also discussed the non-financial statement (CSR report) in accordance with sections 289b and 315b of the HGB and the dependent company report, both for the 2017 financial year. The meeting also addressed the Group's latest business development, risk management issues, compliance and data protection. The Audit and Finance Committee also discussed the status of SAP implementation.

At the meeting held on 29 May 2018, the Audit and Finance Committee discussed internal audit issues and reviewed the latest developments in the Eastern European market with the Chief Financial Officer and the Vice President Finance. Risk management issues, compliance and data protection were also highlighted at this meeting.

The meeting held on 5 September 2018 focused on the financial figures for the month of July 2018. The Supervisory Board also discussed the SAP project and the focus of the audit for the 2018 financial year as well as the auditor's management letter for the 2017 financial year. In addition, the Audit and Finance Committee was informed of internal audit issues, risk management, compliance and tax issues. The Audit and Finance Committee then addressed intercompany offsetting and the receivables of TOM TAILOR GmbH.

At its meeting on 28 November 2018, the Audit and Finance Committee reviewed the 2019 budget prepared by the Management Board, the financial and corporate plans for 2020 and 2021 and the latest financials for the fourth quarter of 2018. The meeting also focused on the key financial figures and strategic realignment of BONITA GmbH.

The Personnel Committee held meetings on 17 January 2018, 1 March 2018, 29 May 2018, 7 June 2018, 22 June 2018, 19 September 2018, 30 October 2018, 16 November 2018, 4 December 2018 and 11 December 2018. The primary purpose of these meetings was personnel issues (particularly new hires and remuneration structures) and the (preliminary) decision on the long-term incentive plan. The Personnel Committee also focused on preparing target agreements for the Management Board and reviewed the achievement of targets as preparatory work for the overall Supervisory Board. The Personnel Committee carried out preparatory work for the extension of Thomas Dressendörfer's contract by nine months to 31 March 2020, the appointment of a personnel consultant to search for his successor and the contract with Karsten Oberheide with effect from 1 January 2019.

The Executive Committee held meetings on 2 March 2018, 17 May 2018 and 22 November 2018. Direct informal discussions also took place ahead of each Supervisory Board meeting. These meetings were dedicated to preparing for the ordinary Supervisory Board meetings and the Annual General Meeting. The Executive Committee also addressed various strategic issues relating to corporate development.

## COMPOSITION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

Pursuant to section 9 (2) of the Articles of Association, the Supervisory Board is composed of ten members, five of whom are to be appointed upon recommendation of the employees. The Annual General Meeting is bound by the proposals for the appointment of employee representatives.

The members of the Supervisory Board as at 31 December 2018 were: Dr Thomas Tochtermann (Chairman of the Supervisory Board), Barbara Pfeiffer (Deputy Chairwoman of the Supervisory Board), Otmar Debald, Andreas Karpenstein, Dr Junyang (Jenny) Shao, Yun (Joann) Cheng, Sven Terpe, Oliver Kerinnes, Stefanie Branahl and Kitty Cleijne-Wouters.

As at this date, the following were employee representatives: Barbara Pfeiffer, Sven Terpe, Oliver Kerinnes, Stefanie Branahl and Kitty Cleijne-Wouters.

The representatives of the shareholders as at that date were: Dr Thomas Tochtermann, Otmar Debald, Andreas Karpenstein, Dr Junyang (Jenny) Shao and Yun (Joann) Cheng.

On 28 May 2019, former Chairman of the Supervisory Board Dr Thomas Tochtermann stepped down as Chairman and as a member of the Company's Supervisory Board with effect from the time that a new Supervisory Board member is appointed by the court but no later than midnight on 25 June 2019. Hamburg Local Court appointed Michael Chou as a member of the Company's Supervisory Board in his place with effect from 17 June 2019 and limited this appointment until the shortage of Supervisory Board members is rectified in accordance with section 104 (6) of the Aktiengesetz (AktG – German Stock Corporation Act).

On 19 June 2019, the Supervisory Board of the Company elected Dr Junyang (Jenny) Shao as its new Chairwoman.

Accordingly, the Supervisory Board of the Company currently is composed of the following members: Dr Junyang (Jenny) Shao (Chairwoman of the Supervisory Board), Barbara Pfeiffer (Deputy Chairwoman of the Supervisory Board), Otmar Debald, Andreas Karpenstein, Yun (Joann) Cheng, Michael Chou, Stefanie Branahl, Kitty Cleijne-Wouters, Sven Terpe and Oliver Kerinnes.

The representatives of the shareholders currently are: Dr Junyang (Jenny) Shao (Chairwoman of the Supervisory Board), Otmar Debald, Andreas Karpenstein, Yun (Joann) Cheng and Michael Chou.

The employee representatives on the Supervisory Board currently are: Barbara Pfeiffer (Deputy Chairwoman of the Supervisory Board), Stefanie Branahl, Kitty Cleijne-Wouters, Sven Terpe and Oliver Kerinnes.

