



EUROPEAN LINGERIE GROUP

ANNUAL REPORT

2017



OUR VISION

To become the **preferred supplier of lingerie** in Europe,
be it fabrics and materials for ready garment production,
or ready garments for customers
presented in various distribution channels.

Snapshot

European Lingerie Group (ELG) is a fully vertically integrated intimate apparel and lingerie group, supplying lingerie materials to all major intimate apparel brands and distributing own ready garment lingerie products through more than 5000 points of sale in 46 countries worldwide. ELG includes two business segments – **Lauma Fabrics** and **Felina International**.

ELG has successfully embarked upon a growth strategy involving international M&A targets and building size, and is today a renowned and strong player in the European intimate apparel industry.

Key numbers

1227

Employees worldwide

73m

Sales 2017

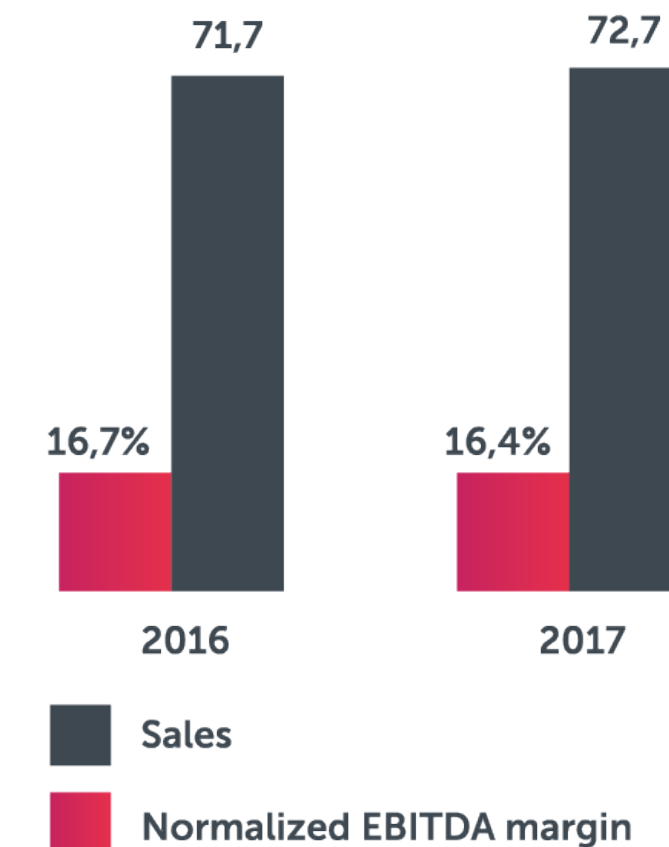
46

Countries

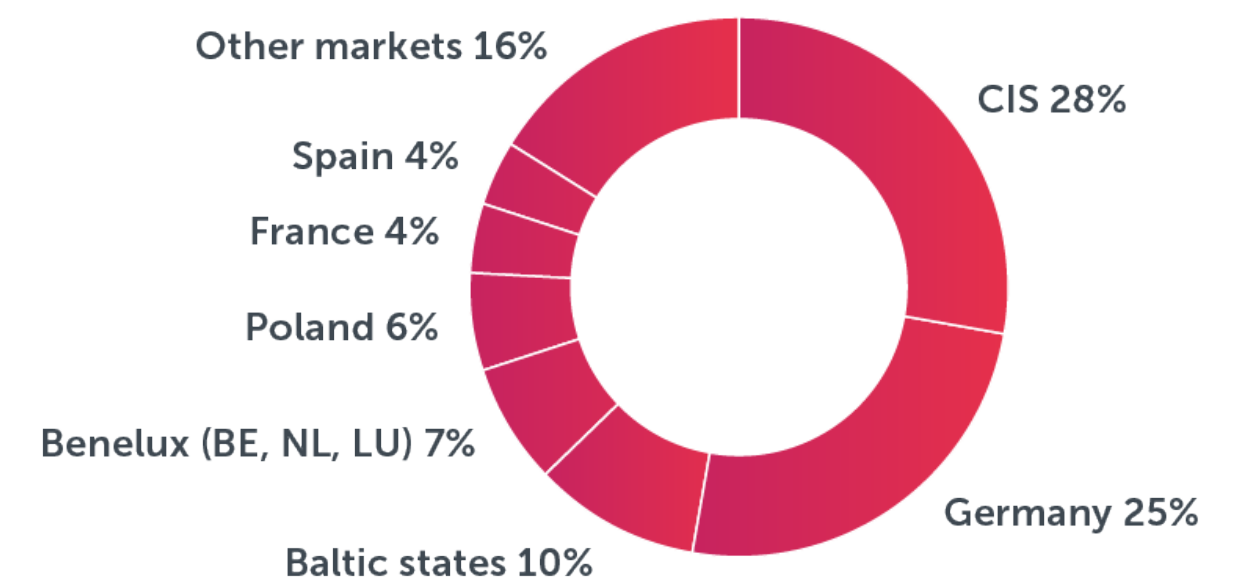
4 brands

Lauma Fabrics,
Felina, Conturelle,
Lauma Medical

Strong financial standing



ELG sales by region 2017



Company locations

Key company locations –

sourcing, design, development

Germany (Mannheim), Latvia (Liepaja),

Production

Germany, Latvia, Hungary

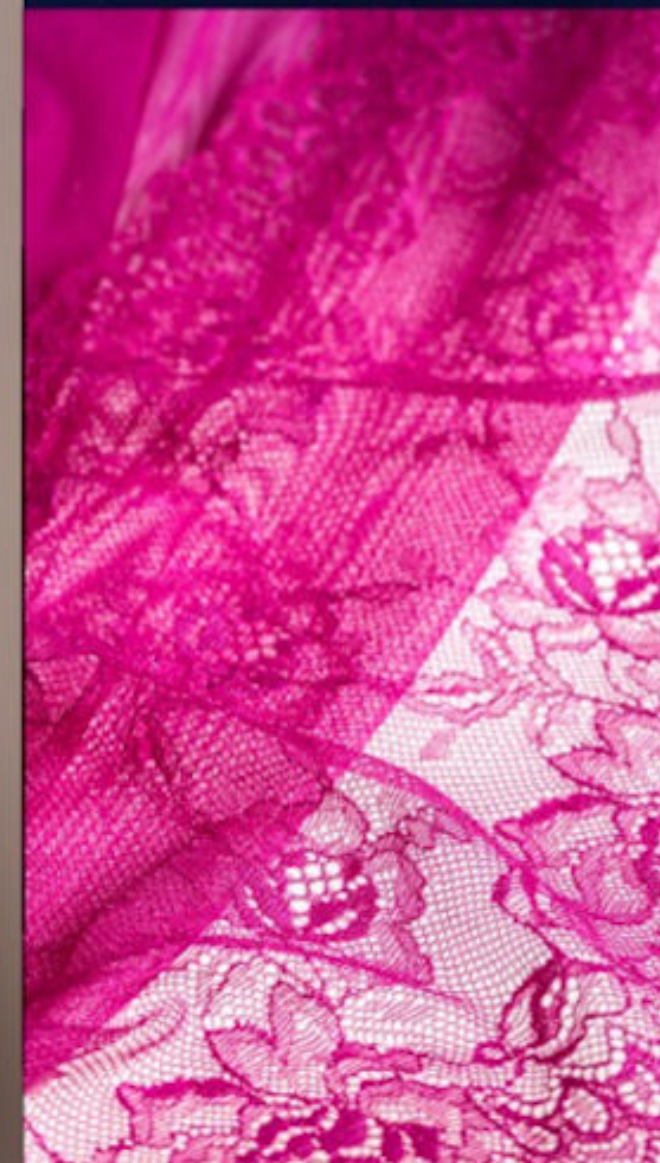
Trading

Germany, Latvia, Hungary, Poland, France, Italy, USA, Spain, Portugal, Czech Republic, rep office in Moscow, Russia

