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EUROPEAN LINGERIE GROUP AB

ANNUAL REPORT
2018

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 5,000 points of sale in 46 countries worldwide and online. ELG includes three business segments – **Lauma Fabrics**, **Felina International** and online business **Dessus-Dessous.**

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

1,279
Employees worldwide

46
Countries

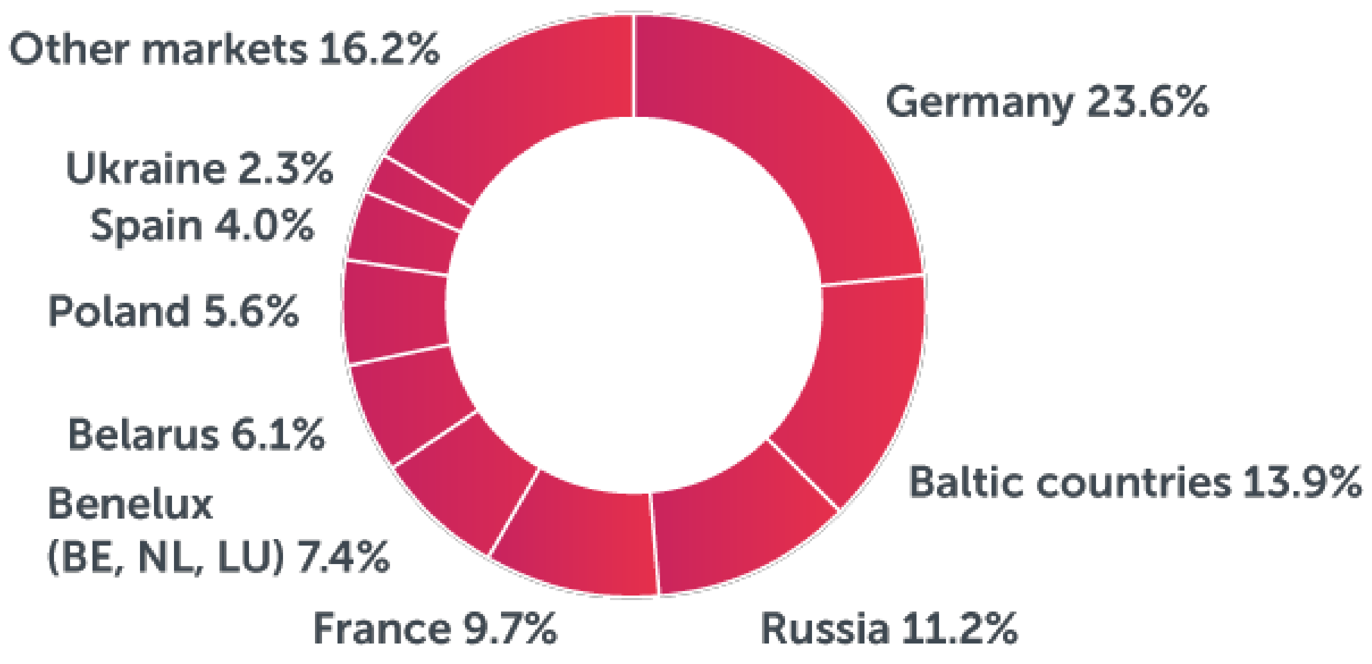
5,000
Points of sale

6 brands
Lauma Fabrics, Felina, Conturelle, Senselle, Lauma Medical, Dessus-Dessous