The Supervisory Board has established three standing committees to efficiently perform its tasks: an Executive Committee, an Audit and Finance Committee and a Personnel Committee. It also set up a Nomination Committee in March 2019. In addition, the Supervisory Board temporarily established a Restructuring Committee in June 2019 and decided to temporarily suspend the Executive Committee's activities while the Restructuring Committee exists.

As at 31 December 2018, the members of the Executive Committee were: Dr Thomas Tochtermann (Chairman of the Executive Committee), Andreas Karpenstein and Barbara Pfeiffer.

The members of the Executive Committee currently are (committee memberships are currently inactive, however): Dr Junyang (Jenny) Shao (Chairwoman of the Executive Committee), Andreas Karpenstein and Barbara Pfeiffer.

As at 31 December 2018, the members of the Audit and Finance Committee were: Otmar Debald (Chairman of the Audit and Finance Committee), Yun (Joann) Cheng (until 12 November 2018), Dr Junyang (Jenny) Shao (since 12 November 2018) and Kitty Cleijne-Wouters.

The members of the Audit and Finance Committee currently are: Otmar Debald (Chairman of the Audit and Finance Committee), Michael Chou and Kitty Cleijne-Wouters.

As at 31 December 2018, the members of the Personnel Committee were: Dr Thomas Tochtermann (Chairman of the Personnel Committee), Dr Junyang (Jenny) Shao and Sven Terpe.

Current members of the Personnel Committee are: Dr Junyang (Jenny) Shao (Chairwoman of the Personnel Committee), Michael Chao and Sven Terpe.

As at 31 March 2019, the members of the Nomination Committee were: Dr Thomas Tochtermann, Dr Junyang (Jenny) Shao and Joann Cheng.

Current members of the Nominating Committee are: Dr Junyang (Jenny) Shao (Chairwoman of the Nominating Committee), Otmar Debald and Joann Cheng.

The members of the Restructuring Committee are: Dr Junyang (Jenny) Shao (Chairwoman of the Restructuring Committee), Joann Cheng and Barbara Pfeiffer.

As at 31 December 2018, the members of the Management Board were: Dr Heiko Schäfer (Chief Executive Officer, CEO), Thomas Dressendörfer and Liam Devoy.

The Management Board is currently comprised as follows: Dr Heiko Schäfer (Chief Executive Officer, CEO), Thomas Dressendörfer and Liam Devoy, and from 1 January 2019 Karsten Oberheide.

## ACCOUNTING AND AUDITING

The annual financial statements and the combined management report of TOM TAILOR Holding SE are prepared by the Management Board in accordance with the HGB. The consolidated financial statements and the Group management report are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and by taking into account the supplementary provisions of section 315b HGB. The annual financial statements, the consolidated financial statements and the combined management report are audited by the auditor and examined by the Supervisory Board.

The annual financial statements, consolidated financial statements and combined management report of TOM TAILOR Holding SE for financial year 2018 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 auditor also reviewed the report submitted by the Management Board on the relationships of TOM TAILOR Holding SE with affiliated companies (dependent company report) for the 2018 financial year and issued the following unqualified opinion: “Based on our review and assessment performed in accordance with professional standards, we confirm that 1. the factual statements in the report are correct and 2. the consideration paid by the companies for the legal transactions listed in the report was not inappropriately high.”

The annual financial statements, consolidated financial statements, the combined management report and the dependent company report of TOM TAILOR Holding SE for financial 2018 as well as the respective audit and review reports by the auditors were submitted to the Supervisory Board members for examination. All documents including the non-financial statement pursuant to sections 289b and 315b of the HGB (CSR report) were discussed and examined in detail by the Supervisory Board. The auditors reported on the key results of the audit at the meeting of the Supervisory Board on 30 October 2019 and were available to answer questions from the members in attendance. In its meeting on 30 October 2019, the Supervisory Board discussed the findings of the audits in detail, approved the auditors’ findings without restriction and, based on the final results of its own examinations, found that it had no objections to raise. Following the final result of its examination of the dependent company report, the Supervisory Board raised no objections to the declaration of the Management Board at the end of the dependent company report. 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, October 2019

The Supervisory Board

# ADDITIONAL INFORMATION

# FINANCIAL CALENDAR

## Preliminary Financial Calendar

| Date | |
|---|---|
| 6 November 2019 | Publication Annual Report 2018 |
| 18 December 2019 | Annual General Meeting, Hamburg |
| | |
| March 2020 | Publication Annual Report 2019 |
| May 2020 | Annual General Meeting, Hamburg |
| August 2020 | Half-yearly financial report 2020 |

# 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 SE. 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 SE 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 SE'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 SE neither plans nor undertakes to update any forward-looking statements.

# PUBLICATION DETAILS

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