Company products

**Lace, embroidery,
elastic fabrics, narrows,
private label products**

**Premium branded
lingerie under Conturelle
and Felina brands**

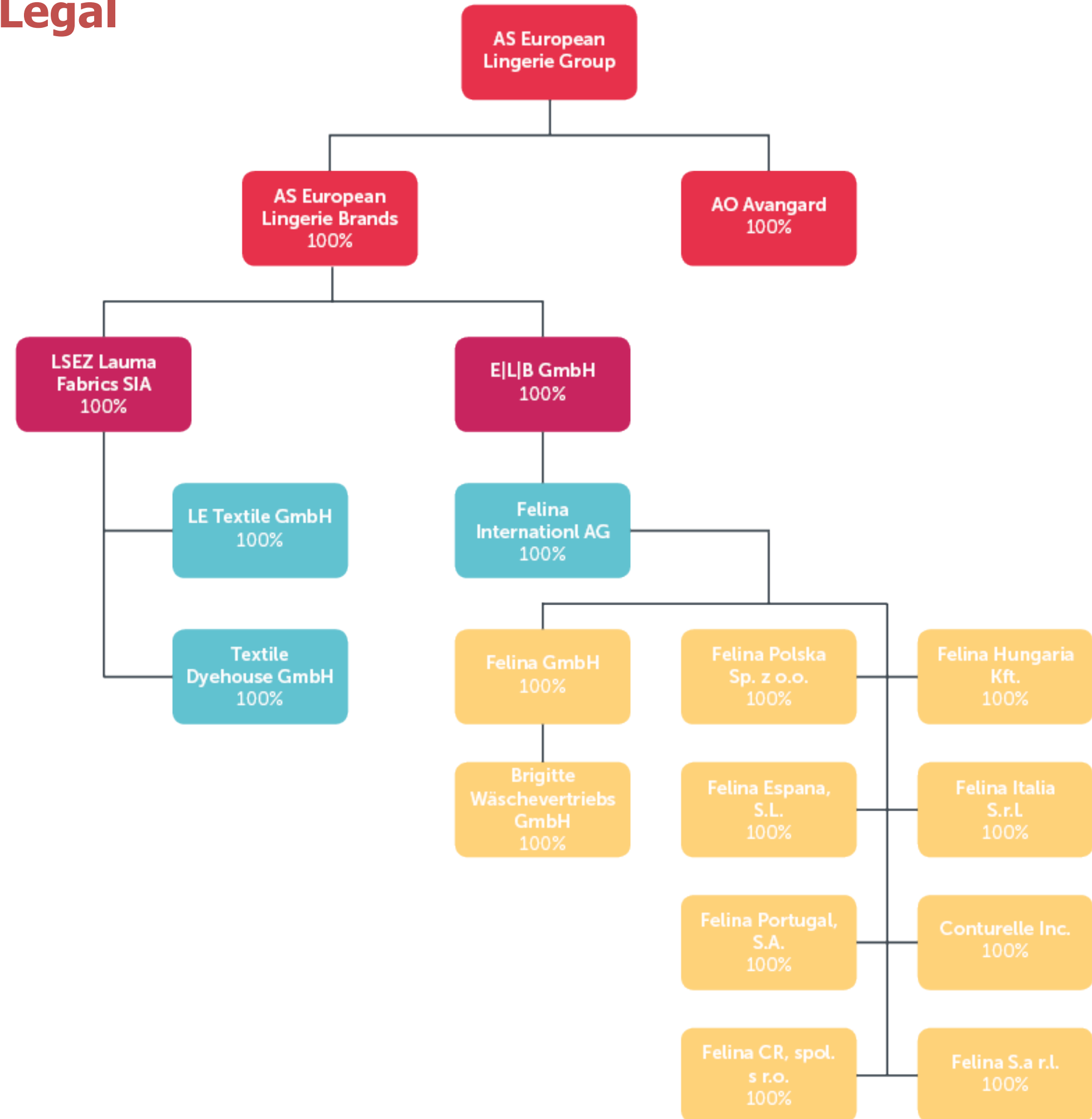


Structure

Organizational



Legal



Management

Management Board

Peter Partma (SE)

Group CEO

Extensive career within both retail and real estate in Russia. Served as Chairman and CEO of Tsum Department stores in Russia.

