HUGO BOSS

ANNUAL REPORT 2017

HUGO BOSS AT A GLANCE

+3%[1]

Group sales
EUR 2,733 million

0%

EBITDA before special items
EUR 491 million

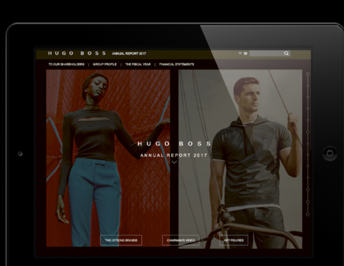
+19%

Consolidated net income
EUR 231 million

+33%

Free cash flow
EUR 294 million

[1] On a currency-adjusted basis.



CEO video in the online version of the annual report

The annual report of HUGO BOSS is also available online and offers many interactive features, including a video statement by CEO Mark Langer.

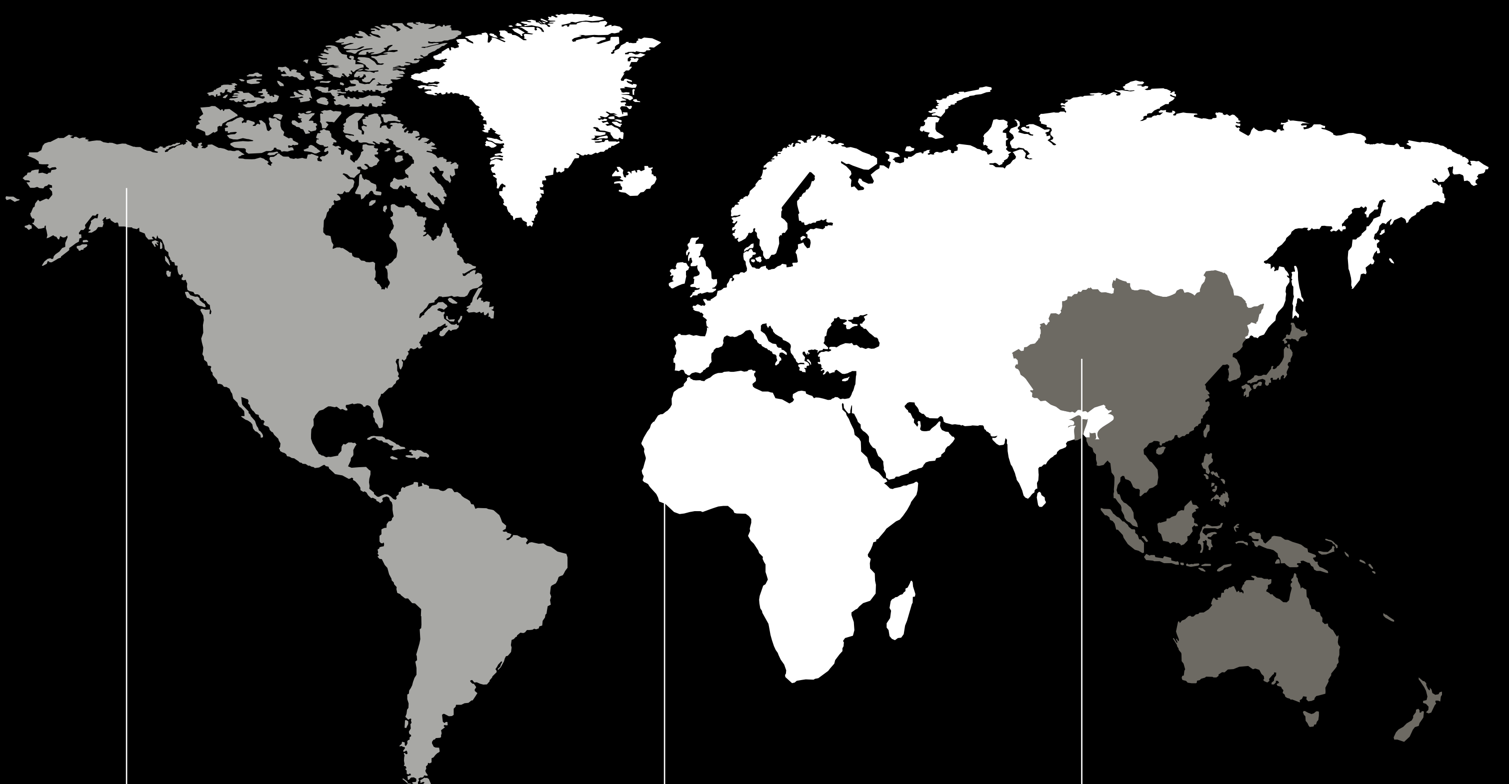
www.annualreport-2017.hugoboss.com

13,985
Employees

59%
Proportion of women

41%
Proportion of men

604
Personnel expenses (in EUR million)



Americas

577
Sales (in EUR million)
+1%[1]

13%
Employees

90
Freestanding retail stores

Europe
(incl. Middle East/Africa)

1,681
Sales (in EUR million)
+2%[1]

74%
Employees

192
Freestanding retail stores

Asia/Pacific

396
Sales (in EUR million)
+6%[1]

13%
Employees

157
Freestanding retail stores

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TO OUR SHAREHOLDERS

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

The HUGO BOSS Group achieved its financial goals in fiscal year 2017, making substantial progress in its strategic realignment. The Supervisory Board continued to perform its **duties with the utmost care** in fiscal year 2017, comprehensively advising the Managing Board in a close, trust-based collaboration and monitoring its management activities. It performed the duties imposed on it by law, the Company's Articles of Association and its own bylaws.

Collaboration between the Managing Board and the Supervisory Board

Ongoing dialog between the Managing Board and the Supervisory Board

In written and oral reports, the Managing Board informed us regularly, comprehensively and in a timely manner, of all **matters of relevance for HUGO BOSS AG and the Group companies pertaining to strategy, planning, business performance, the risk position, changes in the risk situation and compliance**. In this connection, monitoring and control duties particularly focused on the annual financial results. Developments leading to any deviations in the actual course of business from forecasts and targets were explained in detail to the Supervisory Board and reviewed on the basis of the documents presented. The Chairman of the Audit Committee and I maintained close and regular dialog with the Managing Board. We were kept informed of material developments and decisions on which reports were submitted at the following Supervisory Board and Committee meeting at the latest.

All members of the Supervisory Board had sufficient opportunity at all times to review the Managing Board's **reports and proposals** critically and to contribute their own ideas in the Committees and in the meetings of the Supervisory Board. If necessary, approvals were issued only after requesting clarification from the Managing Board and extensively discussing the matter with the members of the Managing Board. In urgent cases, the Supervisory Board passed resolutions by way of circulation. The Supervisory Board was directly involved at an early stage in all decisions of fundamental significance to the Company.

Main topics at the meetings of the Supervisory Board

Four meetings of the Supervisory Board held in the year under review

In 2017, a total of **four Supervisory Board meetings** were held in March, May, September and December, with the meeting in September held over two days. With the exception of Mr. Luca Marzotto, who was unable to attend two meetings of the Personnel Committee and one meeting of the Working Committee for personal reasons, and Mr. Antonio Simina, who was unable to attend one meeting of the Audit Committee and one meeting of the Working Committee for personal reasons, all members of the Supervisory Board attended all meetings of the Supervisory Board and all members of the Supervisory Board Committees attended all the meetings of the respective Committees.

Participation in metings of the full Supervirsory Board and its committees[1]

Member	Full Supervisory Board (4)	Audit Committee (5)	Working Committee (5)	Personnel Committee (7)	Attendance rate (21)
Michel Perraudin, Chairman	4/4	5/5	5/5	7/7	21/21
Antonio Simina, Deputy Chairman	4/4	4/5	4/5	7/7	19/21
Tanja Silvana Grzesch	4/4	–	–	–	4/4
Anita Kessel	4/4	–	5/5	–	9/9
Kirsten Kistermann-Christophe	4/4	–	–	–	4/4
Fridolin Klumpp	4/4	5/5	–	–	9/9
Gaetano Marzotto	4/4	–	–	–	4/4
Luca Marzotto	4/4	–	4/5	5/7	13/16
Sinan Piskin	4/4	–	5/5	7/7	16/16
Axel Salzmann	4/4	–	–	–	4/4
Martin Sambeth	4/4	–	–	–	4/4
Hermann Waldemer	4/4	5/5	5/5	–	14/14

[1] The Nomination Committee and the Mediation Committee did not convene in the last fiscal year.

The **meeting of the Supervisory Board in March 2017** focused on the annual financial statements of HUGO BOSS AG and of the HUGO BOSS Group as of December 31, 2016 and the audit report prepared by the auditors. At this meeting, the annual financial statements and the consolidated financial statements of HUGO BOSS AG as of December 31, 2016 were approved and ratified. Furthermore, the Supervisory Board's report to the Annual Shareholders' Meeting was discussed and adopted, as were the proposals for the adoption of resolutions at the Annual Shareholders' Meeting of HUGO BOSS AG on May 23, 2017 following the review of the independence of the proposed auditor for the fiscal year 2017.

At its **meeting of May 22, 2017**, the Supervisory Board appointed Mr. Yves Müller to the Managing Board (Chief Financial Officer) of HUGO BOSS AG. The appointment, with effect from December 1, 2017, was confirmed in a circular resolution of October 27.

On **September 26 and 27, 2017**, the Supervisory Board deliberated on the progress made in implementing the Company's strategy, its current business performance, the Group's customer relationship management activities and the performance of the main European markets.

At the **Supervisory Board's meeting in December 2017**, the budget for 2018 was discussed and approved, the results of the Supervisory Board efficiency review discussed in detail, the declaration of compliance with the German Corporate Governance Code discussed and approved and the internal auditing plan for 2018 approved.

In addition, the investments in the construction of a new outlet in Metzingen were approved by the Supervisory Board in a circular resolution.

Regular exchange of information on key issues in 2017

The development of sales and earnings, investment planning, individual investment projects and the current risk situation of the Company were discussed regularly at the Supervisory Board meetings and approved where necessary. In addition, the Supervisory Board dealt mainly with the Group's own retail activities, in particular store closures and the online business, cost planning, compliance issues and the German Corporate Governance Code.

Work of the Committees in 2017

Committees increase the efficiency of the Supervisory Board

The Supervisory Board has established **five committees** in order to perform its duties efficiently: an Audit Committee, a Personnel Committee, a Working Committee, a Nomination Committee and the Mediation Committee required by law. To the extent permitted by law, the Supervisory Board's decision-making authority was delegated to the Committees. The Committee chairpersons reported in detail on the work of their respective Committee at the following meeting of the Supervisory Board.

The **Audit Committee** met five times in 2017. The main agenda of its meetings concerned the financial reporting of the Company and the Group with respect to the annual, half-yearly and quarterly financial statements and reports, the audit of the annual and consolidated financial statements, monitoring of the risk management and internal control system, compliance matters and risk management. In addition, the Audit Committee requested the declaration of independence from the external auditor and satisfied itself of the auditor's independence. In addition to defining the main aspects of the audit of the annual and consolidated financial statements for 2017 and mandating the external auditor, it approved non-auditing services and placed a cap on the fees payable for such non-auditing services. In addition, the results of the internal preliminary audit of the non-financial report were discussed in accordance with the Act to Strengthen Non-Financial Reporting by Companies in the Management and Group Management Reports (CSR Directive Implementation Act).

The **Personnel Committee** held seven meetings at which it focused on the changes to the Managing Board. In addition, the Personnel Committee handled the preparations for the target agreements on behalf of the Managing Board and reviewed the achievement of the targets.

The **Working Committee** met five times in the year under review and dealt with the remuneration of the Supervisory Board, the strategy, preparations for the Annual General Meeting and the establishment of subsidiaries in Estonia and Latvia. In addition, it deliberated on the performance of online business, personnel matters, the renewal of the license agreement for watches as well as the corporate governance statement and the diversity policy.

The **Nomination Committee** and the **Mediation Committee** did not convene in the year under review.

Corporate governance

Managing Board and Supervisory Board issue new declaration of compliance

The Supervisory Board additionally dealt with the **principles of good corporate governance** within the Company. In December 2017, the Managing Board and the Supervisory Board issued a new declaration of compliance with the German Corporate Governance Code (GCGC). The combined report on corporate governance at the Company in accordance with No. 3.10 of the German Corporate Governance Code including the Corporate Governance Statement can be found on page 13. The annual efficiency review recommended by the GCGC was performed on the basis of a detailed standardized questionnaire. The results were analyzed and discussed in detail at the meeting of the Supervisory Board held on December 7, 2017. The Supervisory Board drew a favorable conclusion.

Conflicts of interest

No conflicts of interest relating to Managing Board or Supervisory Board members arose in 2017. Under the German Corporate Governance Code, such conflicts of interest must be disclosed to the Supervisory Board without delay and to the Annual Shareholders' Meeting.

Audit of annual and consolidated financial statements for 2017

Unqualified audit opinion received

Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, duly audited the consolidated financial statements of HUGO BOSS AG for 2017, which had been prepared by the Managing Board on the basis of the International Financial Reporting Standards (IFRS) in accordance with Sec. 315e HGB, and issued an **unqualified audit opinion**. This was also the case for the annual financial statements of HUGO BOSS AG for 2017 prepared in accordance with the provisions of the German Commercial Code as well as the combined management report for 2017 of HUGO BOSS AG and the Group. The corresponding audit engagement had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual Shareholders' Meeting held on May 23, 2017. In addition, it was agreed with the auditor to inform the chair of the Audit Committee without delay during the audit of any grounds for disqualification or factors affecting impartiality that could not be immediately rectified. It was also agreed that the external auditor is obliged to report on any findings or events arising during the performance of the audit that are of importance to the duties of the Supervisory Board. He was furthermore required to inform the Supervisory Board or note in the audit report any facts that were ascertained during the audit resulting in any errors in the declaration submitted by the Managing Board and the Supervisory Board in accordance with Sec. 161 (1) Sentence 1 AktG. The auditors did not issue any such reports in the reporting year. In addition, the Supervisory Board obtained the auditors' declaration of independence in accordance with No. 7.2.1 of the German Corporate Governance Code and verified the auditor's independence. The possibility of engaging the auditors to perform non-audit services was also discussed. The Supervisory Board received all accounting documents, the Managing Board's proposal for the appropriation of profit as well as the two audit reports from the external auditor.

The annual financial statements, the proposal for the appropriation of profit and the combined management report for 2017 for HUGO BOSS AG and the Group as well as the separate non-financial Group report for 2017, which also contains the separate non-financial report of HUGO BOSS AG, and the two audit reports were discussed and inspected in advance by the Audit Committee and then by the full Supervisory Board in the presence of the external auditor. The external auditor reported on the main findings of the audit, particularly with respect to the key aspects of the audit that had been determined by the Audit Committee for the year under review. He was also available to answer any questions and provide additional information. No shortcomings in the accounting-related internal control system and risk management were identified in this connection. Similarly, there were no circumstances indicating possible partiality on the part of the external auditor. Finally, he reported on the non-auditing services that had been provided in the year under review. The auditor's findings were approved. Following its final review, the Supervisory Board raised no objections.

Consequently, the Supervisory Board approved the **financial statements for fiscal year 2017** prepared by the Managing Board at its meeting of March 7, 2018. The financial statements of HUGO BOSS AG for fiscal year 2017 were therefore ratified in accordance with Sec. 172 AktG. In addition, the Supervisory Board approved the Managing Board's proposal for the **appropriation of profit** at the same meeting. In this context the Supervisory Board held detailed discussions on the liquidity situation of the Company, the financing of planned investments and the effects on the capital market. In the course of these discussions, the Supervisory Board came to the conclusion that the proposal was in the best interests of both the Company and its shareholders.

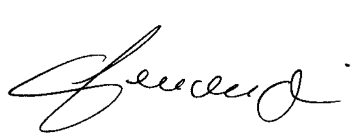
Acknowledgments

On behalf of the Supervisory Board, I wish to thank the members of the Managing Board and all managers and employees for their high level of personal dedication and great commitment. I also wish to thank the employee representatives of HUGO BOSS AG for their constructive collaboration in 2017.

Finally, I would like to express my gratitude to you, the shareholders, for your trust in our Company.

Metzingen, March 7, 2018

The Supervisory Board



Michel Perraudin
Chairman

SUPERVISORY BOARD

Supervisory Board

Shareholder representatives

Michel Perraudin
(Hergiswil, Switzerland)
Management Consultant,
Chairman of the
Supervisory Board,
Member since/until 2015/2020

Kirsten Kistermann-Christophe
(Oberursel, Germany)
Managing Director
Société Générale S.A.,
Frankfurt/Main, Germany,
Member since/until 2015/2020

Gaetano Marzotto
(Milan, Italy)
Chairman of the
Supervisory Board
Gruppo Santa Margherita S.p.A.,
Fossalta di Portogruaro, Italy,
Member since/until 2010/2020

Luca Marzotto
(Venice, Italy)
Chief Executive Officer
Zignago Holding S.p.A.,
Fossalta di Portogruaro, Italy,
Member since/until 2010/2020

Axel Salzmann
(Großhansdorf, Germany)
Chief Financial Officer
Hensoldt Holding GmbH,
Taufkirchen, Germany,
Member since/until 2015/2020

Hermann Waldemer
(Blitzingen, Switzerland)
Consultant,
Member since/until 2015/2020

Employee representatives

Antonio Simina
(Metzingen, Germany)
Tailor/Chairman of the Works
Council HUGO BOSS AG,
Metzingen, Germany,
Deputy Chairman of the
Supervisory Board,
Member since/until 1985/2020

Tanja Silvana Grzesch
(Sonnenbuehl, Germany)
Chairperson and Treasurer
of the German Metalworkers´
Union (IG Metall)
Reutlingen-Tuebingen,
Reutlingen, Germany,
Member since/until 2015/2020

Anita Kessel
(Metzingen, Germany)
Administrative Employee
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2015/2020

Fridolin Klumpp
(Caslano, Switzerland)
Senior Vice President
Global Human Resources
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2015/2020

Sinan Piskin
(Metzingen, Germany)
Administrative Employee
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2008/2020

Martin Sambeth
(Tiefenbronn, Germany)
Secretary of the German
Metalworkers´ Union
Baden-Wuerttemberg,
Stuttgart, Germany,
Member since/until 2016/2020

Supervisory Board Committees

Working Committee
- **Michel Perraudin (Chairman)**
- Anita Kessel
- Luca Marzotto
- Sinan Piskin
- Antonio Simina
- Hermann Waldemer

Nomination Committee
- Gaetano Marzotto
- Michel Perraudin

Personnel Committee
- **Michel Perraudin (Chairman)**
- Luca Marzotto
- Sinan Piskin
- Antonio Simina

Audit Committee
- **Hermann Waldemer (Chairman)**
- Fridolin Klumpp
- Michel Perraudin
- Antonio Simina

Mediation Committee
(in accordance with Se. 27 (3) Mitbestimmungsgesetz [Co-Determination Act])
- **Michel Perraudin (Chairman)**
- Tanja Silvana Grzesch
- Gaetano Marzotto
- Antonio Simina

CORPORATE GOVERNANCE REPORT INCLUDING THE CORPORATE GOVERNANCE STATEMENT

The Managing Board and the Supervisory Board believe that good **corporate governance** is a key determinant of long-term business success. Good corporate governance is therefore part of the shared values of HUGO BOSS and a requirement that extends to every area of the Company. The Managing Board and Supervisory Board consider themselves duty-bound to secure the Company's continuation as a going concern and sustainable value added through responsible and transparent corporate governance that is geared to the long term. At the same time, HUGO BOSS wishes to justify and strengthen the trust that the employees, shareholders, business partners and general public place in it.