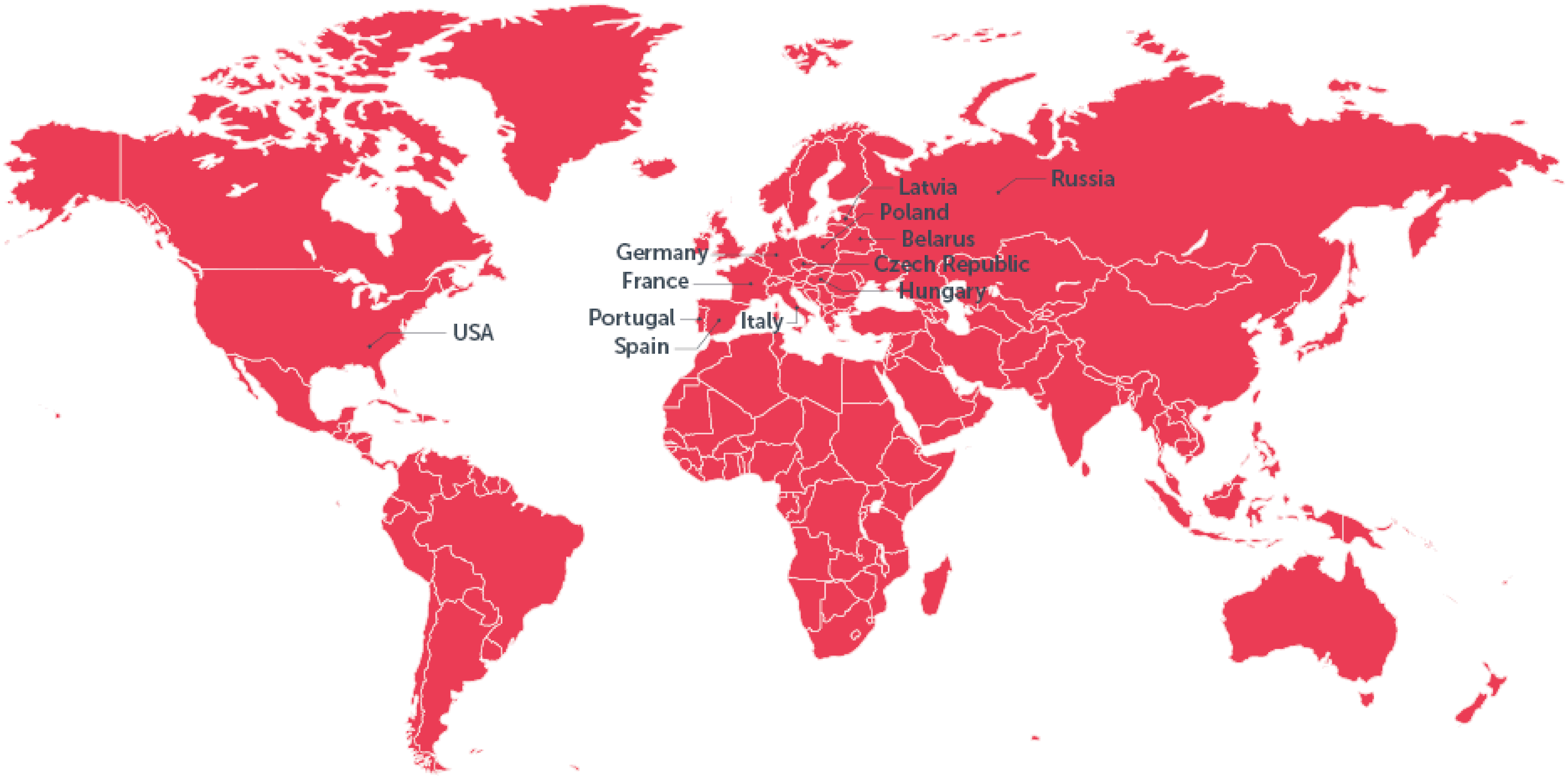
€ 9.3 m
EBITDA 12M 2018

€ 77.2m
Sales 12M 2018

Sales by markets 12M 2018



Company Locations



Key company locations –
sourcing, design, development
Germany (Mannheim), Latvia (Liepaja)

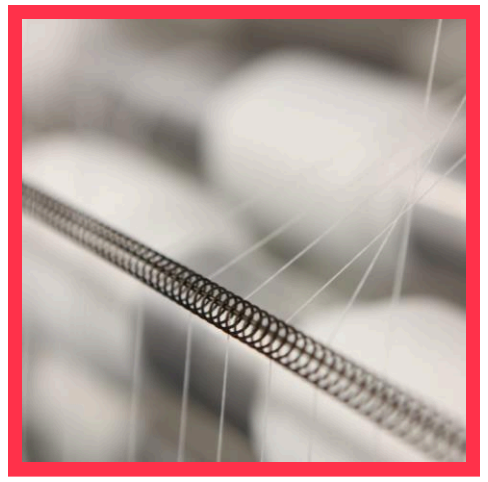
Production
Germany, Latvia, Hungary, Belarus

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



ONE-
STOP-
SHOP
FOR LINGERIE

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**.

OUR MISSION

To be effective and innovative **one-stop-shop** for lingerie offering the very best for our customers in terms of **quality, style** and **comfort**.

Business case

Unique for lingerie industry

ELG is one of the rare **fully vertically integrated** companies in the lingerie industry in Europe producing lace and fabrics for largest lingerie brands as well as produces and distributes lingerie garments under Conturelle, Felina and Senselle brands.

Sound business model and strong cash flow

Sound business model whereas products are based on classic, **never out of stock items** - both in material and ready garment segment with low fashion sensitivity, have provided for **sound and stable long term performance** with substantial profitability margins.

On growth path

The company is on a **stable organic growth path**, which comes from private label business expansion, geographical expansion, product portfolio expansion and new distribution channels, especially online.

Highly experienced and credible management

Highly **experienced Board and management** with diversity of corporate and function experience. Proven track record of successful growth management.

Manufacturing arm with blue-chip customer base

ELG is **One-stop-shop manufacturer** with diversified blue-chip customer base.