Diana Suprunovica (LV)

Group CFO

Worked as the Head of Accounting department with SPI Cyprus. Was group financial controller at SPI Group SA, managed 41 multi-industry subsidiaries in 13 countries. Started as auditor in KPMG.

Supervisory Board

Indrek Rahumaa (EE)

Chairman

Founder of several companies. Founding member of Tallinn Stock Exchange. Investor in the Group.

John Bonfield (UK)

Member

Has held various senior positions at financial institutions, including as a Director of LCF Rothschild Securities.

Baiba Birzniece (LV)

Member

Previously senior advisor at Alta Capital Partners, CFO of Silvano Fashion Group (public) and CFO of Selena Oil & Gas Holding (public). Started as auditor and financial advisor in KPMG and Business development manager at Lattelecom. Subsequent to the year-end Baiba joined the Group's management team as Head of Strategy, M&A and Investor Relations.

Dmitry Ditchkovsky (BY)

Member

Was board member of Silvano Fashion Group during its formation and reverse takeover and long time General Director SP ZAO Milavitsa.

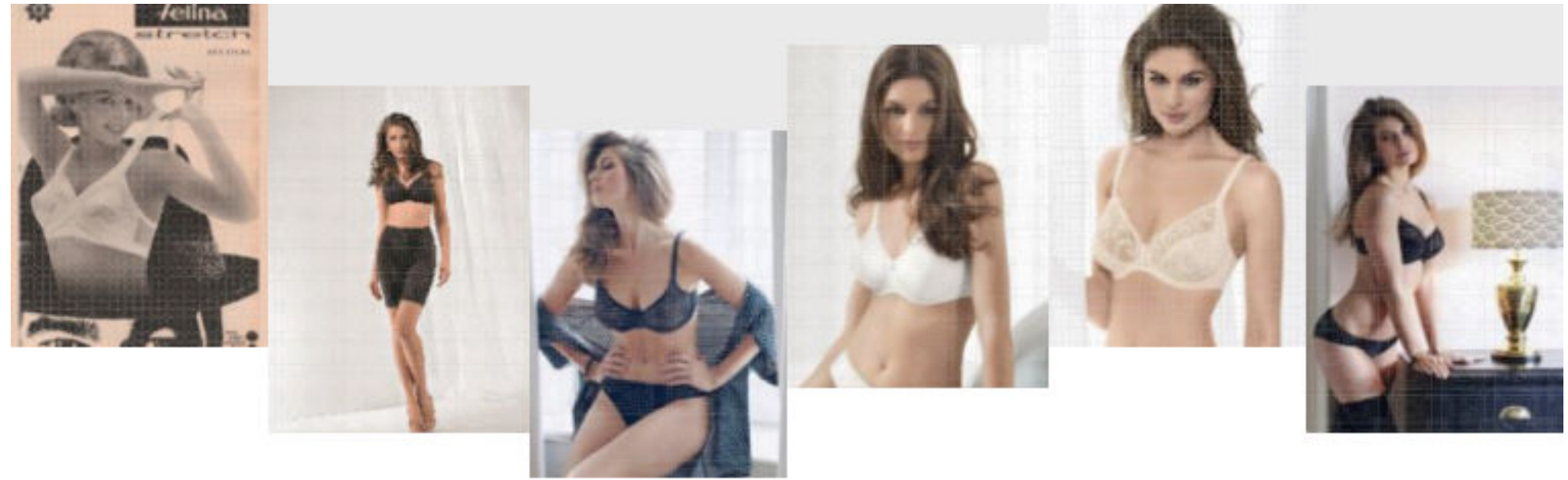
felina

CONTURELLE
— *felina* —



Felina

premium quality
lingerie since 1885



Products and brands

- Felina's classical and modern collections are marketed under two distinct and complementary brands *Felina* and *Conturelle*. Both are positioned in the upper pricing, premium fit segment and address female end-customers above 30 years of age with high purchasing power.
- Core portfolio of Felina is focused on bras up to large cup sizes, slips, shape wear and other intimate wear, which distinguish via excellent fitting characteristics, quality, wearing comfort and skin-friendly materials.
- Product development, sales and logistics are located in Mannheim, Germany and manufacturing in two plants in south-east Hungary. Felina employs 698 people.

Target markets

- Felina has long-standing international customer relationship and a well-developed lingerie distribution network covering most of the European countries and serving over 5,000 wholesale customers worldwide. Felina realizes approximately 75% of sales through specialized shops, fashion boutiques and department stores.
- Felina mainly sells lingerie to the European market, which is the world's largest women's lingerie market. Germany, is the core market for Felina.
- Felina has a strong international presence, generating 60% of sales outside Germany (23% Western Europe, 12% Southern Europe, 8% Eastern Europe, 5% Northern America and Asia.

Vertical integration

- Lauma Fabrics is one of the key suppliers for Felina. The combination of in-house large-scale fabrics and lace production by Lauma Fabrics and strong end-product and distribution experience contributed by Felina allows the Group to significantly decrease time to market, and react faster to changes in consumer preferences.
- The high internal value-add of Felina's fully integrated business model from product design and collection management to two own production sites in Hungary and sales support secures highest quality standards and guarantees short lead times.

Felina

brands, products and
customer proposition



Felina

“I feel comfortable”

- Targeting active women who have already found their personal style and have high quality demands
- Comfort in its nicest form

CONTURELLE
— felina —

“I look attractive”

- Targeting women who have a modern and elegant lifestyle, and to whom quality and sustainability are important
- Femininity in its most beautiful form