Managing Board and Supervisory Board issue declaration of compliance

In fiscal year 2017, the Managing Board and Supervisory Board closely examined compliance with the requirements of the German Corporate Governance Code (GCGC). As a consequence, the **declaration of compliance dated December 2017** was issued. It is reproduced on page 21 f. of this report and, like earlier declarations of compliance, is published on the Company's website. Apart from the exceptions discussed there, HUGO BOSS AG complies with the recommendations of the Code as amended on February 7, 2017, which was published in the Bundesanzeiger [German Federal Gazette] on April 24, 2017.

The **corporate governance statement** (in accordance with Sec. 289a HGB) contains the declaration of compliance, disclosures relating to corporate governance practices and a description of the way in which the Managing Board and Supervisory Board work. It can also be accessed at **http://cgs.hugoboss.com**.

Corporate governance practices

HUGO BOSS acts responsibly

As an internationally active Group, HUGO BOSS is aware of its corporate responsibility to its employees, society and the environment. **Handling core business responsibly** is an important prerequisite for ensuring competitiveness and long-term success. Thus, HUGO BOSS employees not only make the highest possible demands of the quality of their own products but also take account of social and ecological factors in all activities along the value chain. Corporate responsibility is divided into six areas: stakeholders, environment, employees, partners, product and society. HUGO BOSS always acts in compliance with the current regulatory frameworks as well as its internal guidelines. → **Sustainability**

Corporate compliance

HUGO BOSS AG and the Group companies operate in many different countries and therefore in different legal systems. For HUGO BOSS, **corporate compliance** is a key responsibility of the Managing Board covering measures to ensure adherence to legal and official regulations, internal guidelines and codes. This includes antitrust and anti-corruption regulations as well as provisions under capital market legislation. HUGO BOSS expects all employees to act legally in day-to-day business operations.

Chief Executive Officer responsible for compliance

The **Compliance department** reports directly to the Chief Executive Officer in his function as Chief Compliance Officer and supports the Managing Board in the monitoring of effective compliance management. Together with the compliance officers at the Group companies, it ensures that the compliance program is implemented and continuously updated across the entire Group. The Audit Committee is kept regularly informed of the Compliance department's activities.

Code of Conduct governs principles of good conduct

HUGO BOSS has embodied Group-wide principles of good conduct in a **Code of Conduct** as well as more detailed Group policies, thus creating the basis for ensuring the legality of all employee activities. They include in particular rules on conduct in competition, the avoidance of conflicts of interest, the appropriate handling of company information, fair and respectful working conditions and anti-corruption. Employees are familiarized with the provisions of the Code of Conduct and the Group policies on an ongoing basis. To this end, HUGO BOSS runs **face-to-face training sessions** and has also set up a global **e-learning program** that all Group employees must regularly complete. HUGO BOSS does not tolerate any willful misconduct or persistent infringements of the Code of Conduct.

Group-wide ombudsman system established

Employees can obtain support and advice on issues concerning legal conduct from their line managers or the Compliance Officer. As a supplementary reporting channel, HUGO BOSS has also established a Group-wide **ombudsman system**. Employees, suppliers and wholesale partners can notify an ombudsman in confidence if there are any indications of fraud, infringements of antitrust law or breaches of compliance guidelines. If desired, it is also possible to do this anonymously. The ombudsman's contact data can be found on the Company's website.

Capital market communication

Investor relations activities are strengthening the trust of the capital market

The trust of shareholders and investors is strengthened by means of open and transparent communication. HUGO BOSS reports regularly and without delay on its business situation and material changes within the Group. The **investor relations activities** include regular dialog with institutional investors, financial analysts and private shareholders. In addition to the annual press and analyst conference at which the consolidated financial statements and the annual report are presented, telephone conferences are held for financial analysts and institutional investors to mark the publication of the quarterly statements. The Group's strategy and relevant developments are discussed in detail at an annual Investor Day. In addition to special information events at which the Company presents itself to private investors, the Annual Shareholders' Meeting offers an opportunity to obtain information about the Group's performance comprehensively and effectively, either in person or online. All main corporate information and all publications are available from the Company's website at **group.hugoboss.com**.

Cooperation, composition and activities of the Managing Board and Supervisory Board

The management structure at HUGO BOSS is primarily derived from the requirements of corporate law. As a German stock corporation, HUGO BOSS AG has a **dual management and control structure**. The Managing Board is responsible for the Group's strategy and management. The Supervisory Board advises the Managing Board and monitors its management activities.

Close cooperation between Managing Board and Supervisory Board

The Managing Board and Supervisory Board cooperate closely for the benefit of the Group. The common objective is to **sustainably increase the enterprise value**. The Managing Board regularly informs the Supervisory Board in a timely manner and in detail of issues of relevance for the Group concerning strategy, planning, business development, risk position, changes in the risk situation and compliance. Deviations from targets and budgets are explained to the Supervisory Board and its committees. The strategic alignment and further development of the Group are discussed and coordinated with the Supervisory Board.

No conflicts of interest in the year under review

When making decisions and in performing their duties for HUGO BOSS, members of the Managing Board and Supervisory Board are not permitted to pursue their personal interests or grant other persons unjustified advantages. No members of the Managing Board or the Supervisory Board reported any **conflicts of interest** in fiscal year 2017. The offices held by the Managing Board and Supervisory Board members in statutory supervisory boards or comparable oversight committees of commercial organizations in Germany and other countries are listed in the notes to the consolidated financial statements on page 207. No member of the Managing Board sits on more than three supervisory boards of listed companies that are not members of the Group. The same applies to members of the Supervisory Board who sit on the managing boards of other listed companies.
→ Notes to the Consolidated Financial Statements, Related Parties

The Managing Board

The Managing Board of HUGO BOSS AG comprises the Chief Executive Officer and the members with equal rights, whose duties cover specific corporate functions. It had four members at the end of 2017.

The HUGO BOSS Group is managed by the Managing Board of the parent company HUGO BOSS AG, in which all of the Group management functions are bundled. The **Managing Board's core duties** include corporate strategy, corporate finance, risk management, decisions on the collections and the management of the sales network. In addition, it is responsible for preparing the annual, consolidated and interim financial statements and for establishing and monitoring the risk management system.

The **bylaws** of the Managing Board govern the allocation of duties to its members as well as the procedures to be adopted for passing resolutions. In particular, they also define disclosure and reporting duties as well as those matters requiring the approval of the Supervisory Board.

Managing Board committed to diversity when filling management positions

The German Corporate Governance Code stipulates that the Managing Board must consider **diversity** when filling management positions in the Group and specifically that women must be adequately represented. The Managing Board is committed to this objective. It already monitors the diversity of the workforce and will continue to do so in future. The Managing Board set a target **gender quota** of at least 30% women in each of the two management levels below the Managing Board to be achieved by June 30, 2017. At that time, the target was slightly missed with a share of women of 28% at the first management level. This was due to a higher share of men among new hires than originally planned. Decisive for this development was solely the qualification of the respective applicants. The target at the second management level was clearly exceeded with a share of women of 45%. The Managing Board has now set a target gender quota of at least 30% women in each of the two management levels below the Managing Board to be achieved by December 31, 2021. Indeed, the company strives to keep the share of women on these two levels at least stable, but it also feels obligated to the principle to hire only those applicants with the most suitable qualification even if this results in a lower share of women. → **Employees**

The Supervisory Board

In accordance with the German Corporate Governance Code, HUGO BOSS attaches key importance to the **independence of the members of the Supervisory Board**. The members of the Supervisory Board of HUGO BOSS have the knowledge, skills, and professional experience necessary for the respective committees. The Supervisory Board currently includes three women. Until Ms. Lersmacher resigned as an employee representative with effect from July 31, 2016, the gender quota pursuant to Sec. 96 (2) AktG had been fulfilled in overall terms, with a total of four women (including three employee representatives). In a resolution dated July 25, 2016, the employee representatives rejected aggregate fulfillment of this requirement, meaning that the 30% gender quota requirement must now be met separately by the shareholder representatives and the employee representatives. The two female employee representatives fulfill the gender quota on the employee representatives' side. As a result of the aforementioned decision, the gender quota for the shareholder representatives is no longer fulfilled, as only one woman has been elected. It must be ensured that the gender quota is fulfilled on the shareholder representatives' side at the next election. In accordance with No. 5.4.1 Sentence 9 of the German Corporate Governance Code, the following shareholder representatives sitting on the Supervisory Board are considered to be independent: Ms. Kirsten Kistermann-Christophe, Mr. Michel Perraudin, Mr. Axel Salzmann and Mr. Hermann Waldemer.

None of the current members of the Supervisory Board have previously held a Managing Board position within the Group. There were also no advisory or other service agreements in place between members of the Supervisory Board and the Group in the reporting year.

Target gender quota not yet achieved on the Managing Board

On September 23, 2015, the Supervisory Board acting under Sec. 111 (5) AktG defined a target for the **proportion of women on the Managing Board**, which was to be achieved by June 30, 2017. This target has not been reached. With the appointment of Mr. Hake, succession planning for the Managing Board responsibility for distribution was implemented. The prerequisite for the appointment to the position of Chief Brand Officer was long-standing experience in creative and menswear areas. This resulted in a limited selection of candidates, with Mr. Wilts proving to be the ideal candidate on account of his experience. Several candidates were considered in the selection process for the appointment of the Chief Financial Officer, which the Supervisory Board undertook following preparations by the Personnel Committee in 2017. However, the newly appointed Managing Board member was ultimately selected on account of his professional qualifications. The Supervisory Board is still pursuing the target of having at least one woman sitting on the Managing Board of the Company. This should be achieved by no later than December 31, 2021.

Supervisory Board has defined specific goals for its composition as well as that of the Managing Board

In accordance with the recommendation in No. 5.4.1 Sentence 8 of the German Corporate Governance Code, the Supervisory Board adopted a profile of required skills and defined specific goals for its own **composition** at its meeting on December 7, 2017. Thus, at least two members of the Supervisory Board should have an international background. At the same time, no member may be exposed to any conflicts of interest. Furthermore, no member of the Supervisory Board should be older than 69 years on the date on which he or she is elected. In addition, the Supervisory Board has defined a specific target as regards the number of “independent” members of the Supervisory Board as defined in the German Corporate Governance Code. Accordingly, of the twelve members of the Supervisory Board, at least eight members, including the six employee representatives, should be independent. The Supervisory Board has not defined any maximum period of office for its members. HUGO BOSS believes that a predefined maximum period of office is not appropriate as it is keen to benefit from the experience of the long-standing members of the Supervisory Board.

The following further rules pertaining to the composition of the Supervisory Board were also adopted and simultaneously seek to implement a concept for increasing **diversity** (diversity concept):

- The Supervisory Board should have at least two members with an international background (i.e. persons who possess experience gained outside Germany due to current or past activities and/or hold non-German citizenship).

- The Supervisory Board should have at least one member holding expertise in branding, supply chain and/or national or international sales matters.

- The Supervisory Board should have at least two members who are currently or formerly executives of another company.

- The Supervisory Board should have at least four members possessing extensive knowledge and experience of the Company itself.

- Aside from the employee representatives, the Supervisory Board should have at least three members who are independent and two who have expertise in the areas of accounting or auditing.

The Supervisory Board has adopted **bylaws** which among other things govern its duties and responsibilities as well as the procedures for convening, preparing and chairing meetings and for passing resolutions. In addition, the bylaws stipulate equal representation in the composition of all Committees.

1. Audit Committee

The Audit Committee is composed of at least four members who are elected by the Supervisory Board. The total number of members of the Audit Committee is determined by the Supervisory Board and must always be even. In accordance with the German Corporate Governance Code, the Committee must have at least one independent member. The Audit Committee is responsible for monitoring the financial reporting process, the effectiveness of the systems of internal control, risk management and internal auditing, and the audit of the annual financial statements. It has the following main duties:

- To perform a preliminary audit of the annual financial statements and the consolidated financial statements, the combined management report of HUGO BOSS AG and the Group and the profit appropriation proposal, to discuss the audit report with the external auditor and to prepare the Supervisory Board's decision on the approval of the annual financial statements and the consolidated financial statements;

- To examine the quarterly reports (interim reports and quarterly statements) and discuss them with the Managing Board;

- To prepare the Supervisory Board's proposal to the Annual Shareholders' Meeting concerning the appointment of an external auditor and, in particular, to satisfy itself of the external auditor's independence and to examine the additional services which are provided;

- To engage the external auditor and to sign the corresponding fee agreement for the audit of the annual financial statements and the consolidated financial statements following consultation with the Managing Board on the basis of the resolution passed at the Annual Shareholders' Meeting, including the determination of the key audit points and the auditor's reporting duties towards the Supervisory Board;

- To satisfy itself that the statutory provisions and internal company policies have been complied with ("compliance").

The Supervisory Board satisfied itself of the independence of the members of the Audit Committee representing the shareholders and of the Chairman of the Audit Committee, Hermann Waldemer.

2. Personnel Committee

The Personnel Committee is made up of the Chairman of the Supervisory Board and three other members elected by the Supervisory Board from its own number. Its composition ensures equal representation. It makes decisions on the service contracts of the Managing Board members and other contractual matters (including those relating to former Managing Board members and their surviving dependents) not related to the compensation of Managing Board members. Decisions concerning the compensation of Managing Board members (including former Managing Board members and their surviving dependents) as well as regular deliberation on and the review of the compensation system are the responsibility of the full Supervisory Board. However, the Personnel Committee submits proposals in preparation of decisions on these matters. In addition, the Personnel Committee makes decisions in accordance with Sec. 114 AktG (contracts with Supervisory Board members) and Sec. 115 AktG (loans to Supervisory Board members) as well as matters requiring the Supervisory Board's consent in connection with senior executives (including the granting of loans to senior executives within the meaning of Sec. 89 (2) AktG). To the extent permitted by law, it represents the Company in transactions with Managing Board members (including former Managing Board members and their surviving dependents).

3. Working Committee

The Working Committee comprises the Chairman of the Supervisory Board and five other members whom the Supervisory Board elects from its own number. They assist and advise the Chairman of the Supervisory Board. In accordance with the statutory provisions, the Working Committee works closely with the Managing Board to prepare the meetings of the Supervisory Board. In particular, the Working Committee performs the monitoring duties between the meetings of the Supervisory Board. This does not prejudice the monitoring duties of the individual members of the Supervisory Board. The Working Committee makes decisions on transactions requiring consent in cases where the Supervisory Board has delegated its powers accordingly. To the extent permitted by law, the Working Committee may make decisions on urgent matters in lieu of the full Supervisory Board. In such cases, it must immediately notify the Supervisory Board in writing and report orally in detail at the next Supervisory Board meeting on the decision, the reasons for it and the need for the decision by the Working Committee.

4. Nomination Committee

The Nomination Committee has two members who are elected by the representatives of the shareholders on the Supervisory Board from their own number; accordingly, it is made up solely of shareholder representatives in accordance with the requirements set out in Sec. 5.3.3 of the GCGC. It is required to identify suitable candidates for the election of shareholder representatives to the Supervisory Board and to put their names forward to the Supervisory Board as its proposed nominees for election at the Annual Shareholders' Meeting.

5. Mediation Committee

The Mediation Committee comprises the Chairman of the Supervisory Board, the Deputy Chairman of the Supervisory Board, one member elected by the employee representatives on the Supervisory Board and one elected by the shareholder representatives on the Supervisory Board, with a majority of the votes cast in both cases. Its sole purpose is to perform the duties referred to in Sec. 27 (3) and Sec. 31 (3) Sentence 1 Mitbestimmungsgesetz [Co-Determination Act]. Accordingly, the Mediation Committee submits proposals for the appointment of members of the Managing Board in cases in which a prior proposal has failed to achieve the necessary statutory majority.