The company supplies all major manufacturers of intimate apparel in Europe.

Innovative **European design and quality** for relatively **low cost**.

High brand awareness and customer proximity

Established brands Felina and Conturelle with **high brand awareness**.

Close customer proximity through department stores and other retailers. Wide distribution network exceeding **5,000 points of sale** throughout Western Europe.

Established position in Central and Eastern Europe an excellent platform for growth

ELG's long track record, strong market position, brand awareness and network in Central and Eastern Europe support integration of new business segments geographical expansion.

Value creation through vertical integration

Deep integration of the supply chain (from fabrics to retail)

Efficient supply chain management

Integration as a response to new demands for speed to market of 6 – 10 weeks (previously up to 9 months) for all types of products (classic, flash, seasonal) and quick reaction to market demands

Efficient inventory management across the whole supply chain

High asset/capital turnover and realization of full gross margin in-house

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					●●	●●	●●	●●	●

felina

CONTURELLE
felina

senselle
by felina

Felina SS19

Felina

Premium quality lingerie since 1885

Well-established player in an intimate wear niche focused on **premium** bras, slips and other intimate wear products.

Over **100 years** of brand heritage and excellent product fit with loyal end customers obtaining a low degree of price sensitivity.

Two distinct and complimentary premium brands – ***Felina*** and ***Conturelle***. Newest addition ***Senselle*** is a fusion collection

Recently launched a new *Move by Conturelle* **activity line** in its collection. For summer '19 Felina also reintroduced a **swimwear** line.

Vertical integration. The combination of in-house large-scale fabrics and lace production by Lauma and strong end-product and distribution experience by Felina.

Close customer proximity through regional sales subsidiaries focusing on department stores as well as fashion and lingerie retailers.

Low risk, asset-light business model, due to growing core business with high share of NOS (never-out-of-stock) products.

High internal value-add from product design and collection management to two own production sites in Hungary that secures highest quality standards and short lead times.

Felina sales and distribution

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. Wholesale business is mainly in the CIS region.

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.

In 2018, a new back-up brand *Senselle by Felina* was launched to grow the market share in Eastern Europe as well as CIS countries and target the medium price segment.

Core Markets

Germany

Western Europe

Russia

LAUMA
FABRICS

LAUMA FABRICS

Business strengths

The company, situated in Liepaja, Latvia **supplies all major manufacturers** of intimate apparel throughout Europe.

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

Financially sound and strong cash flow generative business.

Lauma Fabrics historical success has been built on **'one-stop-shop'** strategy whereas a full set of materials for ladies underwear (warp knitted fabrics, laces, narrows, embroideries, moulded cups) is offered to the customer.

Lauma Fabrics has a **full production process under one roof** (warping, knitting, dyeing and finishing), very rare for a European producer.

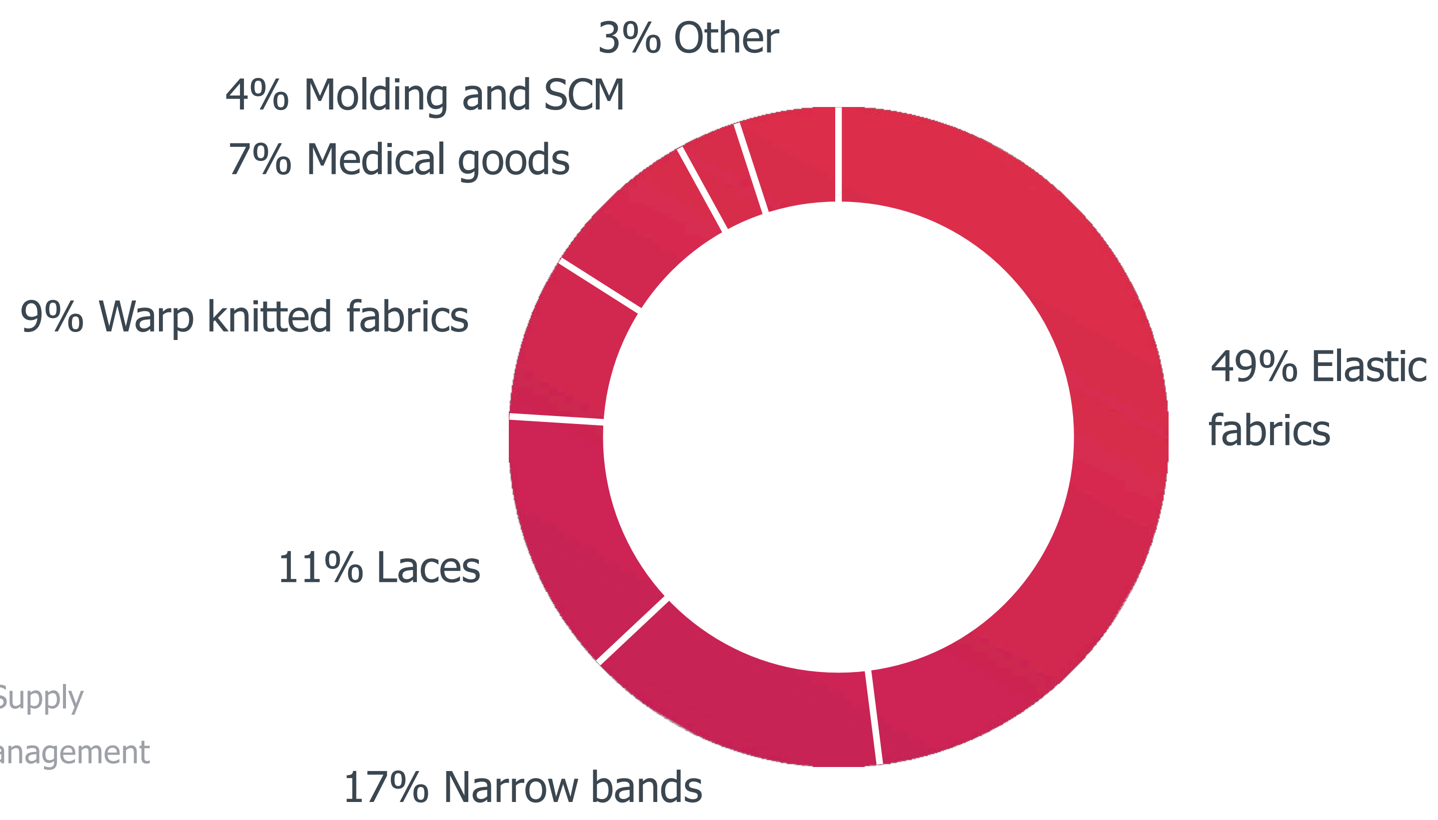
The company has a **modern dye-house**, which enables beam and jet dyeing as well as includes water scouring equipment and stenters.