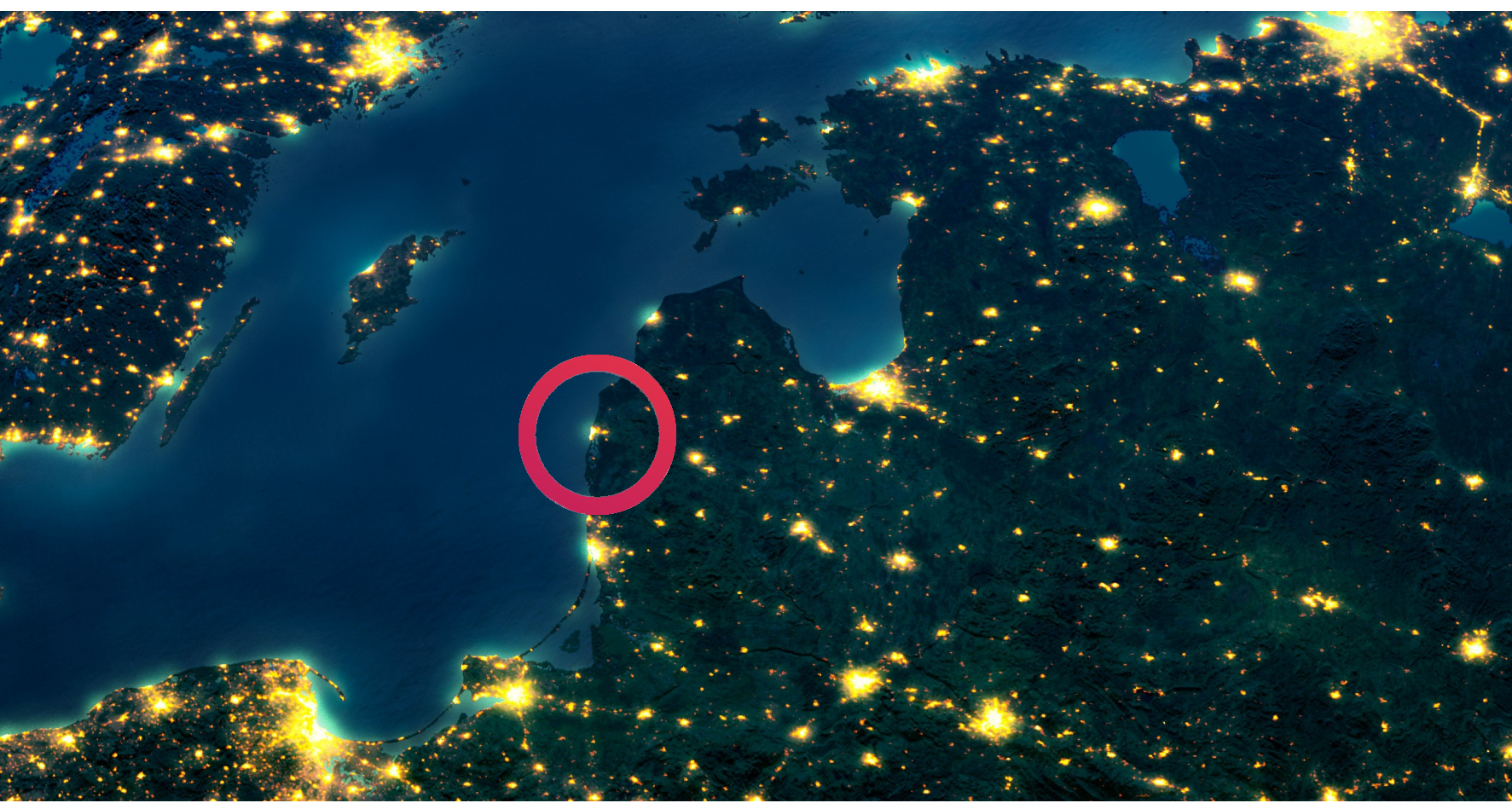
Two brands with a common foundation: Relentless quality, superior fit and wearing comfort



Lauma Fabrics

Lauma Fabrics is located in Latvia, European Union, and was established 45 years ago to supply components for the intimate apparel garment production.

Currently the company supplies all major manufacturers of intimate apparel throughout Europe. Lauma Fabrics historical success has been built on 'one-stop-shop' strategy whereas a full set of materials for ladies underwear is offered to the customer.



In September 2013 Lauma Fabrics acquired a business in Germany, which manufactures elastic fabrics with an objective to enter the Western European market.

Lauma Fabrics produces and sells laces, fabrics, narrows and embroideries (89% of current turnover), medical products (8%) and molded cups and supply chain management services where ready garment production services are offered on an outsourced basis (3%).

The building of the main production site in Liepaja ranks as the 8th largest factory in the World in 2016 (100k sqm), after Volkswagen, Hyundai, Tesla, Boeing, Belvidere, Mitsubishi and Jean-Luc Lagardère Plant. Lauma Fabrics currently employs 518 people.

Historically Lauma Fabrics specializes on the production of materials used for classical lingerie models for a big cup size and exclusively with synthetic yarns (Poliamide and Elastane).

Lauma Fabrics balances European design and quality for a relatively low costs in comparison with old European producers.

Sales of Lauma Fabrics

Lauma Fabrics blue-chip customer base:

Lauma Fabrics has a strong reputation and loyal customer base built by using high quality materials, manufacturing all products in-house and reasonable product pricing.

Lauma Fabrics's client base is diversified in terms of size and geography – the Company serves all main lingerie brands in Europe and has around 200 client accounts.

Lauma Fabrics currently produces a wide range of lace plus a variety of basic broad elastic fabrics. The majority of its production is used in intimate apparel garments, with principal markets being the CIS countries and Russia. Sales to Western European countries are also growing steadily. More than 85% of fabrics, laces and other materials exported to more than 20 countries all over the world.