Risk management and risk controlling

A responsible approach to risks is an element of good corporate governance

HUGO BOSS considers a responsible approach to risks to be a key component of good corporate governance. The **risk management system** anchored in the value-based Group management permits the Group to identify and assess risks at an early stage and to optimize risk positions using appropriate measures. Ensuring reasonable and effective risk management and risk controlling is of particular importance in this connection. The systems in place are continually enhanced and adapted to changing circumstances. Inherently, however, they cannot provide complete protection from losses resulting from business transactions or fraud. → **Report on Risks**

Financial reporting and audit of the financial statements

The Supervisory Board monitors financial reporting and the audit of the financial statements

The financial reports of HUGO BOSS AG are prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. The Audit Committee established by the Supervisory Board regularly **monitors the financial reporting process and the audit of the financial statements**. The audit has been performed by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, since fiscal year 2012. Mr. Martin Matischiok has signed the auditors' report since December 31, 2012 and Mr. Michael Sturm since December 31, 2017. It was agreed with the auditor with respect to the reporting year that the chair of the Audit Committee would be informed without delay during the audit of any grounds for disqualification or partiality that could not be immediately rectified. It was also agreed that the external auditor is obliged to report on any findings or events arising during the performance of the audit that are of importance to the duties of the Supervisory Board. In addition, the external auditor must inform the Supervisory Board and state in his audit report if findings are made during the audit that are in contravention of the declaration of compliance made by the Managing Board and Supervisory Board pursuant to Sec. 161 AktG. Moreover, the Supervisory Board requested a declaration of independence from the external auditor in accordance with No. 7.2.1 of the GCGC and duly satisfied itself of the auditor's independence. This declaration also included mandates to perform non-auditing services.

Compensation of the Managing Board and Supervisory Board

The **compensation report** summarizes the principles underlying the overall compensation of the members of the Managing Board and Supervisory Board of HUGO BOSS AG. It also explains the structure and amount of compensation paid to members of the Managing Board. In addition, it describes the principles and the amount of compensation paid to the Supervisory Board. → **Compensation Report**

Declaration of compliance

In December 2017, the Managing Board and Supervisory Board of HUGO BOSS AG issued the following declaration prescribed by Sec. 161 AktG:

“Declaration of compliance

Declaration of the Managing Board and Supervisory Board of HUGO BOSS AG pursuant to section 161 AktG (German Stock Corporation Act)
HUGO BOSS AG, Metzingen, Securities ID A1PHFF

The Managing Board and Supervisory Board of HUGO BOSS AG herewith declare pursuant to section 161 para. 1 sentence 1 AktG (German Stock Corporation Act) that since the Compliance Declaration of December 2016 the recommendations of the Government Commission “German Corporate Governance Code” in the version as amended on February 7, 2017 – officially published in the Federal Gazette on April 24, 2017 – have been and are complied with except for:

- Deviating from the recommendation in section 4.2.2 sentence 6 GCGC the total compensation of the members of the Managing Board complies with the statutory criteria without specifically taking into consideration the relationship between the compensation of senior management and the staff overall, particularly in terms of its development over time because the Supervisory Board is of the opinion that the statutory criteria, namely the appropriateness of the tasks and the performances, the situation of the Company and the common level of compensation in the industry, are more important.

- Deviating from the recommendation in section 4.2.3 sentence 7 GCGC a cap is indeed specified regarding the total compensation of the members of the Managing Board. Insofar as section 4.2.3 sentence 7 GCGC must be understood in a sense that it also requires an explicit cap for variable compensation components, HUGO BOSS AG deviates from the recommendation, as it does not comply with this formality. However, materially also a cap for the variable compensation components exists because it can be calculated by deducting the fixed compensation component from the cap of the total compensation.

- Deviating from the recommendation in section 4.2.5. sentence 5 and 6 GCGC, certain information on the compensation of Executive Board members have not been included, nor have the model tables provided for this purpose been utilized, until December 31, 2016, because HUGO BOSS AG was doubtful as to whether the largely repetitive provision of identical information in two additional tables contributed to the transparency or the understandability of the Compensation Report according to the German Corporate Governance Code. As from the beginning of the financial year 2017, the recommended information will be included and the model tables utilized.

- Deviating from the recommendation in section 5.4.1 sentence 2 GCGC, the Supervisory Board did not prepare and resolve on a profile of skills and expertise for the entire Supervisory Board immediately after the official publication of the amended GCGC on April 24, 2017 but only in its meeting on December 7, 2017.

- Deviating from the recommendation in section 5.4.1 sentence 3 GCGC, the Supervisory Board has not specified a regular limit of length of membership for the members of the Supervisory Board. The company can also benefit from the experience of long-term Supervisory Board members. A regular limit of length of membership which is specified in advance is therefore not appropriate.

- Deviating from the recommendation in section 5.4.6 sentence 4 GCGC the compensation for members of the Supervisory Board based on the success is not oriented toward sustainable growth. The compensation for members of the Supervisory Board was resolved by the general assembly of the shareholders, the compensation based on the success is contained in section 12 para. 2 of the articles of association of HUGO BOSS AG and in the opinion of HUGO BOSS AG appropriate.

- Deviating from the recommendation in section 5.4.6 sentence 5 GCGC the compensation of the members of the Supervisory Board is not reported individually in the notes nor in the management report. Also, payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services, are not listed on an individual basis. The compensation paid to the members of the Supervisory Board is demonstrated in total in the notes. In the view of HUGO BOSS AG, individual reporting of compensation does not provide information relevant to the capital market.

Metzingen, December 2017”

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Combined Management Report

GROUP PROFILE

BUSINESS ACTIVITIES AND GROUP STRUCTURE

- **HUGO BOSS positioned in the premium segment of the global apparel market**
- **Two-brand strategy pursued with BOSS and HUGO**
- **Distribution via own retail and wholesale business – bricks-and-mortar retail and online**

Group at a glance

2.7 Sales (billion EUR)	**~14,000** Employees	**127** Countries

Positioning in the premium segment of the global apparel market

The HUGO BOSS Group is one of the leading companies in the premium segment of the global apparel market. With some 14,000 employees around the world, the Company, which is based in Metzingen, Germany, develops and sells high-quality fashion as well as accessories in the womenswear and menswear segments under the **BOSS and HUGO brands**. By means of a differentiated brand strategy, the Group positions the brands in different segments and increases their desirability. In fiscal year 2017, the Group achieved sales of EUR 2.7 billion from the distribution of classic yet modern tailoring, elegant evening wear, casualwear, shoes and leather accessories. This also includes royalty income from licenses which the Company grants for products such as fragrances, eyewear and watches. **→ Employees, → Group Strategy**

Collections development follows three steps

The **development of the BOSS and HUGO collections** involves three steps – design, pattern design and technical product development – which primarily take place at the Group's headquarters in Metzingen (Germany). In addition, the competence center in Coldrerio (Switzerland) is responsible for the innovation and development activities for a number of product groups. **→ Research and Development**

Long-standing collaboration with suppliers supplements own production

HUGO BOSS produces 18% of its total sourcing volumes at its own facilities. 82% are sourced from external contract suppliers or procured as merchandise. Most of the **partner factories** are located in Eastern Europe and Asia, whereas the Group's **own production** facilities are based at four sites in Europe. These are located in Izmir (Turkey), Metzingen (Germany), Morrovalle (Italy) and Radom (Poland). **→ Sourcing and Production**

Sales activities globally focused

BOSS and HUGO products can currently be purchased in **127 countries**. The HUGO BOSS Group's distribution activities are divided into three sales regions. With a share of 62%, Europe contributes the largest proportion of sales. America and Asia account for 21% and 14% of sales generated respectively. Within these sales regions, the **six core markets** – Germany, Great Britain, France, Benelux, the United States and China – contribute a total of around 63% of sales. 3% of Group sales is generated from license business. **→ Sales and Profit Development of the Business Segments**

HUGO BOSS distribution channels

Group´s own retail business (retail)	Wholesale
Freestanding stores Freestanding stores operated by the Group in prime locations	**Multi-brand points of sale** Category business on selling space with limited own branding
Shop-in-shops Shops operated by the Group on retail space of partners	**Shop-in-shops** BOSS and HUGO shops operated by partners
E-commerce hugoboss.com online stores in selected countries	**Franchise business** Freestanding BOSS stores operated by partners
Factory outlets Sale of prior season´s merchandise in specialist stores in high-traffic peripheral zones	**Online** Online distribution through third parties

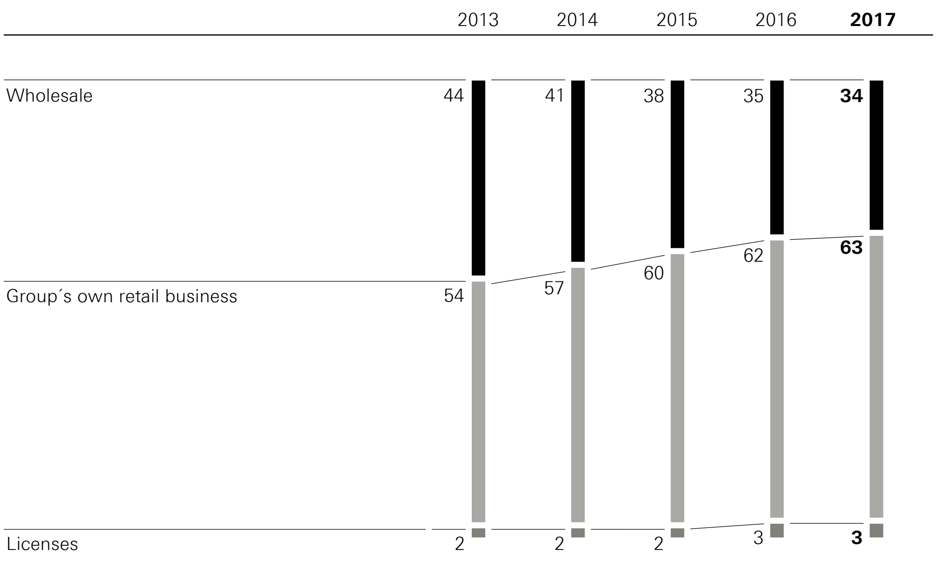
Group's own retail business is the most important sales channel

The BOSS and HUGO brands are sold via the Group's own retail business and wholesale business, both bricks-and-mortar retail and online. Over the last few years, the share of sales generated by the **Group's own retail business** has grown substantially. Today, it accounts for 63% (2016: 62%) of Group sales. At the end of the year, the Group was operating 439 freestanding retail stores around the world (2016: 442). In addition, customers can buy the BOSS and HUGO collections in self-managed shop-in-shops in department stores as well as in outlets. The Group is increasingly linking its physical retail stores with its e-commence business. By visiting the **hugoboss.com** website, customers are able to explore the BOSS and HUGO brand world and place orders in nine European countries as well as in the United States and China.

Different cooperation models in wholesale business

The **wholesale channel** contributed 34% to Group sales in fiscal year 2017 (2016: 35%). The Group's wholesale partners include department stores, specialist retailers, which are frequently family-owned, and franchisees. In addition, cooperation with specialized online retailers is playing an increasingly important role. While department stores and specialist retailers sell the products of both Group brands either in separate shop-in-shops or in a multibrand setting, franchise partners independently operate freestanding stores mostly for the BOSS brand in accordance with the Group's instructions and are mainly based in small markets not addressed by the Group's own retail business. All in all, wholesale business encompasses around 6,700 points of sales (2016: 6,600 points of sale). Including its own stores and shops, the Group counts 7,800 points of sale (2016: 7,700 points of sale). → **Group Strategy,** → **Group Earnings Development**

Sales by distribution channel (in %)



Legal structure of the Group reflects dual management and control structure

All main management functions are based at the Group's headquarters in Metzingen, Germany. As the **parent company**, HUGO BOSS AG is responsible for the management of the Group. As a German stock corporation, HUGO BOSS AG has a dual management and control structure. The Managing Board has overall responsibility for the strategy and management of the Group. The Supervisory Board monitors the management activities of the Managing Board and also advises it. In addition to HUGO BOSS AG, the HUGO BOSS Group is made up of **58 consolidated subsidiaries** that hold sole responsibility for their local business activities. 36 subsidiaries are organized as distribution companies and three as production companies. → **Notes to the Consolidated Financial Statements, Basis of Consolidation**

Regional alignment of organizational structure

The HUGO BOSS Group is regionally aligned. The Group's business segments are the regions Europe (including the Middle East and Africa), the Americas and Asia/Pacific as well as the licensing business.

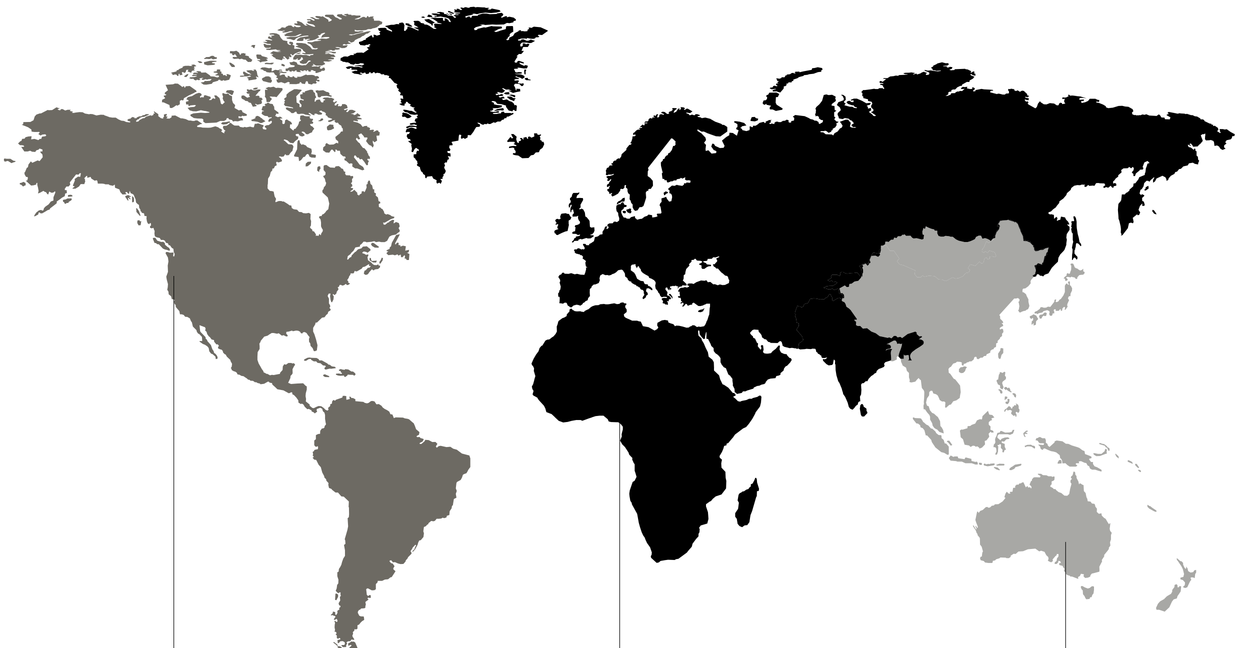
HUGO BOSS Group structure

	Managing Board			
Central functions	Brand Management		Investor Relations	
	Central Services		IT	
	Communication		Legal/Compliance/Risk Management	
	Creative Management		Licenses	
	Finance/Tax/Controlling		Logistics	
	Global Merchandising		Own retail	
	Human Resources		Sales	
	Internal Audit		Sourcing/Production	
Operating segments	**Europe** incl. Middle East and Africa	**Americas**	**Asia/Pacific**	**Licences**
Hubs / Individual markets	Northern Europe	United States	China	
	Central Europe	Canada	South East Asia/ Pacific	
	Southern Europe	Latin America		

Markets implement Group strategy

The Group strategy is developed in the **central divisions**. These functions also cover main elements of the value chain, particularly the development, production and sourcing of the collections and distribution in the markets. The structure of the sales strategy in the Group's own retail business and in its wholesale business as well as the implementation of other important elements of the Group strategy such as brand communications is based on Group-wide parameters for the **individual markets**. This ensures a strictly customer-centric approach and enables swift responses to developments in specific markets. The individual markets are placed in hubs that are managed by a responsible director who reports directly to the Chief Sales Officer of HUGO BOSS AG. This ensures close alignment with the central functions and short decision-making processes. In addition, certain functions are pooled in the hubs on a cross-country basis to make effective use of specialist skills and to generate cost benefits.

Key locations/Global market presence



AMERICAS

~ 1,800
Points of sale

90
Freestanding retail stores

2
Showrooms

13% Employees

USA (New York)
Headquarters Americas,
Designstudio Womenswear

USA (Midway)
Distribution center

EUROPE
(including Middle East and Africa)

~ 5,500
Points of sale

192
Freestanding retail stores

10
Showrooms

74% Employees

Germany (Metzingen and surrounding area)
Headquarters Group and Europe, development and pattern design, production, distribution center

Switzerland (Coldrerio)
Development and pattern design

Turkey (Izmir)
Production

Italy (Morrovalle and Scandicci)
Development and pattern design, production

Poland (Radom)
Production

ASIA/PACIFIC

~ 500
Points of sale

157
Freestanding retail stores

1
Showroom

13% Employees

Hong Kong
Headquarters, Asia/Pacific

GROUP MANAGEMENT

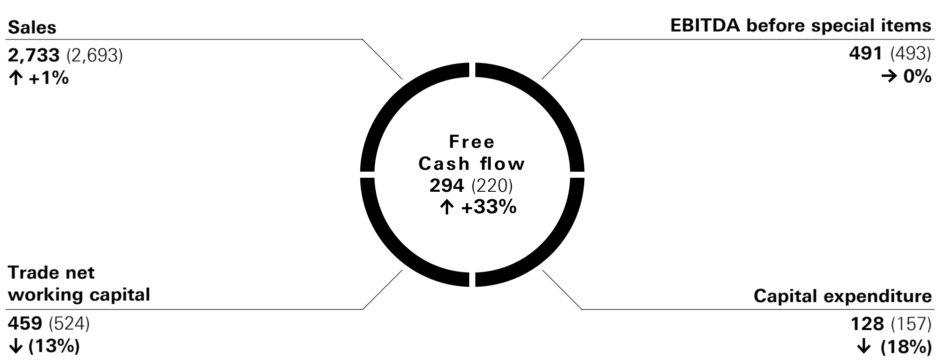
- **Long-term maximization of free cash flow to increase enterprise value**
- **Sales and EBITDA before special items the main performance indicators**
- **Group planning, reporting, investment controlling core elements of Group management**

Management at HUGO BOSS aims to **sustainably increase enterprise value**. The Group's internal management system helps the Managing Board and the management of the business units focus all business processes on this objective.