Convenient location for European production and historically loyal employee base.

Balanced geographical sales to CIS / Russia and Central and Western Europe with **market leaders** as the **key customers.**

Lauma Fabrics products

Sales by product groups 12m 2018



*SCM - Supply chain management

Fabrics product portfolio

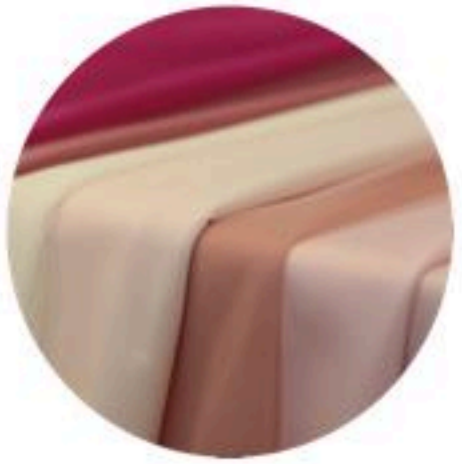
Product portfolio includes elastic knitted fabrics, rigid knitted fabrics, elastic laces, narrows and embroideries.

Lauma Fabrics also offers SCM* services where ready garments are produced under customer brands.

In addition to its core products, Lauma produces medical textile – compression bands and back supports. These products are sold under the brand Lauma Medical.