Fabrics and laces are sold and marketed by dedicated distribution teams aiming to develop a close link between materials manufactured by Lauma Fabrics and the clothing where these products are used. In combination, the Latvian and German production facilities provide wide geographic coverage.

Lauma Fabrics carries a wide range of fabrics covering all product types. These are presented to customers either at trade fairs, customer conventions or directly at the customers' premises.

In the beginning of 2018 the Group acquired AO Avangard that is an exclusive distributor of Lauma Medical products in Russia since 2012. The acquisition was undertaken to secure the Group's business in the Russian market and to enhance sales and services to customers.



Business case



Value creation through vertical integration

Business rationale of full vertical integration would be value creation through:

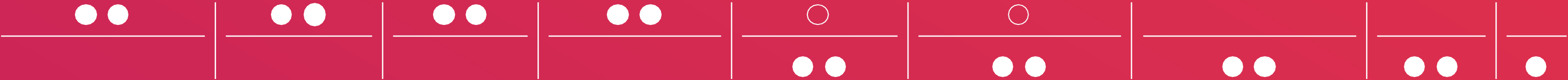
- Deep integration of the supply chain (from fabrics to retail)
- Efficient supply chain management
- Short time to market and secured access to market for all types of products (classic, flash, seasonal)
- Quick reaction to market demands
- Efficient inventory management across the whole supply chain
- High asset/capital turnover

Reduction of risk through controlling key elements of the industry value chain:

- Diversification of the group sales and markets
- ELG has a track record of successfully expanding into new geographies through acquisitions. Acquired companies include Elastic (fine fabrics, a client) and Felina (premium lingerie, a client), facilitating the geographical expansion and vertical integration.

Raw material (yarns) > Fashion trends > Fabric design > Fabric production > Product design > Lingerie production > Branding / marketing > Wholesale > Retail

Lauma Fabrics
Felina



Highlights of the year

Establishment of AS Lauma International

AS Lauma International was registered in Latvia in April 2017 as the parent company including at the time Lauma Fabrics, a leading manufacturer of fabrics, laces and narrow bands for the lingerie industry, and later, soon-to-be acquired Felina International, the parent company of the German-based lingerie group Felina.

Acquisition of Felina International AG

In June 2017 AS Lauma International (renamed to European Lingerie Group AS later in the year) through its subsidiary acquired Felina International AG, the parent company of the German-based lingerie group. With the acquisition the Group doubled its operations, creating a new, vertically integrated structure.

Group new CEO Mr. Peter Partma

Simultaneously with the Felina acquisition Mr. Peter Partma joined the Group as CEO. Mr. Peter Partma is a widely respected manager with a long and extensive career within both retail and real estate. During the year, the Group has also acquired a renewed and strong management team with the unique skills and experience needed to drive value creation for its stakeholders.

AS Lauma International change of name to European Lingerie Group AS

In September 2017 the Group changed its name from Lauma International AS to European Lingerie Group AS. The name change was undertaken to fully reflect the Group's business development, scale, ambitious global growth strategy and both, geographical and product portfolio expansion.

Felina acquisition recognized as Outbound Deal from the Baltics 2017

European Lingerie Group's acquisition of Felina International was publicly recognized with the Outbound Deal from the Baltics 2017 award at the Baltic M&A and Private Equity Awards in Vilnius.

Acquisition of AO Avangard

In the end of the year 2017, the Group made another acquisition, a distribution company in Russia, AO Avangard, that is the exclusive distributor of Lauma Medical products in Russia since 2012. During the years of cooperation Avangard has generated healthy profits and a stable turnover level of around EUR 4 million. Avangard acquisition gives the Group control over the supply chain, offering stable and centralized logistic services, custom clearance and storage options to its Russian customers.

Successful issue of a 3-year EUR 40 million senior secured bond

In the beginning of 2018, the Group successfully placed a EUR 40 million senior secured bond under a framework of up to EUR 60 million in Sweden with the bonds maturing in February 2021. The transaction was well received by the market. The proceeds from the transaction are used to refinance existing interest bearing bank and bond debt and for general corporate purposes including investments. The bonds are planned to be listed on a regulated market within 12 months from the date of issue.