Key performance indicators

Key performance indicators (in EUR million)

2017 (2016)



Focus on long-term maximization of free cash flow

The Group focuses on **maximizing free cash flow over the long term** in order to increase its enterprise value. Consistently positive free cash flow safeguards the HUGO BOSS Group's independence and solvency at all times.

Definition Free cash flow

	Cash flow from operating activities
+	Cash flow from investing activities
=	**Free cash flow**

Increasing sales and operating profit, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items are the main **levers for improving free cash flow**. In addition, strict management of trade net working capital and value-oriented investment activities support the development of free cash flow.

Sales and EBITDA before special items the main levers for managing the Group

As a company committed to sustainable growth, HUGO BOSS attaches particular importance to **profitable sales growth**. All activities for increasing sales are gauged by their potential to generate an increase in adjusted EBITDA and the adjusted EBITDA margin (ratio of EBITDA before special items to sales) in the long term.

Definition EBITDA before special items

	Earnings before taxes
–	Financial result
=	Operating result (EBIT)
–	Depreciation and amortization
=	EBITDA
–	Special items [1]
=	**EBITDA before special items**

[1] One-time expenses or income with no direct link to the Group's operating activity, e.g. expenses relating to strategic realignments or the reorganisation of individual business units.

Focus on increasing productivity and cost discipline

EBITDA before special items is a key driver of the free cash flow and has therefore been defined as the most important performance indicator. Productivity gains in the Group's own retail business are seen as the main lever for increasing the adjusted EBITDA margin (selling space productivity). In addition, the Group is seeking to achieve efficiency gains and to accelerate business processes by digitizing its business model. Generally speaking, costs are to increase at a slower rate than sales without curtailing future growth potential.
→ Group Strategy

Management of the Group companies is **directly responsible** for ensuring profitable business growth. The short-term variable compensation of managers of the Group companies and central divisions is tied to the achievement of the goals defined for sales and EBITDA before special items.

For HUGO BOSS, **trade net working capital** is the most important performance indicator for managing the efficient deployment of capital.

Definition Trade net working capital

	Inventories
+	Trade receivables
−	Trade payables
=	**Trade net working capital**

Active management of efficient capital deployment

Management of **inventories** as well as **trade receivables** is the responsibility of the Group companies and the responsible operative central divisions. The latter are also responsible for managing **trade payables**. These three items of the balance sheet are managed by reference to days inventories outstanding, days sales outstanding and days payables outstanding. As well as this, there is a specific approval process for the purchase of inventories for the Group's own retail business in the interests of inventory optimization. In addition to future sales quotas, this process also takes account of projected discounting levels and expected sales growth.

Alongside sales and EBITDA before special items, the ratio of trade net working capital to sales is the third component in the short-term variable compensation payable to managers at the HUGO BOSS Group. Moreover, the compensation scheme for management at the two levels below the Managing Board includes a long-term incentive program (LTI) that corresponds to that of the Managing Board. → **Compensation Report**

Capex focuses on the Group's own retail business and digitization

The Group's **capital expenditure** focuses on the renovation and modernization of existing retail stores, selective new openings, cross-channel integration of the Group's own retail activities and the digitization of key activities along the entire value chain. There is a specific authorization process for key investment projects. Apart from qualitative analyses, e.g. with respect to potential store locations, this also includes an analysis of each project's present value. → **Financial Position, Capital Expenditure**

Free cash flow primarily used to fund the dividend distribution

The free cash flow generated by the Group is primarily used to **fund the dividend distribution**. Between 60% and 80% of net income is to be distributed to the shareholders on a regular basis. Any liquidity available over and above this is used to further decrease financial liabilities or retained as a cash reserve. The Group analyzes its balance sheet structure at least once a year to determine its efficiency and ability to support future growth and to simultaneously provide sufficient security in the event that business performance falls short of expectations. In addition to net financial position or rather net financial liabilities, this analysis also takes account of future rental obligations.

Core elements of the Group's internal management system

The Group's planning, management and monitoring activities focus on optimizing the key performance indicators described above. The **core elements of the Group's internal management system** are Group planning, Group-wide, IT-enabled financial reporting and investment controlling.

Rolling update of Group planning

Group planning covers a rolling three-year period and is prepared annually as part of the Group-wide budgeting process in the light of the current business situation. Based on the Managing Board's targets, the Group companies prepare complete earnings and investment budgets for their respective sales markets or business units. A similar planning model is used for trade net working capital. Taking this as a basis, the development and sourcing units derive medium-term capacity planning. The planning of the business units is tested centrally by Group Controlling for plausibility and aggregated for overall corporate planning.

Annual planning is updated at regular intervals to factor in the actual business performance and the existing opportunities and risks. The Group's Treasury department additionally prepares regular **liquidity forecasts** based on the expected cash flow. This permits early recognition of financial risks and the adoption of measures concerning financing and investment requirements. → **Report on Risks and Opportunities, Financial Risks**

Continuous reconciliation of actual and forecast data

The Managing Board and management of Group subsidiaries are informed about the development of business operations through standardized, IT-enabled reports of varying granularity. This is supplemented by ad-hoc reports. Actual data compiled by the **Group-wide, IT-based reporting system** is compared against budget data each month. Any deviations are explained and planned countermeasures presented. Developments with a material impact on the Group's earnings must be reported immediately to the Managing Board.

Regular analysis of important early indicators

Particular attention is paid to the **analysis of early indicators** suitable for obtaining an indication of future business performance. In this context, wholesale order intake, the performance of replenishment business and retail comp store sales are analyzed on a weekly basis at least. In addition, benchmarking against relevant competitors is performed at regular intervals. The continuous monitoring of early indicators enables the Group to identify possible deviations from the budget at an early stage and take appropriate countermeasures.

Investment controlling secures Group's profitability targets

Central **investment controlling** appraises planned investment projects with respect to their contribution to the Group's profitability targets. This ensures that projects are only launched if a positive contribution to increasing the Group's value performance can be expected. In addition, subsequent analyses are conducted at regular intervals to verify the profitability of projects that have already been realized. Appropriate countermeasures are taken in the event of any negative deviations from the profitability targets originally set.

GROUP STRATEGY

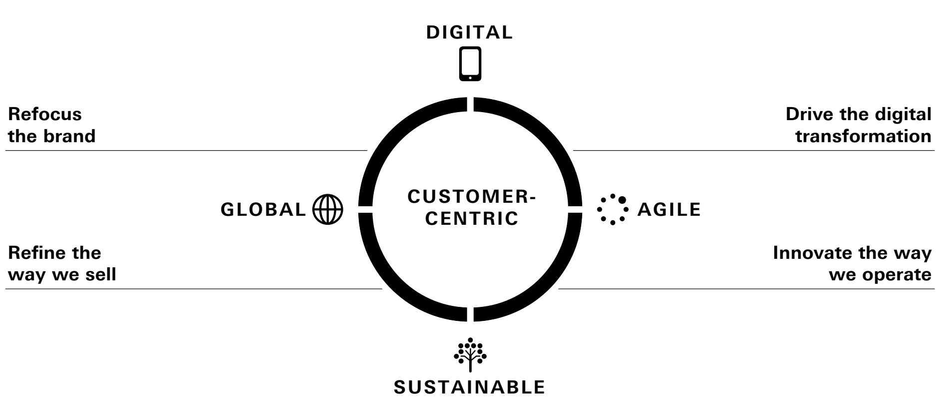
- **Group strategy takes account of changes in environment**
- **Defined on the basis of four strategic fields of action**
- **The goal is to return to sustainable and profitable growth**

The **environment** faced by HUGO BOSS has changed radically in recent years. Growth rates in the premium and luxury apparel industry have slowed considerably. This particularly applies to classic tailored fashion, which has ceded market share to the casualwear and athleisurewear segments of the global apparel market as well as contemporary fashion. The paths taken by consumers to buy clothing have also changed. Today, they are primarily using digital channels to keep up with trends and the ranges on offer from individual brands. Although the overwhelming majority of purchases are still made in physical stores, customers expect the digital offerings and the in-store shopping experience to be seamlessly complementary.

Group strategy aims at return to sustainable and profitable growth

The **Group strategy** factors in these changes in environment and aims to return the Group to long-term sustainable and profitable growth. The Company's actions are guided by the vision of being the most desirable fashion and lifestyle brand in the premium segment. HUGO BOSS believes that the desirability of its brands will be the most important factor in the Group's long-term success. The objectives of employing the right people, maximizing customer satisfaction and offering the best products in the industry are in line with this fundamental concept and are predicated on profitable growth.

Strategic fields of action



Growth strategy based on four pillars

The strategic framework for the Group strategy is formed of five attributes: First and foremost, HUGO BOSS wants to ensure that all its activities are more consistently aligned to the customer. Taking this as a basis, the Group must act in a digital, agile, sustainable and global manner in all areas. This requirement guides the Group's specific actions within the **four strategic fields of action**: HUGO BOSS is realigning its brand portfolio and the positioning of its brands. It is enhancing its distribution strategy on this basis. In addition, the Group is advancing the digital transformation of its business model and is aiming at the transformation of its operating model and its corporate culture in order to make its key business processes faster and more agile, and to promote entrepreneurial thinking and actions.

Realigning the brand portfolio

Focus on BOSS and HUGO

In order to address customers clearly and consistently, the Company is now using two brands **BOSS and HUGO** commencing with the launch of the Spring/Summer 2018 collection. Although the two brands are clearly distinguishable from each other in terms of their individual attributes and address different customer groups, they embody the same high values such as quality and fit, innovation and sustainability.

Two strong brands

BOSS
HUGO BOSS

HUGO
HUGO BOSS

Brand values
Masculinity/Femininity
Sexiness
Success
Style
Precision

BOSS dresses the drive.

Shared values
Innovation
Premium quality and perfect fit
Sustainability
Trustworthiness
Authenticity

Brand values
Globally engaged
Always curious
Authentically expressive

HUGO is the platform of self-expression.

BOSS brand strategy

BOSS offers confident businesswear and refined casualwear collections for the sophisticated customer

With its **BOSS brand**, the Company is reaching out to status-oriented, rationally-minded customers who wish to dress in a classic yet modern and high-quality style. The BOSS customer has exacting standards when it comes to quality and fit, and attaches great importance to an advantageous value-for-money proposition. The shopping experience must also meet the highest standards, particularly with regard to personal service. BOSS offers this customer confident businesswear and refined casualwear collections in the upper premium segment, characterized by the highest quality, sharp cuts and clear designs. BOSS invests in the value proposition of its products, particularly in the entry-level price range. By doing so, BOSS hopes to generate impetus for growth not just for its clothing range, but also beyond that for its shoes and accessories offering in particular.

Integration of BOSS Orange and BOSS Green completed

The previously independently managed BOSS Orange and BOSS Green brands were integrated into the BOSS core brand as of the Spring/Summer 2018 collection in order to provide the customer with a **consistent brand experience** for all occasions – business, casual and athleisure. The previous BOSS Orange range, which now forms the casual collection element of BOSS, has been upgraded in terms of price and quality and its fashion statement brought closer in line with the BOSS values. The previous BOSS Green range represents the athleisure collection element of the BOSS brand and retains a largely unchanged fashion statement. The Company expects to strengthen its market presence significantly in the growing casualwear segment as a consequence of this change.

BOSS addressing differing customer expectations in the upper premium segment

With the presentation of the Spring/Summer 2018 collection, BOSS has enhanced the quality of its range in the **entry-level price range of the upper premium segment**, thus enhancing the value proposition of its collections. The **BOSS Tailored** line addresses heightened customer expectations with respect to tailored fashion and casualwear. Produced in an exclusive edition in Germany, the **full canvas suits** symbolize the precise design and masterly workmanship for which BOSS is known and feature the highest possible comfort thanks to their unique flexibility. The same quality of workmanship is found at the top of the collection in the **"Made to Measure"** range comprising suits, shirts and shoes. These products are fitted and tailored individually, allowing the customer to stand apart from mainstream fashion.

Repositioning supported with numerous events and campaigns

The repositioning of the BOSS brand is being accompanied by numerous **events and campaigns**. BOSS menswear is regularly presented at renowned fashion shows such as the New York Fashion Week. The Company is increasingly using social media campaigns to step up interaction with consumers via digital channels. Thus, for example, various brand ambassadors regularly present their personal favorites from the BOSS menswear collection in the global online campaign entitled "Own Your Journey". In addition, the Company **sponsors premium sports** such as golf, sailing, motor sports and soccer to convey brand values such as success, precision, innovation and sustainability.

HUGO brand strategy

HUGO is targeted at generally younger and more fashion-conscious customers

In contrast to BOSS, **HUGO** is targeted at customers who are significantly more fashion-conscious and consider their style of dress to be an important element in expressing their personality. The HUGO customer is open-minded, individual and spontaneous, and likes to shop, frequently doing so via online and mobile channels. HUGO offers this broad and generally younger customer base fashionable business and casualwear collections that are distinguished by their progressive designs and clear fashion statement. HUGO remains anchored in the premium segment of the market. With its focus on contemporary fashion, the brand now stands apart from BOSS more clearly in terms of its fashion statement and pricing. Thus, HUGO prices are up to 30% lower globally than BOSS prices. The Company expects to significantly increase sales of the HUGO brand in the medium term. In 2017, the Company generated 15% of its sales from the HUGO brand.

Social media activities to increase market reach

Numerous **events and campaigns** are being used to highlight the more pronounced positioning of HUGO. In this connection, the Company factors in the greater affinity that HUGO customers have to e-commerce compared with the BOSS brand. Thus, for example, last year's HUGO Menswear and Womenswear Fashion Show at Pitti Immagine Uomo in Florence was accompanied by a comprehensive digital campaign. A broad audience was able to follow the shows via livestreams on the website and social media. With its **social media activities**, the Company is placing store by collaboration with well-known fashion bloggers and influencers particularly for HUGO. These activities are increasing market reach and enhancing brand awareness and credibility.

Womenswear

Womenswear remains an important part of the business model

Accounting for 11% of Group sales in 2017, **womenswear** remains an important part of the HUGO BOSS business. In terms of both fashion and price, the positioning of the two brands BOSS and HUGO in the womenswear mirrors that of menswear. The consistency of the fashion statements made by the menswear and womenswear collections is to be improved by harmonizing the color and theme concepts to a greater extent, while womenswear will benefit even more from the spill-over effects coming from menswear. At the same time, the fashion elements in parts of the collection will be increased substantially. The expansion of the casualwear product range also offers attractive growth opportunities.

Further refinement of the distribution strategy

Distribution strategy aligned to customer demand

HUGO BOSS is systematically aligning its **distribution** to cater to the buying preferences of the BOSS and HUGO customers. Both brands are sold via the Group's own retail business and wholesale business, via both bricks-and-mortar retail and online. In this connection, the Group attaches particular importance to a globally consistent brand image. Against this backdrop, retail prices have been largely harmonized in the various sales regions over the last few years. For example, selling prices in the own retail business in the Eurozone have been harmonized completely with the launch of the Spring/Summer 2018 collection.

Distribution strategy

Own retail (Share in sales 2017: 63%)	**Wholesale** (2017: 34%)
BOSS and HUGO	BOSS and HUGO
Improvement in selling space productivity and exploitation of potential in online business	**Exploitation of additional growth potential**
Optimization of product range	Upgrading of brand presentation
Enhancement of shopping experience	Alignment of product range to needs of the partners
Optimization of the online store	Expansion of online cooperations
Growth of omnichannel services	

Licenses (2017: 3%)

Improvement in selling space productivity

Ambitious goals for increasing selling space productivity

Improving selling space productivity in its own retail business is currently the most important lever available to HUGO BOSS for growing its business. Thus, the Company has set itself the goal of increasing sales per square meter by 20% compared with 2016 to around EUR 13,000 per square meter by 2021. The realignment of the brand portfolio and the related greater focus on the BOSS brand core in the upper premium segment provide crucial prerequisites for this. The Company has widened its range of entry-level products and given casualwear and athleisurewear more space in its own stores. HUGO BOSS expects this to have a positive impact on customer footfall and volumes. This should more than compensate for the decrease in average retail prices which is consciously being accepted.
→ **Group Earnings Development, Sales Development**

Improved service to enhance shopping experience

One key lever for improving selling space productivity is seen in efforts to **enhance the shopping experience**. In addition to changes to the range, service improvements will play a crucial role in this respect. Thus, HUGO BOSS has widened its training opportunities for sales staff to additionally improve the quality of service. As well as this, new store concepts were developed for BOSS and HUGO in 2017. With their appealing architectural features and greater use of digital elements, they invite shoppers to enter the store. To this extent, the systematic renovation of existing stores constitutes a material investment in enhancing the shopping experience. In addition, HUGO BOSS is continuously improving its customer relationship management. Under the HUGO BOSS EXPERIENCE customer program, customers are able to qualify for added service and exclusive experiences and events. This gives the Company an opportunity of becoming better acquainted with its customers in the medium term and of providing them with personalized offers.

Exploitation of the full potential of online business

Ongoing optimization of the Group's own online store

HUGO BOSS considers digital business to offer great potential for growing retail sales. With this in mind, it is steadily optimizing the usability of its **website hugoboss.com**. In 2017, page load times were reduced and search engine placements optimized among other things. At the same time, the check-out procedure was simplified and the product range aligned more closely to online consumers' specific demand. The launch of a **mobile app** now also for the Android operating system addresses the growing share of users who use mobile devices to visit the site.

Improvements in brand presentation planned in all digital channels

2018 will see **additional improvements** to the site structure and navigation of the website and the app to additionally enhance usability and to create two separate brand worlds for BOSS and HUGO in line with the adjustments to brand strategy. The Company also wants to improve the presentation of its brands in its partners' online offerings. To this end, HUGO BOSS is seeking **cooperations** with selective online merchants whose platform matches the values of the two Group brands as closely as possible. In this connection, the Company is evaluating plans to broaden the concession model which it successfully introduced with physical retailers years ago.