Lace

Embroidery



Elastic fabric

Narrows

Medical goods

Lauma Fabrics sales

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.**

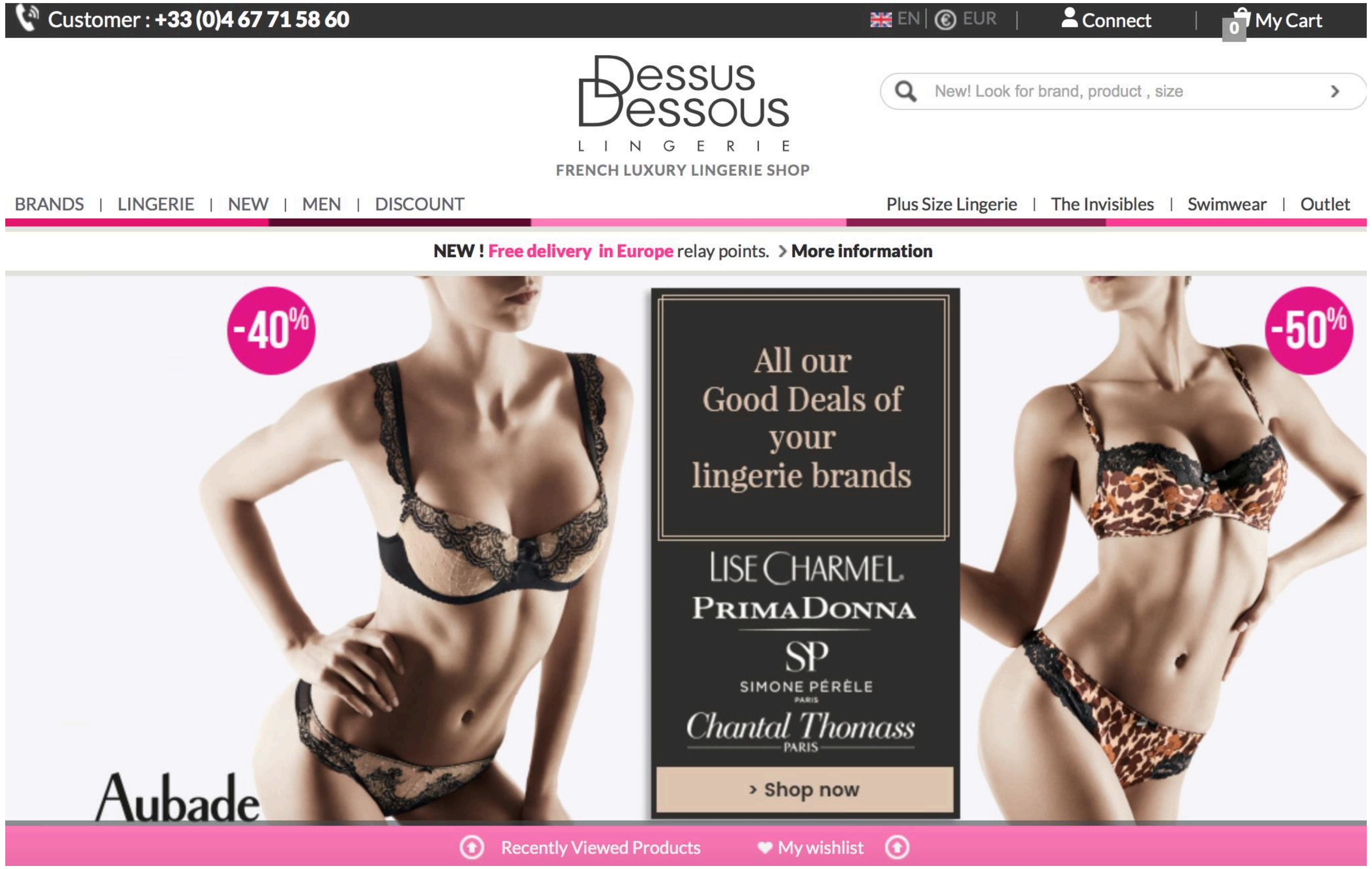
Lauma Fabrics carries a **wide range of fabrics** covering all product types. These are presented to customers either at trade fairs, customer conventions or directly at the customers' premises.

Lauma Fabrics blue-chip customer base:

Triumph THE MAKER OF LINGERIE SINCE 1886 · Anita SINCE 1886 · Wacoal · Van de Velde · PRIMADONNA · NATURANA · Chantelle

Dessus Dessous
LINGERIE
FRENCH LUXURY LINGERIE SHOP

www.dessus-dessous.com



Dessus Dessous
LINGERIE

Dessus-Dessous, headquartered in Lunel, France, is the French leader in online sales of lingerie. The Company specializes in online sales of luxury lingerie brands including Lise Charmel, Van De Velde, Simone Pérèle, Felina, Conturelle and others.

Dessus-Dessous has been leading the French online lingerie market since 2000, and enjoys extraordinary rates of customer satisfaction and loyalty, thanks to superb customer service, reliable delivery and a constantly up-to-date selection of over 150 thousand articles from over 50 brands.