Financial highlights of the year

Financial performance of the Group was analysed on the basis of the pro forma financial information. Based on the results, ELG has a **strong financial standing**.

The Group's pro forma **sales** amounted to **EUR 72.7 million** in 2017, representing a 1.4% increase as compared to 2016. Pro forma normalized **EBITDA** in 2017 amounted to **EUR 12.0 million** and stayed almost flat as compared to 2016. Normalized EBITDA margin in 2017 and 2016 were 16.4% and 16.7% respectively.

Pro forma normalized **net profit** in 2017 amounted to **EUR 5.4 million**, compared to EUR 6.9 million in 2016. Normalized **net profit margin** in 2017 and 2016 were **7.4%** and **9.7%** respectively.

The largest growth in **sales** in 2017 was in the **CIS countries**, in which sales **increased by 12%**. The sales in such markets as Germany and Benelux countries stayed flat in 2017. In Baltic countries, Poland and Spain sales increased by 4%, 5% and 7% respectively.

In 2018 the Group will continue to focus on investment opportunities in the existing and new export markets with a strong potential for development and sales growth.

Selected financial indicators

<i>in thousands euros</i>	12m 2017	12m 2016	Change
Revenue	72,716	71,729	1.4%
Normalised operating profit ¹	9,464	8,978	5.4%
Normalised EBITDA ²	11,955	11,992	-0.3%
Normalised net profit ³	5,372	6,925	-22.4%
Operating cash flow for the period	2,605	5,552	-53.1%

Marginal analysis, %	12m 2017	12m 2016	Change
Normalised operating profit margin	13.0%	12.5%	0.5%
Normalised EBITDA margin	16.4%	16.7%	-0.3%
Normalised net profit margin	7.4%	9.7%	-2.3%

- 1) Normalised operating profit is calculated as the profit of the Group before interest and tax for the relevant period, and adjusted, if necessary, for one-off and non-recurring items
- 2) Normalised EBITDA is calculated as the profit of the Group before interest, tax, depreciation and amortisation for the relevant period, and adjusted, if necessary, for one-off and non-recurring items.
- 3) Normalised net profit is calculated as the net profit of the Group for the relevant period adjusted, if necessary, for one-off and non-recurring items.

Sales 2017

Pro forma sales by markets

<i>in thousands euros</i>	12m 2017	12m 2016	Change, %	12m 2017, % of sales	12m 2016, % of sales
CIS countries ¹⁰	20,599	18,407	12%	28%	26%
Germany	18,255	18,308	0%	25%	26%
Baltic countries ¹¹	6,912	6,623	4%	10%	9%
Benelux countries ¹²	5,290	5,222	1%	7%	7%
Poland	4,166	3,967	5%	6%	6%
Spain	3,160	2,965	7%	4%	4%
France	2,568	2,971	-14%	4%	4%
Other markets	11,766	13,266	-11%	16%	18%
Total	72,716	71,729	1%	100%	100%

10) Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine

11) Latvia, Estonia and Lithuania

12) Belgium, the Netherlands and Luxembourg

Pro forma sales by business segments

The Group has the following two strategic divisions, which are its reportable segments. These divisions offer different products and are managed separately because they require different technology and marketing strategies.

Reportable segments	Operations
Textiles	Manufacturing, processing and wholesale of textiles
Lingerie	Manufacturing, processing, wholesale and retail of lingerie products

<i>in thousands euros</i>	12m 2017	12m 2016	Change, %	12m 2017, % of sales	12m 2016, % of sales
Textiles	35,843	34,717	3%	49%	48%
Lingerie	37,703	38,016	-1%	51%	52%
Inter-company eliminations	(830)	(1,004)			
Total	72,716	71,729	1%	100%	100%



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EUROPEAN LINGERIE
GROUP

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