Greater integration of sales channels

HUGO BOSS is working steadily on the additional integration of its sales channels to offer customers a uniform brand and shopping experience.

Omnichannel services link the website closely with physical stores

Particular importance is being attached to **growing omnichannel services** in the Group's own retail business. Today, for example, customers can check whether a product offered in the online store is also available in the nearest bricks-and-mortar BOSS store. Click & Collect – i.e. the instore pick-up of articles bought online – is already available in Europe and the United States. As well as this, Order from Store – i.e. online ordering of missing sizes or items in the store – is offered in Europe since fall 2017. This service is to be rolled out in the United States by the end of the year.

Cross-channel evaluation of sales potential

In addition, the Group is paying great attention to **closely harmonizing its retail activities with distribution in the wholesale channel**. By systematically evaluating sales potential and comparing this potential with existing distribution capacities, it is initially assessing scope for expansion as well as the case-by-case need to reduce selling space. Using this analysis, HUGO BOSS then decides on the individual structure of its distribution activities via freestanding stores, shop-in-shops or online offerings – in all cases either on its own or in cooperation with wholesale partners. → **Business Activities and Group Structure**

Ongoing optimization of distribution in the Group's own retail business and wholesale business

The Group sees potential for expanding the distribution of BOSS and particularly HUGO via selective new openings and the acquisition of shop-in-shops from wholesale partners. Thus, the **openings of the first HUGO stores** are planned for 2018 in selected European cities such as Amsterdam, London, Paris and Berlin. The Group also sees growth potential in the wholesale business by aligning its range more closely to the needs of its retail partners and **expanding online cooperations**. Conversely, the Company will be using lease expiries to close own retail stores that no longer meet the profitability requirements. Moreover, it reserves the right to continue adjusting its wholesale distribution if the brand presentation and environment do not live up to the requirements of BOSS and HUGO. Finally, the Company expects the wholesale market to continue seeing signs of consolidation in physical retailing and closures among smaller, often owner-operated specialist stores.

Digital transformation of the business model

Digitization of the business model increases customer value and improves efficiency

Digitizing the business model offers HUGO BOSS attractive possibilities for increasing customer value and for improving efficiency. In doing so, the Group is building on its strong IT and logistics platform. The potential for digitizing the business model is to be harnessed along the entire value chain wherever this is economically viable.

Digitization along the value chain

Product and collection development	Sourcing and production	Distribution and logistics	Sales
Use of digital prototypes	Smart factory in Izmir (Turkey)	High level of automation	Digital showroom in the wholesale business
	Digital exchange of product specifications	Digital systems for inventory planning	Omnichannel services in the own retail business

Growing digitization of the product development process

The Company is increasingly developing its products digitally. In this connection, the **use of digital prototypes** is shortening development times. The high degree of detail provided by 3D virtualization permits a realistic depiction of colors and contours. The development of shirts, ties and knitwear of the HUGO brand is already completely digitized. The Company plans to use this technology for other product groups as well. → Research and Development

Digital transformation of production

In the production process, the Company is focusing on implementing the digital transformation at its largest production plant in Turkey. On the road towards the **"smart factory"**, key milestones have already been passed with the digital networking of all production machinery, employees, processes and products. This already allows the real-time tracking of various production data. In connection with sourcing activities, the **digital exchange of product specifications** with suppliers makes it possible to reduce lead times and ensures uniform product standards. → Sourcing and Production

Strong logistics platform ensures smooth distribution process

To achieve efficient utilization of its distribution and logistics capacities, HUGO BOSS relies on a uniform modern IT platform and **high-level automation at its own distribution hubs**. In addition to three distribution hubs located in the immediate vicinity of its head office in Metzingen for hanging garments, flat-packed goods and its European online business, the logistics facility in Midway, Georgia, United States was linked up to the Group-wide ERP system last year. These modern warehouses achieve high speeds and quality in supplying own retail stores for ready-to-sell articles in particular.

System-based inventory planning ensures orientation to customer demand

In addition, digital systems optimize **inventory planning** in the own retail business. This gives the Company a fully integrated view of the inventory flow and allows it to directly align inventory planning with customer demand. The range is optimized on the basis of the capacity of individual stores, the characteristics of the specific locations and the individual product life cycles. In the next few years, the focus will be on achieving additional flexibility in the inventory flow so that goods can be reallocated across different regions and channels even at short notice to enhance availability to customers.

HUGO BOSS developing its own digital showroom

HUGO BOSS is also advancing digitalization in its wholesale business. Selected wholesale partners were able last year to order the HUGO Pre-Fall 2018 collection for the first time via a **digital showroom** specially developed by HUGO BOSS. This offers customers a flexible and convenient alternative to conventional ordering, covering such aspects as the inspiration for the collection, the selection of individual products and the completion of the ordering process. The Company is convinced that, moving forward, digital showrooms will substantially simplify the wholesale selling process. Consequently, this technology is to be introduced on a comprehensive basis for both Group brands in the medium term.

Greater use of digital elements in the Group's own retail business

The use of digital elements is also becoming increasingly more important in the Group's own retail stores. In particular, the newly launched store concepts for BOSS and HUGO, which differ substantially from the old one due to the integration of **omnichannel services**, are designed to offer customers an improved shopping experience. In addition to the use of tablets, HUGO BOSS will be implementing large touch screens, among other things, in its customer service, allowing missing sizes and products available in other stores to be ordered. Lastly, digital channels also extend the aftersales services on offer. In addition to the changes to the existing business model, the Group is also examining **new business ideas** to assess their ability to contribute to future growth.

Active change in operating model and corporate culture

"Fast track" concept to complement regular collection creation process

Speed often equates to economic success in the apparel industry. HUGO BOSS is therefore endeavoring to create its collections more quickly and flexibly. For this reason, the Company has complemented its regular development process with a **"fast track" concept** that will permit the rapid shipment of products that are based on short-term trends and the restocking of top-selling items within the season. This concept shortens the time to market from months to weeks. The Group plans to expand this concept over the coming seasons and to apply it to an increasingly larger part of its collections. The use of digital prototypes and the increasing digitization of the production process will support this development.
→ Research and Development

New working methods accelerate processes Group-wide

The **formation of cross-functional teams** and the **delegation of clearly defined responsibilities** will accelerate decision-making processes Group-wide and promote an entrepreneurial mindset. It was in this way that the new digital HUGO showroom was developed in only six months using the Scrum method. Agile project management continuously collected feedback from the wholesale customers and incorporated it in the development of the digital showroom. In the coming year, HUGO BOSS will again be taking this transformation to a new level by providing suitable concepts and instruments for human resources activities. → Employees

Changes to the corporate culture to make the Company faster and more agile

The upper premium apparel market is changing at ever greater speed. HUGO BOSS must meet the ever-increasing demands of its customers and master the challenges of technological upheavals. To keep pace with these changes and remain successful in the long term, HUGO BOSS is working on an **active transformation of its corporate culture**. The Company wants to encourage its employees to embrace change in order to realize their own potential and create additional customer value. This requires the abandonment of complex organizational and reporting structures and the establishment of an environment that encourages innovation and forgives mistakes.

EMPLOYEES

- **Almost 14,000 people employed in the HUGO BOSS Group**
- **Global employee satisfaction at 70%**
- **Employee development and remuneration the focus of human resource management**

Human resource work aligned with mission statement

The core task of global **human resource management** at HUGO BOSS is to create an environment and to oversee the processes to facilitate goal-oriented and responsible behavior by employees in accordance with the corporate vision – "Be the most desirable premium fashion & lifestyle brand". The five corporate values – quality, passion, respect, cooperation and innovation – form the principles underlying daily working relationships and describe the corporate culture.

Number of employees as of December 31

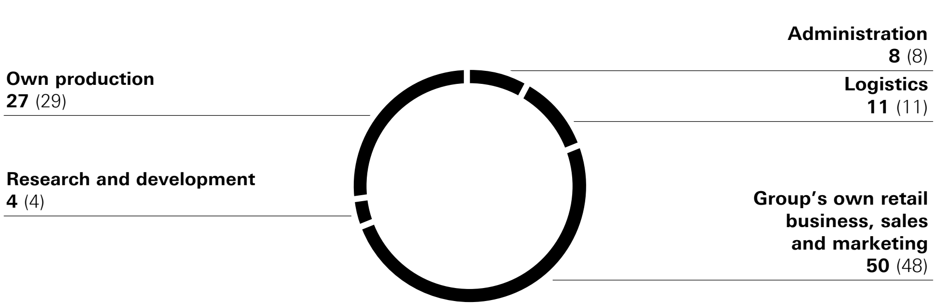
2017	**13,985**
2016	13,798
2015	13,764
2014	12,990
2013	12,496

Slight increase in workforce in 2017

HUGO BOSS had 13,985 employees at the end of 2017. The slight increase in the **workforce** reflects the Company's strengthened retail, IT and online activities. However, the increasing automation and digitization of the production process resulted in a decline in the number of **in-house manufacturing** employees. The average age remained unchanged at 35 years (2016: 35 years).

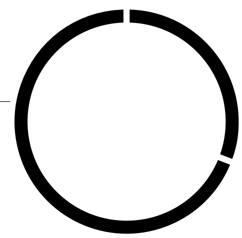
Employees by functional area as of December 31 (in %)

2017 (2016)



Industrial, commercial and administrative employees as of December 31 (in %)

2017 (2016)



Commercial and administrative employees
69 (68)

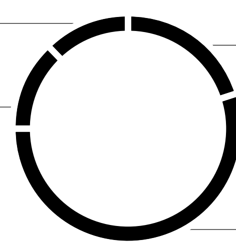
Industrial employees
31 (32)

At the end of 2017, 9,683 employees (2016: 9,357) of the total workforce were in **commercial and administrative positions**, while 4,302 employees (2016: 4,441) of the total workforce were assigned to **industrial activities**. **→ Notes to the Consolidated Financial Statements, Note 8**

Regional distribution of employees reflects global orientation

Employees by region as of December 31 (in %)

2017 (2016)



Americas
13 (13)

Asia/Pacific
13 (13)

Germany
21 (20)

Rest of Europe
53 (54)

The Company's **global positioning** is also reflected in the employee numbers. 79% of the Group's employees were based outside Germany last fiscal year (2016: 80%).

Employees in management

47%
Women
(2016: 45%)

53%
Men
(2016: 55%)

Thereof first management level
24% (2016: 27%)

Thereof second management level
45% (2016: 45%)

Thereof first management level
76% (2016: 73%)

Thereof second management level
55% (2016: 55%)

High proportion of women in management positions maintained

At 59%, women account for the majority of the HUGO BOSS Group's workforce (2016: 59%). Women held 47% of the positions across all four management levels at the end of December 2017 (2016: 45%). The Managing Board had set a target **gender quota** of at least 30% women in each of the two management levels below the Managing Board to be achieved by June 30, 2017. At that time, the target was slightly missed with a share of women of 28% at the first management level. This was due to a higher share of men among new hires than originally planned. Decisive for this development was solely the qualification of the respective applicants. The target at the second management level was clearly exceeded with a share of women of 45%. The Managing Board has now set a target gender quota of at least 30% women in the first management level and 35% in the second management level below the Managing Board to be achieved by December 31, 2021. Indeed, the company strives to keep the share of women on these two levels at least stable, but it also feels obligated to the principle to hire only those applicants with the most suitable qualification even if this results in a lower share of women. → **Corporate Governance Report**

Group-wide employee survey conducted for the first time

HUGO BOSS has been conducting annual **employee surveys** since 2015 to find out how employees view their employer, their working environment and their responsibilities. In 2017, the survey was conducted across the entire Group for the first time. With a participation rate of 66%, overall satisfaction came to 70%. At HUGO BOSS AG, an overall satisfaction of 77% was recorded (2016: 72%). On the basis of the survey results, measures in three areas – employee development, executive development and fair compensation – were defined.

Systematic employee training and development

For the purposes of systematic **employee training and development**, further training courses are available to employees, allowing them to expand their personal and professional skills beyond the requirements of their current position. Thus, employees across the entire Group successfully completed around 83,000 **e-learning courses** in 2017 (2016: around 80,000). The existing individual training offerings were broadened by a centrally coordinated **employee development program**. Employees aiming to qualify for the position of senior manager or team leader in the future must participate in the course. The program modules aim to develop employees' social and professional skills.

Executive training expanded

Executive training also underwent further expansion in 2017. Thus, managers have the opportunity of undergoing a multi-day self-reflection training course to develop their own personality. To nurture future department heads, leadership trainers have been appraising executive skills and developing optimization measures since 2017.

Flexible working hours growing in importance

Flexible working hours were a key focus in 2017. Thus, individual part-time models and a home-office system were introduced and utilized by more than 500 employees. In addition, child-care facilities are available for families during the summer vacation. Nutritionists, balanced menus at the campus restaurant and the annual Health Days also contribute towards employees' personal well-being and performance capabilities.

HUGO BOSS takes the health and safety of its employees seriously

HUGO BOSS has defined Group-wide standards for achieving additional **improvements in occupational health and safety**. To this end, inspections and hazard assessments were performed at several of the Group's own retail stores. Potential hazards were detected, evaluated and addressed. Occupational health and safety teams were involved in the development phase of the new store concepts to assess and, if necessary, revise the furniture designs at an early stage.

Group-wide job assessment project commenced

A **Group-wide job assessment project** was launched in 2017 to heighten the transparency, traceability and acceptance of the Group's compensation scheme. This involves assessing positions according to uniform criteria and allocating them to corresponding salary bands in order to facilitate a better internal and external comparison of salaries.

Employee remuneration based on transparent system

Employees in central functions subject to collectively negotiated wage agreements in Germany are **remunerated** on the basis of the collective agreements of the Südwestdeutsche Bekleidungsindustrie (Southwest German textile industry). Retail staff are remunerated in accordance with the collective agreement for the German retail industry. Employees in retail and distribution receive a fixed salary and a variable component that is tied to quantitative targets. For instance, the remuneration of employees in the Group's own retail stores depends on the achievement of service standards and guidelines defined as standard throughout the Group. The collectively negotiated agreements of the South West German textile industry and the German retail industry provide for proportionate vacation, Christmas and annual bonuses.

Non-tariff employees receive a basic salary plus a 13th monthly salary installment and a short-term incentive, of which half is linked to Group targets and half to the achievement of qualitative and quantitative personal goals. The **compensation scheme for management** at the two levels below the Managing Board also includes a long-term incentive program that corresponds to that of the Managing Board. → **Compensation Report**

All employees participate in the Group's success through an **annual employee bonus** that is linked to the achievement of the Group targets. On top of this, HUGO BOSS makes an important contribution to providing for its employees after retirement, offering them a wide range of **company pension schemes**. In addition to the contractually defined salary components, employee benefits include clothing entitlement, a transportation allowance and access to the arts and cultural offerings sponsored by the Group.

HUGO BOSS enhancing its appeal as an employer

In addition to supporting employees in maximizing and enhancing their potential, human resource work at HUGO BOSS also seeks to maximize the expertise available within the Company by specifically recruiting new staff. To this end, HUGO BOSS reaches out to potential employees via its digital presence, holding lectures, training and workshops at its Metzingen office and attending job fairs to position itself as an **attractive employer**. In 2017, HUGO BOSS was again rated as one of the Top 100 most attractive employers in the annual survey conducted by the Universum and trendence institutes. The "Working in Fashion" study conducted by the textile industry ranked HUGO BOSS fourth out of 3,500 participating companies (2016: second). It scored particularly well in the segments **career opportunities, training offerings and working internationally**.

Last year, digital platforms continued to grow in importance for recruiting talent. Thus, the Company is increasingly pursuing an **active sourcing approach** in which potential employees are directly approached via social media. Last year, recruiting particularly focused on retail, IT and online.

Training offerings to be broadened

In addition to the recruitment of experienced staff and graduates, **vocational training** continues to hold an important status. The Company had 75 apprentices and Cooperative State University students last year (2016: 82). 29 new apprentices and students began their training in 2017. Starting in 2018, professional education will be widened to include apprenticeships for retail assistants and studies for "online media" to ensure the long-term availability of suitably qualified staff in the strategically important areas of retail, IT and online.

RESEARCH AND DEVELOPMENT

- **Collection development follows three steps – design, pattern design and technical product development**
- **Internal innovation and development teams based at five sites and collaboration with external partners to encourage innovation**
- **Growing use of digital prototypes is shortening development times**

Development activities are spread across five sites

At HUGO BOSS, research and development (R&D) refers to the product development process, which involves the transformation of a creative idea into a marketable product. Innovation and development work is organized at HUGO BOSS across **five development centers** in Metzingen (Germany), New York City (United States), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). HUGO BOSS develops the bulk of its collections at its Group headquarters in **Metzingen**, using the technical center to test production methods and to produce prototypes. Parts of the BOSS womenswear are created at a design studio in **New York City**. The **Coldrerio** competence center is responsible for the development of the product groups shirts, ties and knitwear and also for the design and development of shoes, leather accessories and bodywear. High-quality shoes and leather accessories are developed in **Morrovalle** and **Scandicci**.

Partnerships strengthen innovation

HUGO BOSS is increasingly making use of **partnerships** to strengthen innovation. This aims to generate as wide a range of ideas as possible to heighten innovativeness in the development of new products. To give one example, the Company has worked with an external partner to develop a leisure shoe made solely from sustainable and vegan materials. This shoe will be available in selected stores in 2018. ➔ **Sustainability**

BOSS Athleisure is pioneering innovations

A jacket with an integrated heating system made its debut in the BOSS Athleisure Fall/Winter 2017 collection, underscoring the pioneering role of this wearing occasion in the area of **innovation and technology**. In view of the favorable customer feedback and further advances in this technology, BOSS businesswear and HUGO jackets will be available with an integrated heating system for the first time in the Fall/Winter 2018 collection.

Product development process at HUGO BOSS

The **creative idea** marks the beginning of the product development process. It incorporates global secular and fashion trends in the light of the brand strategy and values. The transformation of the creative idea into specific collections takes account of the sales success of earlier seasons as well as factors relevant to the individual markets such as regional purchasing power, climate, fashion preferences and the prevailing market environment. Direct customer feedback derived from questionnaires, for example, is also incorporated into the development process. This way, it is directly linked to the value that the customer places in the various aspects of a product. With respect to suits, for example, the quality of the outer material, the workmanship and the fit particularly influence the value perceived by the customer.