Key numbers

€ 7.3m
Sales 12M 2018

Nr 1
in French online lingerie market

50+ brands
Represented on website

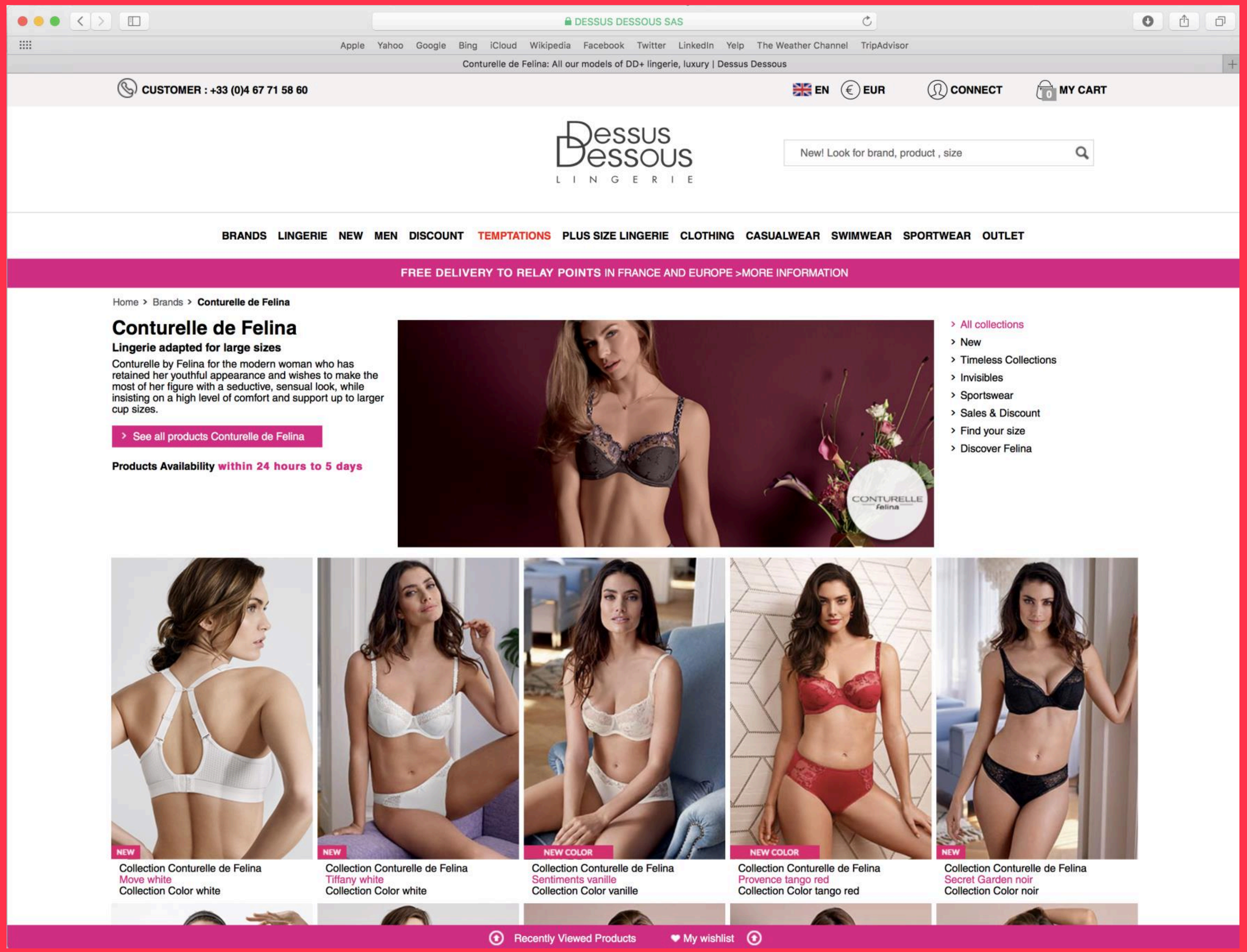
150 thousand
Articles in selection

214 thousand
Customers in database

Dessus Dessous
LINGERIE

Business strengths

The acquisition of Dessus-Dessous, completed in June 2018, marks **ELG’s expansion to online retail segment** of the lingerie market, reinforcing the Group’s strategic commitment to building a truly vertically integrated business.



Sales of consumer goods are increasingly **moving online**, also in modern lingerie business. The acquisition of Dessus-Dessous is the response of ELG towards the persistent market trends.

As an added value, it is a unique window on **consumer trends** and preferences, which in turn will help to create **greater efficiencies** in the Group. There is significant gain in **distribution**.

There is **great potential** in Dessus-Dessous's business model on its own – it is a successful, profitable and sustainable business. ELG believes the acquisition of Dessus-Dessous [1] is of great long-term strategic value.

Highlights of 2018

Acquisition of Dessus-Dessous S.A.S.

In June 2018, the Group acquired the largest online retailer of lingerie and swimwear in France – Dessus-Dessous S.A.S. The company's sales amounted to 7.3 million euros in 2018 and it employs 31 people. The acquisition marks the Group's expansion to the online retail segment of the lingerie market and reinforces the ELG's strategic commitment to building a truly vertically integrated business.

Secured bond issue, Group refinancing and bond listing

On 22 February 2018 the Parent issued new bonds in Sweden in the amount of EUR 40,000,000. The issued bonds are senior secured bonds with a maturity of 3 years. The bonds are listed on NASDAQ Stockholm Corporate Bond list since January 2, 2019.

Product portfolio expansions

In 2018, the Group introduced two new product lines to its lingerie ready garment collections portfolio: new Move activity collection by *Conturelle*, which is in distribution since October 2018, and a new swimwear collection by *Felina* for which sales commenced in the first quarter 2019. Additionally, in Autumn 2018, ELG launched a new *Senselle by Felina* brand, a fusion lingerie collection providing unprecedented fit and comfort of premium lingerie garments at great value. First three series of *Senselle* classical collection are available in retail and the full range will be available from the second quarter 2019. *Senselle's* target markets are primarily Eastern European and CIS countries.