Creative management gathers inspiration via various channels

In a second step, the design teams' creative ideas are tailored in the **pattern design** phase. **Technical product development** then turns the models into prototypes and tests their suitability for the industrial production process. The use of digital prototypes is shortening development times. The high degree of detail provided by 3D virtualization allows colors, contours and the way the outer material drapes the wearer's body to be realistically simulated. In 2017, the Company fully digitized product development for shirts, ties and knitwear of the HUGO brand.

Digital prototypes shorten development times

After the prototype has been assembled, a **sample collection is produced** for presentation and sale to wholesale customers. A **digital showroom** has been developed for selling the HUGO menswear collection. The entire HUGO menswear collection is presented digitally using a touchscreen of the size of a table. In addition to displaying color and style options, it also accepts orders. This dispenses with the need for a physical sample collection. Following the **sale of the collections** to wholesale partners, these then go into production and are shipped to the wholesale partners as well as the Group's own retail stores.

Digital showroom for HUGO menswear collection

The **BOSS Spring/Summer 2018 collection** is being launched under the motto "Summer of Ease". **BOSS menswear** generates a certain sense of ease by combining the core tailoring competence with influences from the sport and leisure segment. The new garment dyed collection, which is a part of the Spring/Summer 2018 collection, is inspired by the trend towards a more relaxed look, offering a variety of different components that can be worn to the office as a modern summer suit or as casual individual pieces outside the office. This motto is reflected in **BOSS womenswear** in the form of relaxed silhouettes providing the perfect wardrobe for the modern woman.

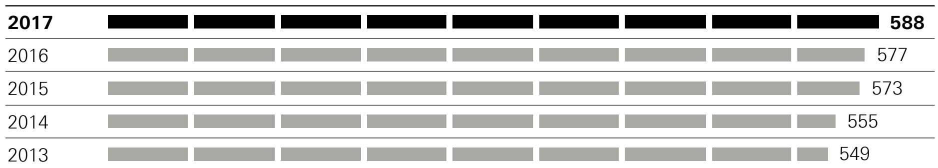
"Summer of Ease" is the motto of the BOSS Spring/Summer 2018 collection

The motto of the **HUGO Spring/Summer 2018 collection** is "Ritualis spiritualis" with its focus on voodoo art, its statements and its artists whose creative approach reflects the values of HUGO. The collection was inspired by photographs by Jean-Michel Basquiat in which things are viewed from a different and unexpected perspective. Many parts of the collection – such as the T-shirts bearing artistic prints by designer Charles Jeffrey – serve as canvas.

"Ritualis spiritualis" is the motto for the HUGO Spring/Summer 2018 collection

Slight increase in research and development employees

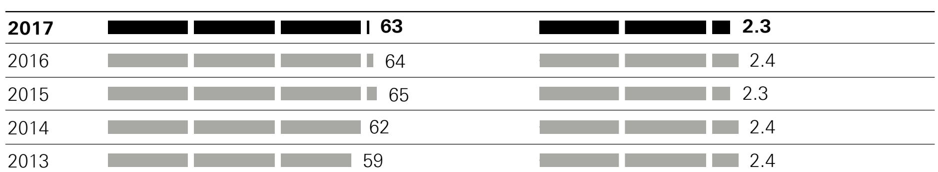
Number of employees in R&D as of December 31



The HUGO BOSS Group's creative and development departments are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers. → **Employees**

R&D expenses (in EUR million)

R&D expenses (in % of sales)



R&D expenses slightly below prior-year level

At 70%, personnel expenses accounted for the bulk of **R&D expenses** last year (2016: 72%). The rest primarily comprises other operating expenses. In 2017, R&D expenses were again mostly expensed as incurred. In addition, production-related development expenses are included in the costs of conversion of inventories. No development expenses were recognized as internally generated intangible assets due to the short product life cycles.

SOURCING AND PRODUCTION

- **Target to continuously improve sourcing and production processes**
- **Carefully selected suppliers and long-term partnerships supplement production at the Group's own facilities**
- **Focus in 2017 on digitization and quality assurance**

In terms of value, 18% of total **sourcing volumes** were produced at the Group's own facilities last year (2016: 20%). The remaining 82% comprises products sourced from independent contract suppliers or procured as merchandise (2016: 80%). The increase in external sourcing volumes reflects the rising demand for casualwear and athleisurewear. HUGO BOSS primarily sources these products from independent suppliers.

Around 18% of sourcing volumes produced at the Group's own facilities

The Company derives important expertise in the ongoing development of production technologies and quality standards from its own production facilities. The **four Group's own production facilities** are located in Izmir (Turkey), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). Of these, **Izmir** is by far the largest and primarily produces high-quality businesswear products such as suits, blazers, shirts and coats as well as the full range of womenswear. The Technical Center in **Metzingen** is mainly used to develop and produce prototypes such as sample and material testing pieces. It also addresses the rising demand for made-to-measure and full-canvas suits as well as the trend towards personalized products. The Company's own specialists at the **Radom and Morrovalle** facilities chiefly produce high-quality business shoes.

Group's own production mainly focuses on high-quality businesswear products

HUGO BOSS attaches key importance to the **careful selection of suppliers** and the establishment and maintenance of long-term strategic relationships. In addition to economic criteria, strict observance of environmental and social standards is of crucial importance in this respect. Product quality also undergoes extensive analysis in advance trial orders. Last year, HUGO BOSS procured finished articles from 175 external suppliers (2016: 182) using 202 production facilities (2016: 210). Raw materials were sourced from 357 external suppliers (2016: 353) operating 371 production facilities (2016: 372). In the interests of risk mitigation, the Company ensures a balanced distribution of sourcing volumes as far as possible. Thus, the largest independent supplier accounted for only 9% of the total procurement value sourced in 2017 (2016: 9%). **→ Sustainability, → Report on Risks and Opportunities**

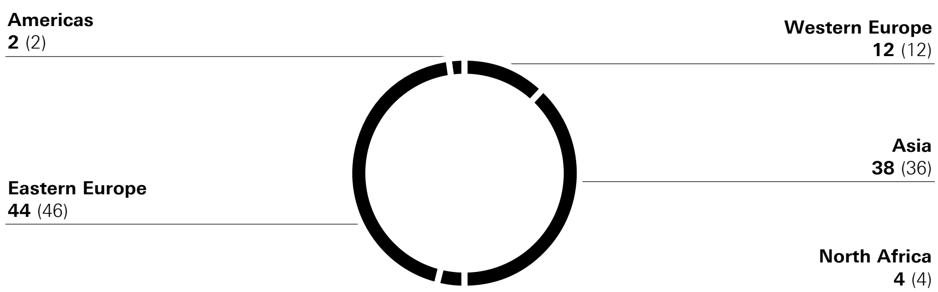
Systematic orientation to strategically important partners

The **raw materials** procured by HUGO BOSS mostly entail fabrics and trimmings such as the inner lining, buttons, yarns and zippers. The most frequently used materials are cotton, wool and synthetic fibers. The Group purchases most of the raw materials it requires from suppliers in Europe. Fabrics are predominantly sourced from long-standing partners in Italy. For **products made under contract**, HUGO BOSS provides suppliers with the fabrics, trimmings and patterns required. The suppliers, which are mostly based in Eastern Europe, primarily produce businesswear requiring high production expertise and technical equipment. The **merchandise** sourced by the Group is primarily composed of athleisure and casualwear products. In this case, the suppliers, which are mostly based in Asia, Eastern Europe and Africa, only receive the patterns and source the materials and trimmings themselves.

Most fabrics are sourced in Europe

Regional split of sourcing and production volume (in %)

2017 (2016)



Izmir is the largest own production site

Within Eastern Europe, **Turkey** accounts for the largest proportion of sourcing and production volumes. Of the sourcing and production volumes in Eastern Europe, roughly one third is attributable to the Group's own production facility in Izmir. **China** is by far the largest sourcing market in Asia.

Successful digitization of production processes in Izmir

The Group's own production facility in Izmir is a forerunner in the digitization of production processes in the clothing industry. Back in 2015, HUGO BOSS started transforming the facility into a **"smart factory"**. Further important milestones were passed in 2017. Thus, all production machinery, employees, processes and products are now digitally connected and the data can be analyzed via a central IT system. In this way, it is possible to track the completion of a product and other production data in real time. A full-scale "digital twin" of the facility is expected to be ready by the end of 2018, making it possible for the first time to simulate the production process before it actually starts. Moreover, HUGO BOSS is working on a system for forecasting technical defects in machinery and potential production errors before they occur.

Izmir facility a forerunner in digitization

Numerous awards testify the **pioneering role of the facility in Izmir** on its road to becoming a "smart factory". Thus, the market research and consulting company International Data Corporation ranked the facility top in the categories "Internet of Things" and "Big data and artificial intelligence". In particular, it stressed the pioneering role being of HUGO BOSS in data analytics and in the forecasting of production errors and machine defects.

Numerous quality assurance measures implemented

HUGO BOSS sets highest standards for the quality of its products. Numerous initiatives are leveraged to establish a **continuous quality audit and improvement process**. Thus, members of the Managing Board and product managers meet for monthly **round tables** and regular **quality walks** to discuss a wide range of different quality aspects. The purpose of the round tables is to analyze products exhibiting quality shortfalls and to incorporate the potential for improvement identified in future product development. The quality walks evaluate individual product groups in terms of workmanship, fit, design, material and trimmings with the aim of identifying further potential for optimization. In addition, **wearing tests** are an important tool for testing products under real conditions and for obtaining direct customer feedback. The tests last over several months and are backed up by regular feedback talks. **Customer surveys** are also used to compare the Company's quality expectations with customer perceptions.

High quality standards in suppliers' facilities

HUGO BOSS issues its partners with standardized **quality, workmanship and process manuals** to ensure that they meet the Company's high quality standards. In addition, HUGO BOSS regularly conducts **trainings** on aspects such as cutting and production management and technology at the suppliers' production facilities. Compliance with production standards is monitored by controls that are integrated into the production process as well as regular samplings. Quality criteria are also included as a fixed part of the semi-annual supplier assessments.

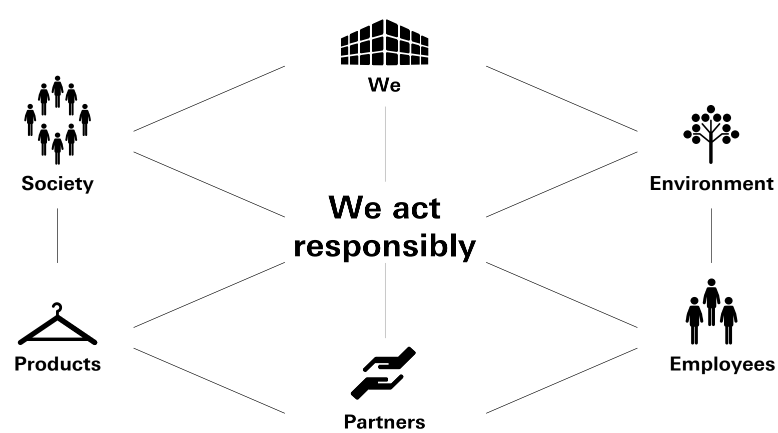
SUSTAINABILITY

- **Sustainability a firm part of the Group strategy**
- **Focus on six fields of action: we, environment, employees, partners, products and society**
- **Inclusion in the Dow Jones Sustainability Index World for the first time**

Sustainability is a firm part of the Group strategy

HUGO BOSS defines sustainability as the interplay of quality, innovation and responsibility and has integrated it as a firm part of its Group strategy. The Company thus acknowledges the economic, ecological and social impact of its actions and, at the same time, bases the success of its business on them. The **guiding principle "we act responsibly"** seeks to generate value for the Company, its employees, shareholders, customers, business partners and society. Customers expect high-quality products but also compliance with demanding social and environmental standards. By addressing these expectations on an equal footing, HUGO BOSS creates an essential basis for customer loyalty and innovative capacity.

Sustainability fields of action



Inclusion in DJSI World for the first time underscores the progress being made in implementing the sustainability strategy

The six fields of action **we, environment, employees, partners, products** and **society** provide the framework for the sustainability strategy of HUGO BOSS. The Group aims to continuously improve in all fields of action and, accordingly, has set itself ambitious objectives. Sustainability ratings act as an objective indicator of the progress achieved. HUGO BOSS was added to the **Dow Jones Sustainability Index (DJSI) World** for the first time in 2017. It was ranked "industry best" in the categories of environmental reporting, labor practice indicators, product stewardship and tax strategy. In total, the Group ranks among the best three companies of the industry. The inclusion in DJSI World underscores the success of the Group's sustainability activities over the last few years. Sustainability aspects form a fixed component of long-term management compensation.
→ Compensation Report

We – "creating values together"

HUGO BOSS takes account of stakeholder interests

HUGO BOSS holds a regular **dialog with its stakeholders**. The purpose is to recognize and understand their interests and expectations at an early stage in the definition and prioritization of activities. The findings gained also find their way into risk and opportunity management and help HUGO BOSS to enhance its ethical principles and code of conduct.
→ group.hugoboss.com

Constructive sharing at the second stakeholder dialog

In November 2017, around 25 external stakeholders met with representatives of the Company and the CEO Mark Langer for the **second international stakeholder dialog in Bad Urach**. The stakeholders presented their views on the Company's sustainability agenda and discussed with HUGO BOSS key aspects such as recycling economy, Industry 4.0 and the materiality analysis performed in 2017. The frank dialog provided valuable and constructive input for the further development of the Company's sustainability strategy and will be continued in the year 2018.

Environment – "Preserving natural resources"

Environmental protection has high priority for HUGO BOSS

The aim of environmental management is to continually reduce the environmental impact of the company's activities. The **environmental policy** of HUGO BOSS disclosed on the Company's website describes the principles of environmental protection in all relevant parts of the Company. The Company's scope for exerting direct influence covers such aspects as the construction and operation of administration, warehousing and production buildings as well as the transportation of goods and distribution. It reduces emissions and thus contributes to climate protection by employing energy-efficient building designs and technologies as well as optimized transport routes.

Group's own retail stores in Europe certified under ISO 50001 for the first time

HUGO BOSS is continuously working on measures to increase the **energy efficiency** of its buildings. When renovating and constructing new buildings, the Company is always mindful of the need to reduce energy consumption and related emissions through the use of autonomous energy supply systems and energy-efficient technologies. The new store concept introduced in Fall 2017 also incorporates sustainability aspects such as the use of sustainably produced materials, a modular furniture system and efficient energy management. Moreover, the energy management system of all of the Group's own retail stores in Europe was certified under ISO 50001 for the first time in 2017.

Optimization of transport routes reduces emissions

As part of its efforts to **optimize transport routes**, the Company is increasingly using environmentally-friendly means of transportation. Thus, the use of sea freight routes from Asia via Southern European ports or train links from Asia to Europe is an alternative to combined air and sea freight, helping to reduce emissions of carbon dioxide. Detailed information on the Company's carbon dioxide emissions can be found in the annual sustainability report. → group.hugoboss.com

Employees – "Fostering a fair and responsible culture"

Corporate values and Code of Conduct underpinning relations between the Company and its employees

HUGO BOSS wishes to additionally strengthen its position in international competition for the most qualified employees. The basis for relations between the Company and its employees in a fair and value-based corporate culture is formed by the **corporate values** and the **Code of Conduct**. The latter provides guidance for legally and ethically correct conduct in day-to-day business. This also entails the **acknowledgement of diversity and equal opportunities** for all employees, which is a high priority at HUGO BOSS. For the Company, this means ensuring non-discriminatory working conditions and equal opportunities for all employees regardless of their nationality, gender, age or possible handicaps. → Employees

Employee satisfaction reaches 70%

Employees and their satisfaction play a central role in the achievement of the Company's goals. In 2017, Great Place to Work® Germany measured **employee satisfaction** at HUGO BOSS for the first time on a Group-wide basis. With the participation rate of 66%, overall satisfaction of 70% was measured. This figure is not comparable to the previous year's result as the survey was widened to include all Group companies. The results of the survey provide the Company with an important impetus for the further development of its human resources work and the corporate culture. At the same time, it forms a fixed component of the long-term management compensation. → Compensation Report

Ongoing internal sharing on sustainability matters

HUGO BOSS regularly informs its employees on the progress that is being made in implementing its sustainability strategy. In 2017, it regularly offered interested employees an insight into its diverse sustainability activities and the views of external experts in the **"Thinking Beyond, Acting to the Point" series of presentations**. The exceedingly favorable response has prompted the Company to continue this type of open and constructive dialog in the coming year. A Group-wide e-learning program offers employees various **training** sessions to heighten their awareness of matters such as the observance of HUGO BOSS social standards or the use of products that are free of hazardous substances.

Partners – "Achieving joint responsibility"

Long-term partnerships with suppliers

Observance of environmental and social standards along the entire global supply chain is of crucial importance for HUGO BOSS and its stakeholders. The Company attaches key importance to the **careful selection of partners**, cooperations based on a spirit of mutual trust and the establishment and maintenance of long-term strategic relationships. The creation of a joint understanding and assistance in the furtherance of social and environmental skills also plays an important role.

Suppliers undertake to observe social standards

The Company is committed to observing the **HUGO BOSS social standards** and imposes the same obligation on its suppliers, incorporating it as a fixed part of their contractual agreements. They are based on internationally acknowledged standards such as the Core Conventions of the International Labour Organization (ILO) and include rules governing the observance of national legislation, working-hour restrictions, human and safe working conditions, bans on child labor, forced labor and discrimination, the payment of reasonable salaries, the right to form coalitions and environmental protection. Regular audits are performed to ensure compliance. In 2017, the Company conducted **social compliance training** at various suppliers for the first time to heighten awareness of social and environmental issues. This is to be expanded over the next few years.

Moreover, HUGO BOSS requires its suppliers to sign a guarantee of compliance with the **Restricted Substances List (RSL)**. This governs the observance of laws regarding the use of chemicals and other substances that potentially pose health hazards, thus contributing to the safety and quality of its products. Accredited laboratories regularly perform hazard testing to verify compliance with this requirement. Last year, HUGO BOSS published a detailed list of its suppliers for the first time in the interests of enhanced supply chain transparency. → **group.hugoboss.com**

List of suppliers published on the corporate website

In connection with sustainability, HUGO BOSS attaches great importance to **cooperation** and therefore works actively in such organizations as the Fair Labor Association (FLA), the German Federal Government's Alliance for Sustainably Produced Textiles ("Textilbündnis") and the Bangladesh Accord on Fire and Building Safety. The Company is working on improving sustainability along its supply chain with the aim of observing jointly defined standards. As well as this, it joined the Better Cotton Initiative (BCI), the Leather Working Group (LWG) and the Zero Discharge of Hazardous Chemicals (ZDHC) initiative in 2017. The purpose of these alliances is to encourage industry-wide exchange and to jointly promote sustainable conduct in cotton, leather and chemicals management.

Cooperations promote observance of jointly defined standards

Products – "Ideas for tomorrow"

In developing its products, HUGO BOSS applies the **highest possible standards** to materials, quality and innovation. In this connection, it makes sure that its products do not cause any health or ecological hazards and are manufactured ethically. The Company works together with suppliers and other stakeholders to find innovative solutions for environmental protection and animal welfare.

HUGO BOSS applies highest standards to its products

Sustained product development has a particularly high value for HUGO BOSS. Thus, for example, the use of 3D virtualization in the design phase permits a substantial reduction in prototypes. Moreover, the Company is able to substantially reduce its environmental footprint through the growing utilization of sustainably produced materials, continuous optimization of the use of materials and the application of advanced production technologies. Last year, HUGO BOSS developed a shoe made solely from sustainably produced and vegan materials. A new production process used pineapple leaves to produce material as an alternative to leather. The shoe will be available in selected stores in 2018. As well as this, HUGO BOSS is committed to increasing the use of recycled materials in the development of its products and packaging, publishing a "circular design strategy" to this end in 2017. → **group.hugoboss.com**

HUGO BOSS is committed to increasing the input of recycled materials

HUGO BOSS has been committed to **animal welfare and biodiversity** for many years, rejecting animal experiments as well as inhumane animal husbandry and rearing. Group-wide rules govern the use of all animal materials and, among other things, ban the utilization of natural furs, Angora wool and live-plucked down. The Company has maintained an ongoing dialog with animal welfare and consumer rights organizations for many years. In 2017, PETA Germany named HUGO BOSS as the recipient of its Vegan Fashion Award 2017 in recognition of the innovative approach taken by the Company in the production of a parka which is free of all animal materials.

HUGO BOSS the recipient of the PETA Vegan Fashion Award

Quantitative goals for the use of sustainably produced cotton defined for the first time

Since 2016, HUGO BOSS has been following the **Natural Capital Protocol**. This framework has been developed by the Natural Capital Coalition multi-stakeholder forum and translates environmental impact into monetary figures as a basis for comparison. In this way, it is possible to identify those factors in the supply chain with the greatest impact and thus develop strategies for minimizing the environmental footprint. Cotton farming for the production of raw materials has the greatest environmental impact for HUGO BOSS. For this reason, the Company added quantitative goals to its policy on the use of sustainably produced cotton at the end of 2017. → group.hugoboss.com

Society – "Promoting perspectives"

Corporate citizen strategy for unleashing individual potential

The overarching aim of the HUGO BOSS **corporate citizenship strategy** is to unleash individual potential for success. It is based on three pillars – access to education, career development and creative development – and is implemented in various projects and activities along the value chain, taking account of both the close links between the purpose of promotion and the Company's business activity and the regional needs at the individual locations.

HUGO BOSS supports access to education

HUGO BOSS is committed in many different ways to allowing people to conduct self-determined and successful lives through **access to education**. In addition to supporting young people with school and university education, HUGO BOSS also promotes vocational training measures in its own business environment. Thus, the HUGO BOSS Education Association financially supports the training of young people at the Izmir site. Working in close collaboration with UNICEF, the Company also funds the "Schools for Africa" initiative as well as education programs in Bangladesh.

Close partnership with Parsons The New School for Design

The Company takes specific measures to promote **career development**. In collaboration with the local employment agency in Izmir, it offers a program designed to help women re-enter the employment market. In a partnership with the renowned Parsons The New School for Design in New York, young fashion design talents are being supported by means of a stipend program. As well as this, regular sustainable fashion workshops provide scope for intensive exchange with the students, while internships are offered to allow them to build up initial career experience. In 2018, these activities will focus on circular design.

Promoting culture is a key component of corporate citizen activities

HUGO BOSS considers its **support for contemporary art** to be a key element of its contribution as a good corporate citizen. Contemporary art generates new stimuli and fosters tolerance and an innovative spirit. The Company works with selected museums and renowned art and design institutions. The HUGO BOSS ASIA ART Awards are bestowed on upcoming contemporary artists in China and South East Asia in conjunction with the Rockbund Art Museum in Shanghai. The award was announced for the third time in 2017.

Further detailed information on the Company's sustainability strategy and activities can also be found in the annual **Sustainability Report** and on the Company's website. → sr2017.hugoboss.com

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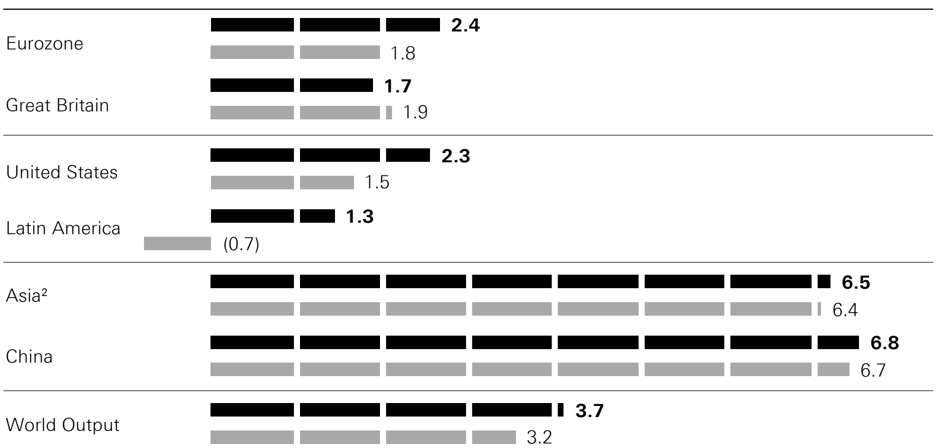
Combined Management Report

THE FISCAL YEAR

GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

- **Global economic growth stronger than expected**
- **Premium and luxury goods industry benefits from increasing tourism**
- **Industry development marked by substantial regional and company-specific differences**

Growth of the global economy[1] (in %)



[1] Estimates IMF.
[2] Without Japan.
■ **2017**
■ 2016

Upturn in global economic growth

According to an estimate of the IMF, growth in the **global economy** in 2017 was, at 3.7%, 30 basis points higher than assumed at the start of the year, and also exceeded the growth achieved in the prior year (2016: 3.2%). Underlying conditions improved steadily over the course of the year. The emerging markets were not the only ones to accelerate growth. Many industrialized nations experienced strong economic momentum. The strengthening economic output in China, a recovery in commodity prices and the persistently solid financial markets caused economic indicators to improve.

European economy on a growth trajectory

According to the IMF estimate, the economy of the **Eurozone** grew by 2.4% in 2017 and, hence, more strongly than initially expected (2016: 1.8%). It was spurred by the still expansionary monetary policy being pursued by the ECB, persistently upbeat consumer confidence and declining political risks. Germany and Italy in particular performed better than in the prior year and also better than it had been expected at the beginning of the year. Economic growth in France also gained momentum compared with the prior year, while the growth rate in Spain was slightly lower. In comparison with the Eurozone, the economy in Great Britain saw only below-average growth of 1.7% (2016: 1.9%).

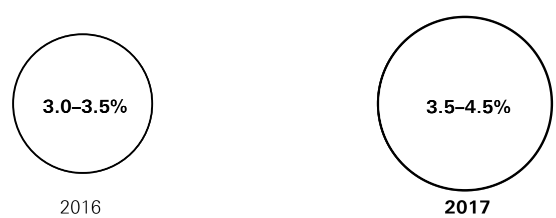
Stronger US economic growth than last year

The IMF estimates that, at 2.3%, economic growth in the **United States** was above the prior-year level and thus met the expectations set out at the start of the year (2016: 1.5%). The economic growth achieved in the United States was underpinned by the manufacturing sector and expectations of the tax reform finally adopted in December. Impetus for growth also came from the weakening of the US dollar. Growth in the Canadian economy also picked up compared with the prior year. After declines last year, economic output in Latin America rose by 1.3%, according to IMF estimates (2016: -0.7%). In particular, the Brazilian economy returned to growth in 2017.

China remains growth engine of Asia region

According to an estimate of the IMF, the economic growth of the emerging and developing economies of **Asia** equated to 6.5% during the past fiscal year and was thus, as expected, up slightly on the prior year's figure (2016: 6.4%). The regional disparities in economic growth therefore continued. Fueled by expansionary lending and high public-sector spending, economic growth in China gained momentum slightly in the reporting year. The IMF expects China to have achieved growth of 6.8% (2016: 6.7%). Both imports and exports rose significantly. The growth rates of the smaller emerging markets in this region also picked up during the course of the year. The Japanese economy grew at a moderate rate with the support of an expansionary monetary policy.

Industry growth[1] (in %)



[1] Estimates The Business of Fashion and McKinsey & Company for the upper premium segment of the apparel industry.

Positive industry development in 2017

In a joint study, The Business of Fashion and consulting firm McKinsey & Company estimate that sales of the **global apparel industry** increased by 2.5% to 3.5% in 2017 when adjusted for currency effects. As assumed at the beginning of the year, growth was thus slightly higher than in the prior year (2016: 1.5%). For HUGO BOSS, the **upper premium segment of the apparel industry** is the best benchmark. The Business of Fashion and McKinsey & Company estimate that in 2017 this segment saw growth of 3.5% to 4.5% on a currency-adjusted basis, which was therefore, as expected, slightly above-average compared to the industry as a whole (2016: 3.0% to 3.5%). The sales momentum was mainly driven by higher sales volumes and less by price increases. The growth of the global economy, solid local demand and the recovery in business with tourists had a positive effect on conditions in the industry. Moreover, positive results of the changes that many companies had made to their business models to adapt to the long-term lower growth outlook for the industry were visible. Generally speaking, however, industry development was marked by substantial regional and company-specific differences.

Thus, there were signs of a growing polarization between successful companies on the one hand and those that were suffering from lower revenues and profitability on the other.

Tourism bolsters industry growth in Europe

According to the estimate of The Business of Fashion and McKinsey & Company, the apparel industry in the industrialized countries of **Europe** grew by 2% to 3% on a currency-adjusted basis; in the region's emerging markets growth was around two percentage points higher. Overall, industry growth was thus stronger than in the prior year. Business with Asian tourists strengthened, particularly in such countries as Great Britain, Spain and France. In Great Britain, the business was underpinned by the devaluation of the pound sterling. In Germany, persistent weak local demand for clothing caused sales in the industry to decrease slightly.

Discounting and declining wholesale business negatively impact industry development in North America

The market environment in the **Americas** remained challenging for the apparel industry in 2017. The Business of Fashion and McKinsey & Company estimate that the industry in North America performed better than in the prior year, but with currency-adjusted growth of 1% to 2% its overall performance was only below average. Many market participants responded to the difficult economic situation facing major US department stores by limiting distribution via this channel. Furthermore, the continued high availability of discounted merchandise resulted in a relatively muted industry development. By contrast, with growth of 4.5% to 5.5% the Latin American markets performed significantly better. The general economic recovery combined with stronger local demand in this region led to accelerated industry growth.

China drives industry growth in Asia

In **Asia** too, there were regional differences among growth rates in the apparel industry. According to the estimate of The Business of Fashion and McKinsey & Company, in 2017 the region's emerging economies achieved growth of 4% to 5% on a currency-adjusted basis, about one percentage point more than the developed markets. Here the industry benefited in particular from a recovery in local demand. In China the upturn in economic growth along with tightened import controls, which shifted consumer demand towards the domestic market, had a positive impact on industry sales. Further stimulus came from the price adjustments made by many market participants and the consolidation of store networks. The significantly more difficult industry environment in Hong Kong and Macau also improved over the course of the year. In Japan, industry sales saw strong growth due to high demand from Chinese tourists and the devaluation of the yen.

COMPARISON OF ACTUAL AND FORECAST BUSINESS PERFORMANCE

- **HUGO BOSS achieves its annual targets for 2017**
- **Stabilization thanks to measures taken in prior year**
- **Strong development of free cash flow**

Strategic realignment shows first signs of success

HUGO BOSS achieved its targets formulated for fiscal year 2017 and exceeded some of them. The Group benefited from the first results of its **strategic realignment** adopted in 2016. The **catalog of measures** already initiated in advance had a positive effect on the business performance. For example, improvements to the market position in the United States and Asia, savings in operating costs and efforts to ensure the sustained profitability of its store network helped stabilize sales and operating profit. Finally, the positive **performance of the global economy and industry** contributed to sales development. In particular, the economic upswing in Asia underpinned both local demand and business with tourists in Europe.

Group sales outperform expectations

Thanks to the **better-than-anticipated sales development in own retail** the Group specified its outlook with the publication of the third-quarter results 2017 and raised its sales forecast for 2017.

Comparison of actual and forecast business performance (in EUR million)

	Actual figures 2016	Original forecast 2017	Adjusted forecast 2017	Actual figures 2017	Change in % 2017 vs. 2016
Group sales	2,693	Largely stable development when adjusted for currency effects	Low single-digit percentage rate increase when adjusted for currency effects[1]	2,733	1[2]
Gross profit margin (in %)	66.0	Slight increase	Slight increase	66.2	+ 20 bp
EBITDA before special items	493	Development within a range of -3% and +3%	Largely stable[1]	491	0
Group's net income	194	Low double-digit percentage rate increase	Low double-digit percentage rate increase	231	19
Capital expenditure	157	EUR 150 million to EUR 170 million	EUR 130 million to EUR 150 million[3]	128	(18)
Free cash flow	220	More or less stable compared to the prior year	Increase to around EUR 250 million[3]	294	33

[1] Adjustment of forecast in November 2017.
[2] Currency-adjusted increase of 3%.
[3] Adjustment of forecast in August 2017.

Improved momentum of comp store sales

Particularly in the core markets of Great Britain, the United States and China, the Group's own retail business performed better during the course of the year than had been assumed at its start. Primarily, the momentum of comp store sales growth in these markets improved significantly. → **Group Earnings Development, Sales Performance**

EBITDA before special items stable

In November, the Group also specified its earnings forecast towards the middle of the original range. The **operating profit (EBITDA before special items)** in fiscal year 2017, at EUR 491 million, remained at the prior-year level and therefore in line with the forecast. The increase in sales was balanced by investments in repositioning the BOSS and HUGO brands, the digital transformation of the business model and negative exchange rate effects. → **Group Earnings Development, Earnings Development**

Higher-than-expected free cash flow increase due to lower investments

With the step-by-step roll-out of new store concepts for BOSS and HUGO, the Group postponed part of the renovation of its own retail stores originally planned for 2017 to 2018. In connection with this, HUGO BOSS adjusted the original forecasts for capital expenditure and free cash flow by publishing its half-year results. In fiscal year 2017 **capital expenditure** finally came to EUR 128 million and was thus at the lower end of the adjusted forecast range. **Free cash flow** increased more strongly than forecast due to this effect and to shifts in the timing of trade net working capital, which will probably not be repeated in 2018. It totaled EUR 294 million. → **Net Assets**, → **Financial Position**

The targets for fiscal year 2018 are presented in the section **Outlook**. → **Subsequent Events and Outlook, Outlook**

GROUP EARNINGS DEVELOPMENT

- **Group's own retail business grows by 5% on a currency-adjusted basis**
- **Slight increase in gross profit margin**
- **EBITDA before special items on prior-year level**

Sales performance

Currency-adjusted Group sales up 3%

In fiscal year 2017, HUGO BOSS generated **Group sales** of EUR 2,733 million. Sales were therefore up 1% on the prior year in the Group's reporting currency (2016: EUR 2,693 million). Currency effects due to the appreciation of the euro against most other currencies had a negative impact on Group sales in the reporting period. In local currencies, HUGO BOSS registered a 3% increase in sales year on year.

Sales by region

Sales by region (in EUR million)

	2017	**In % of sales**	2016	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,681	62	1,660	61	1	2
Americas	577	21	582	22	(1)	1
Asia/Pacific	396	14	382	14	4	6
Licenses	79	3	69	3	14	14
Total	**2,733**	**100**	**2,693**	**100**	**1**	**3**

[1] Including Middle East and Africa.

Currency-adjusted sales growth in all regions

In fiscal year 2017 all three regions posted sales increases after currency adjustment. The increase in sales in **Europe** including the Middle East and Africa was underpinned by improved local demand and a recovery in business with tourists. Great Britain in particular benefited from this, with sales growth in the high single-digits. The **Americas** saw a slight increase in sales. Growth in Canada and Latin America compensated for slight declines in the United States. Sales in the **Asia/Pacific** region benefited from the upswing in the Chinese market and were primarily driven by double-digit growth rates in mainland China.