Lauma Fabrics receives ISO certification

In autumn 2018, Lauma Fabrics obtained a medical ISO certification for the medial textile products it also produces, marketed under Lauma Medical brand name. This is a recognition for ELG of being a trustworthy manufacturer in the medical textile industry and it will definitely help to open doors to new markets.

Development of 50 gauge circular knitting technology

In 2018, ELG invested into a new technology, 50 gauge circular knitting, whereby 2 machines were acquired this year and further 8-10 machines are planned for the next 1-2 years. The developed fabrics is a new type of fabrics for ELG group and has opened doors for new global customers.

Highlights of 2018

Acquisition of new stenter for Lauma Fabrics

In summer 2018, the Group committed to a new stenter's acquisition for Lauma Fabrics. The cost of the acquisition is EUR 1.2 million and the stenter is expected to be delivered in spring 2019. The acquisition will allow the Group to improve the quality of its produced fabrics and to be able to offer new solutions of materials to its customers.

In-house production of spacer molded cups

In 2018, ELG bought the equipment to start the in-house production of spacer molded cups at Lauma Fabrics manufacturing plant in Liepaja, Latvia. This step is an important part of the production strategy, reinforcing the full vertical integration of the Group and offers new possibilities for growth. Premium lingerie producer Felina, an ELG company, will be one of the biggest clients for Lauma Fabrics spacer cups. Spacer cups are breathable cups with special chambers to offer maximum comfort, used in the production of fine lingerie.

Acquisition of Yustyna Ltd, a lingerie ready garment producer in Belarus

In January 2019, the Group announced the acquisition of OOO Yustyna (subsequently renamed to OOO Senselle), a lingerie ready garment producer in Belarus. The acquisition is part of the Group's strategy to expand operations and add capacity for private label and ELG newest own brand *Senselle by Felina* production. The target is to produce all of Senselle in the Belarus unit, which is located close to the brand's main markets, Eastern Europe and CIS countries.

Further developments of the Group

In 2018 the Group was doing quite a lot of strategic investments and market initiatives to respond faster to changes in market. One of these steps is product range expansion to position itself as a one-stop supplier of all relevant product segments.

Another important initiative is developing the online channel as e-commerce is the future of retail. The acquisition of Dessus-Dessous definitely offers the possibility to embrace a true omni-channel strategy. In 2019, the Group is preparing to launch a marketplace in the lingerie industry to facilitate the omni-channel strategy implementation as well as to further expand sales.

ELG will also continue to build and strengthen its international team.

Key findings of 2018

2018 was a **transition year** for ELG after the acquisition of Felina Group and Dessus-Dessous. The Group **invested** in new technology, new people and process changes. Furthermore, the Group started started several **strategy and market initiatives** to respond faster to changes in the market. One of these steps is product range expansion to position ELG as a one-stop supplier of all relevant product segments.

The results of these changes start to **gradually convert into sales**, but the operating profit is still behind expectations due to investments of today's profit in innovations and changes needed to **sustain the business** in the future and earn stable margins going forward.

2018 sales results for the Group were below expectations due to the **continuing pace of closure** of small specialized retail shops in Southern and Central Europe as well as the **slow-down of the macroeconomy** in the most European markets. Despite that the ongoing initiatives helped the Group to **stop the negative trend** of the first three quarters of 2018 and demonstrated the **sales pick up** in the fourth quarter of 2018.

The Group believes that this **improving trend will continue** in the coming periods, bringing **additional revenue** at accelerated speed throughout 2019, as the Group constantly feeds the pipeline with **additional novelties**, complementary products and other initiatives.

Although the market climate is not favorable and the sector is not growing, the Group is **confident** that the initiatives taken already will result in a **growth** and ELG continues to be a **strong player** in the market due to its financial stability and sustainable future. The Group believes that together with investments and focus on innovation the Group's **margin will stabilize.** In 2019 sales are expected to come with a healthy growth, but unfortunately not all of it will transform into the profit due to the implementation of additional innovations and changes.

Financial highlights of 2018

Financial performance of the Group was analyzed on the basis of the pro forma financial information of European Lingerie Group AB for 12 months 2018 and 12 months 2017.

The Group's sales amounted to **EUR 77.2 million** in 12 months 2018, representing a 2.9% decrease as compared to pro forma sales of 12 months 2017.

As part of the costs are fixed, decline in revenue caused drop of profitability margins. Normalised **EBITDA** in 12 months 2018 amounted to **EUR 9.3 million** and decreased by 28.9% compared to pro forma normalised EBITDA in 12 months 2017.

Normalised **net profit** in 12 months 2018 amounted to EUR 221 thousand, compared to pro forma normalised net profit of EUR 6.0 million in 12 months 2017.

In thousands of EUR	**12m 2018** (Pro forma)	**12m 2017** (Pro forma)	**Change**
Revenue	77,233	79,566	-2.9%
Normalised operating profit	6,084	10,082	-39.7%
Normalised EBITDA	9,288	13,061	-28.9%
Normalised net profit	221	6,002	-96.3%
Operating cash flow for the period	(173)	3,127	-105.5%

Financial highlights of 2018

Marginal analysis, %	12 m 2018 (Pro forma)	12 m 2017 (Pro forma)	Change
Normalised operating profit margin	7.9%	12.7%	-4.8 pp
Normalised EBITDA margin	12.0%	16.4%	-4.4 pp
Normalised net profit margin	0.3%	7.5%	-7.2 pp

Normalised **EBITDA margin** in 12 months 2018 and 12 months 2017 was 12.0% and 16.4% respectively. EBITDA margin deteriorated mainly due to sales decrease and high impact of marginal sales contribution to EBITDA.

Furthermore, although the Group was able to stop the negative trend in sales, it still continues investing its current profit into several initiatives and new projects, which will allow it to sustain the revenue and expand into new sales channels, products and target customer segments in the future, but reduces operating profit margins in the short term.

Normalised **net profit margin** in 12 months 2018 and 12 months 2017 were 0.3% and 7.5% respectively.

Similarly to EBITDA, **lower profitability** was due to sales decrease and cost of new initiatives impact. In addition, there was an increase in finance costs in 12 months 2018 as compared to 12 months 2017 related to incremental costs on borrowings raised for the acquisitions of Felina Group and Dessus-Dessous SAS as well as for additional capital needed for future growth and investments that were not present to full extent in 12 months 2017.

Sales of 2018

The Group's sales in its **core markets** in 12 months 2018 were **83.7%** of its total sales against 83.5% in 12 months 2017.

The **largest growth in sales** in 12 months 2018 was in Poland and it was mainly achieved through expansion of the Group's lingerie products' presence in the retail channels in this country. Sales in Germany and Benelux increased by 1.6% and 1.9% respectively in 12 months 2018, which is a result of the stable economy and the Group's strong position in these markets.

There was growth of sales in the Baltic countries in 12 months 2018 by 0.5%. Growth is explained by the **stabilization of the market** situation in Russia and other CIS countries, which are the major sales markets for the Baltic lingerie sewing companies.

In 12 months 2018, the sales in Spain reduced by 1.5%. The net deficit in Spain is heavily influenced by the **overall change of the total retail concept** in Southern and Central European countries. The Group actively addresses this issue.

France had a decrease in sales in 12 months 2018 by 4.5% also due to the same change in retail concept, but this deficit **started reducing** in Q4 2018. Markets in Russia and Ukraine dropped by 9.6% and 9.2% respectively in 12 months 2018, but the trend in Q4 2018 **reversed completely** compared to the first three quarters. Sales in Belarus dropped by 16.4% in 12 months 2018 and continued to be lower than before due to the change in the strategy of Group's largest customer in the textile segment.

Sales by markets – 12 months

In thousands of EUR	12 months 2018 (Pro forma)	12 months 2017 (Pro forma)	Change, %	12 months 2018, % of sales	12 months 2017, % of sales
Germany	18,257	17,964	1.6%	23.6%	22.6%
Baltic countries	10,732	10,676	0.5%	13.9%	13.4%
Russia	8,625	9,539	-9.6%	11.2%	12.0%
France	7,477	7,832	-4.5%	9.7%	9.8%
Benelux countries	5,704	5,596	1.9%	7.4%	7.0%
Belarus	4,679	5,597	-16.4%	6.1%	7.0%
Poland	4,326	4,175	3.6%	5.6%	5.2%
Spain	3,099	3,145	-1.5%	4.0%	4.0%
Ukraine	1,747	1,925	-9.2%	2.3%	2.4%
Other markets	12,587	13,117	-4.0%	16.2%	16.6%
Total	**77,233**	**79,566**	**-2.9%**	**100.0%**	**100.0%**

Sales of 2018

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 (including online) of lingerie products

Sales by business segments

In thousands of EUR	12 months 2018 (Pro forma)	12 months 2017 (Pro forma)	Change, %	12 months 2018, % of sales	12 months 2017, % of sales
Textiles	34,107	35,866	-4.9%	42.8%	44.0%
Lingerie	44,149	44,527	-0.8%	57.2%	56.0%
Intercompany eliminations	(1,023)	(827)			
Total	**77,233**	**79,566**	**-2.9%**	**100.0%**	**100.0%**

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EUROPEAN LINGERIE
GROUP

www.elg-corporate.com