→ **Sales and Profit Development of the Business Segments**

Sales by distribution channel

Sales by distribution channel (in EUR million)

	2017	**In % of sales**	2016	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,732	63	1,677	62	3	5
Directly operated stores	1,103	40	1,078	40	2	5
Outlet	550	20	523	19	5	7
Online	79	3	76	3	5	8
Wholesale	922	34	947	35	(3)	(2)
Licenses	79	3	69	3	14	14
Total	**2,733**	**100**	**2,693**	**100**	**1**	**3**

Group's own retail business grows by 5% on a currency-adjusted basis

Currency-adjusted sales in the **Group's own retail business (retail)** grew by 5% in fiscal year 2017. All sales formats saw mid to high single-digit growth. Thus, the share of the Group's own retail business in Group sales increased. On the basis of retail comp store sales, i.e. including retail space opened or taken over before December 31, 2015, sales in the Group's own retail business rose by 1% year on year in the reporting currency. In currency-adjusted terms, this was an increase of 3%.

Decline in wholesale channel sales

Sales in the **wholesale channel** declined in fiscal year 2017 in the reporting currency and in local currencies. Following a lower order intake in the pre-order business, the replenishment business, which allows HUGO BOSS to react to short-term surges in business partners' demand, also posted lower sales. Consequently, the share of the wholesale channel in Group sales diminished. This was mainly due to measures initiated last year for enhancing distribution in the American wholesale business and the weaker demand of local wholesale partners. In addition, the takeover of selling space previously operated by wholesale partners caused a shift in sales from wholesale business to the Group's own retail business.

License business up 14%

Sales in **license business** increased in fiscal year 2017 in the Group's reporting currency and in local currencies. The share of license business in Group sales remained the same compared to the prior-year period. In particular, the license income from fragrances saw a double-digit sales increase.

Sales by brand

Sales by brand (in EUR million)

	2017	**In % of sales**	2016	In % of sales	Change in %	Currency-adjusted change in %
BOSS	2,336	85	2,313	86	1	3
HUGO	397	15	380	14	4	5
Total	**2,733**	**100**	**2,693**	**100**	**1**	**3**

Sales growth at BOSS and HUGO

The **BOSS** core brand particularly benefited from the double-digit growth in the athleisure offering, which in fiscal year 2017 was still sold under the BOSS Green brand line. BOSS businesswear and casualwear sales remained roughly at the prior-year level. Sales of **HUGO** increased in particular due to double-digit growth in casualwear, while businesswear also performed positively.

Sales by gender

Sales by gender (in EUR million)

	2017	**In % of sales**	2016	In % of sales	Change in %	Currency-adjusted change in %
Menswear	2,440	89	2,394	89	2	4
Womenswear	293	11	299	11	(2)	(2)
Total	**2,733**	**100**	**2,693**	**100**	**1**	**3**

4% growth in menswear adjusted for currency effects

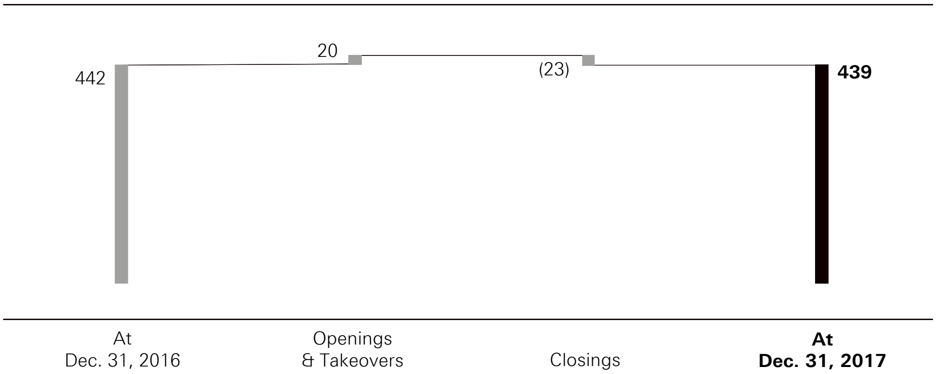
Menswear benefited from the favorable performance of the BOSS and HUGO brands. The sales decline in **womenswear** is attributable to the BOSS brand and related to changes in the marketing and distribution strategy resulting from the strategic realignment which was not fully offset by growth in the HUGO brand. → **Group Strategy**

Number of group's own retail stores

In fiscal year 2017, the number of the Group's own **freestanding retail stores** decreased by a net figure of three to 439 (2016: 442).

Slight decrease in the number of freestanding retail stores

Number of Group´s own freestanding retail stores



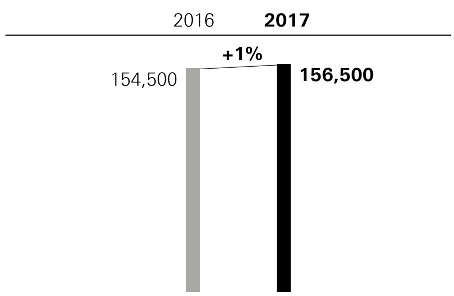
The **closures** particularly affected the sites that were included in the action plan drawn up in 2016 to ensure the sustained profitability of the store network. Individual stores with expiring leases were also closed. This was offset by 20 **new openings**. In some cases, this reflected site relocation within the same metropolitan area.

Number of Group's own retail stores by region

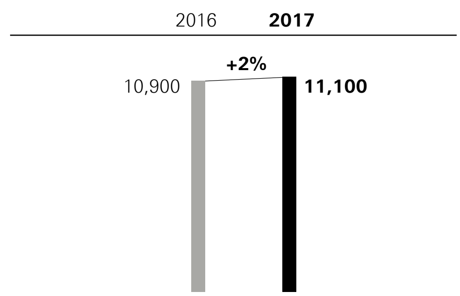
2017	Freestanding stores	Shop-in-shops	Outlets	Total
Europe	192	351	65	**608**
Americas	90	99	50	**239**
Asia/Pacific	157	88	47	**292**
Total	439	538	162	**1,139**
2016				
Europe	191	354	63	608
Americas	94	89	49	232
Asia/Pacific	157	90	37	284
Total	442	533	149	1,124

Including shop-in-shops and outlets, the total number of **retail stores** operated by HUGO BOSS worldwide in fiscal year 2017 rose by a net figure of 15 to 1,139 (2016: 1,124). The Americas and the Asia/Pacific region contributed to the increase in selling space.

Total selling space
(in square meter)



Selling space productivity
(in EUR per square meter)



Selling space productivity improves by 2%

The **total selling space** of the Group's own retail business rose by 1% to around 156,500 sqm (December 31, 2016: 154,500 sqm). In fiscal year 2017, **selling space productivity** in the Group's own retail business thus rose by 2% to around EUR 11,100 per sqm (2016: EUR 10,900 per sqm).

Earnings Development

Income statement (in EUR million)

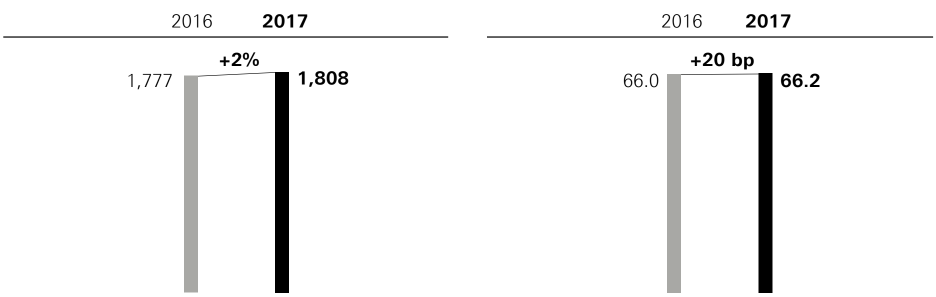
	2017	In % of sales	2016	In % of sales	Change in %
Sales	**2,733**	**100.0**	**2,693**	**100.0**	**1**
Cost of sales	(925)	(33.8)	(916)	(34.0)	(1)
Gross profit	**1,808**	**66.2**	**1,777**	**66.0**	**2**
Selling and distribution expenses	(1,195)	(43.7)	(1,175)	(43.6)	(2)
Administration expenses	(280)	(10.3)	(272)	(10.1)	(3)
Other operating income and expenses	8	0.3	(67)	(2.5)	<(100)
Operating result (EBIT)	**341**	**12.5**	**263**	**9.8**	**29**
Financial result	(10)	(0.4)	(8)	(0.3)	(24)
Earnings before taxes	**331**	**12.1**	**255**	**9.5**	**30**
Income taxes	(100)	(3.6)	(61)	(2.3)	(61)
Net income	**231**	**8.5**	**194**	**7.2**	**19**
Earnings per share (EUR)[1]	**3.35**		**2.80**		**19**
EBITDA	**499**	**18.3**	**433**	**16.1**	**16**
EBITDA related special items	8	0.3	(60)	(2.2)	<(100)
EBITDA before special items	**491**	**18.0**	**493**	**18.3**	**0**
Income tax rate in %	**30**		**24**		

[1] Basic and diluted earnings per share.

At 66.2%, the **gross profit margin** was 20 basis points above the prior-year level in fiscal year 2017. Positive effects stemming from the rising share of sales in the Group's own retail business, where HUGO BOSS generates a higher gross profit margin than in the wholesale channel, were partially offset by negative translation effects in connection with the appreciation of the euro.

Slight increase in gross profit margin

Development of gross profit and gross profit margin
(Gross profit in EUR million) (Gross profit margin in %)



Selling and distribution expenses in fiscal year 2017 were up slightly year on year. Relative to sales, they increased slightly from 43.6% to 43.7%. However, a slowdown in retail expansion and positive effects from renegotiated leases in the Group's own retail business in the prior year limited the increase in selling expenses to 1%. At 34.0%, they accounted for a lower percentage of sales than in the prior year (2016: 34.2%). In connection with the repositioning of the BOSS and HUGO brands, marketing expenses rose by 3% in comparison to the prior year and, at 6.8%, were slightly above the figure for the prior year in relation to sales (2016: 6.7%). Logistics expenses rose by 10% over the prior year and, at 3.0% of sales, were up on the prior year (2016: 2.8%). The main reasons for this were higher expenses in relation to the expansion and connection of the warehouse site in the United States to the Group-wide ERP system together with the favorable development of the online business, which resulted in higher personnel and other expenses. → **Notes to the Consolidated Financial Statements, Note 2**

Increase in marketing expenses arising from the repositioning of BOSS and HUGO

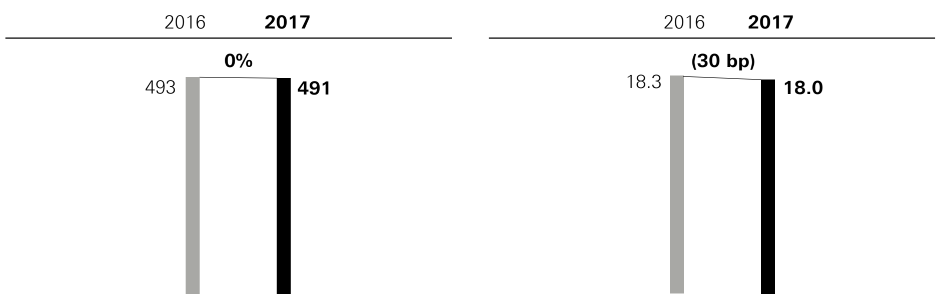
The unchanged strict cost management limited the increase in **administration expenses** during the past fiscal year. The 5% increase in general administration expenses can be attributed mainly to higher depreciation and amortization in connection with IT infrastructure investments and higher personnel expenses in this area. At 8.0%, they accounted for the same percentage of sales as in the comparable prior year period (2016: 7.7%). Research and development costs incurred during the collection development decreased by 2% compared to the prior year period and accounted for 2.3% of sales, slightly less than in the prior year (2016: 2.4%). → **Notes to the Consolidated Financial Statements, Note 3**

Strict cost management limits increase in administration expenses

Other operating income has a positive effect on profit

The net income arising from **other operating expenses and income** was EUR 8 million (2016: net expenses of EUR 67 million). This includes an income of EUR 15 million related to a provision recognized in the prior year in connection with the store closures that were agreed upon, which was not used in full. The company was able to achieve more favorable conditions compared with the original plans for the early termination of leases. In addition, the lease terms for some stores were improved in the closure negotiations with the result that these stores were kept open contrary to original plans. The expenses recognized in this connection came to EUR 48 million in fiscal year 2016. In fiscal year 2017 there were other operating expenses of EUR 7 million arising as a result of organizational changes in the regions (2016: EUR 8 million). → **Notes to the Consolidated Financial Statements, Note 4**

Development of EBITDA before special items and adjusted EBITDA margin
(EBITDA before special items in EUR million) (Adjusted EBITDA margin in %)



EBITDA before special items stable

EBITDA before special items showed a stable development in the fiscal year. The increase in gross profit was balanced by higher operating expenses. Currency effects had a negative impact. However, **EBIT** and **EBITDA** saw a double-digit percentage increase. At 18.0%, the **adjusted EBITDA margin** was down 30 basis points on the prior year (2016: 18.3%). **Amortization and depreciation** came to EUR 159 million, down 6% on the prior-year due to lower capital expenditure and decreased impairments recognized on property, plant and equipment in the Group's own retail business (2016: EUR 169 million).

Negative development of exchange rates weighs on financial result

The **financial result**, measured as net expense after aggregating the interest result and other financial items, increased in fiscal year 2017 mainly due to a negative development of exchange rates. → **Notes to the Consolidated Financial Statements, Note 5**

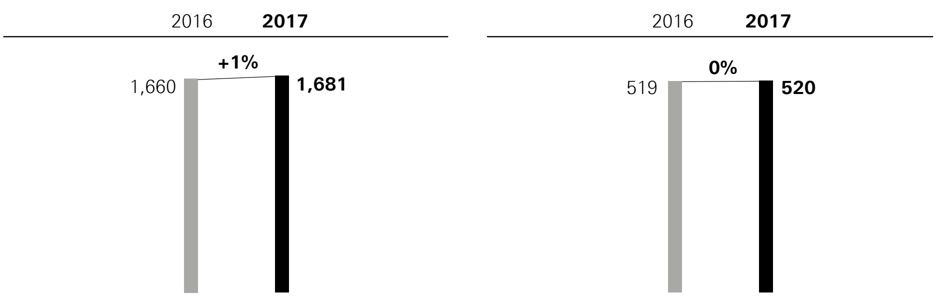
Higher Group tax rate in 2017

In fiscal year 2017 the **Group tax rate** increased to 30% (2016: 24%). The reason for this was a one-off, non-cash tax expense in connection with the tax reform adopted in the United States. This resulted from the revaluation of deferred tax assets. Additionally, changes in German tax legislation contributed to the increase. Nonetheless, the **Group's net income** increased by a double-digit percentage in fiscal 2017. → **Notes to the Consolidated Financial Statements, Note 6**

Sales and profit development of the business segments

Europe

Sales and profit development Europe
(Sales in EUR million) (Segment profit in EUR million)



Sales increase in both distribution channels

Currency-adjusted sales in Europe including the Middle East and Africa rose by 2% during the past fiscal year. Sales in the **Group's own retail business** rose by 2% in the reporting currency to EUR 975 million (2016: EUR 957 million). This is equivalent to a 4% increase in local currencies. On a comp store and currency-adjusted basis, sales increased by a percentage rate in the low single-digits. Sales with customers in the **wholesale channel** increased slightly to EUR 706 million (2016: EUR 703 million). Currency-adjusted sales rose by 1%.

Once again significant sales growth in the core market of Great Britain

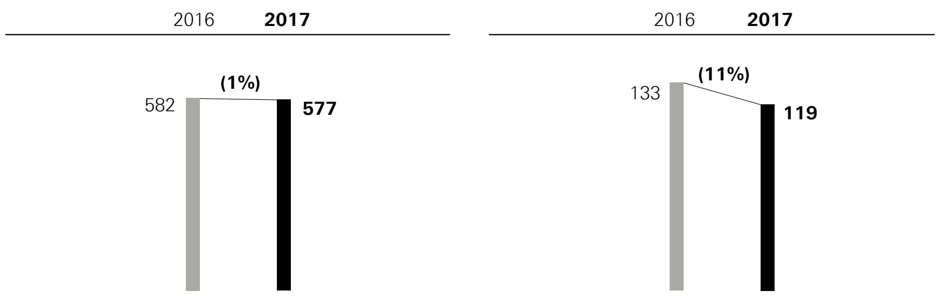
In **Germany**, sales came to EUR 448 million and were thus at the prior year level (2016: EUR 448 million). Sales remained stable both in the Group's own retail business and in the wholesale business. In **Great Britain** both distribution channels saw a growth in sales. Sales in the Group's reporting currency there, at EUR 325 million overall, were up 2% on the prior year (2016: EUR 317 million). In local currency, the market achieved a significant increase in sales of 9% thanks to solid local demand and robust business with tourists. In **France**, sales came to EUR 165 million, down 5% on the prior year (2016: EUR 173 million). Stable sales growth in the Group's own retail business was unable to make up for the decline in wholesale business in this market. At EUR 134 million, sales in the **Benelux countries** were up 3% on the prior year (2016: EUR 131 million). Both distribution channels contributed to the increase.

Segment profit stable

At EUR 520 million, **segment profit** in Europe was slightly up on the previous year (2016: EUR 519 million). The increase in sales was almost balanced by higher marketing expenses and higher expenses in the Group's own retail business. At 30.9%, the adjusted EBITDA margin was 30 basis points below the prior-year figure (2016: 31.2%). → **Notes to the Consolidated Financial Statements, Note 25**

Americas

Sales and profit development Americas
(Sales in EUR million)
(Segment profit in EUR million)



Currency-adjusted sales increase of 7% in the Group's own retail business

In the Americas, sales in local currencies grew by 1%. Sales in the **Group's own retail business** increased by 5% to EUR 392 million (2016: EUR 374 million). This is equivalent to a currency-adjusted increase of 7%. Sales in the region rose by a mid single-digit figure on a comp store and currency-adjusted basis. In the **wholesale channel** sales were down EUR 185 million in fiscal year 2017 and thus 11% lower than in the prior year (2016: EUR 208 million). In the Group's reporting currency, this corresponds to a decrease of 10%. This was due to more selective distribution, particularly of the BOSS core brand, softening demand on the part of wholesale partners and takeovers of individual shop-in-shops.

Own retail business in the United States grows in 2017

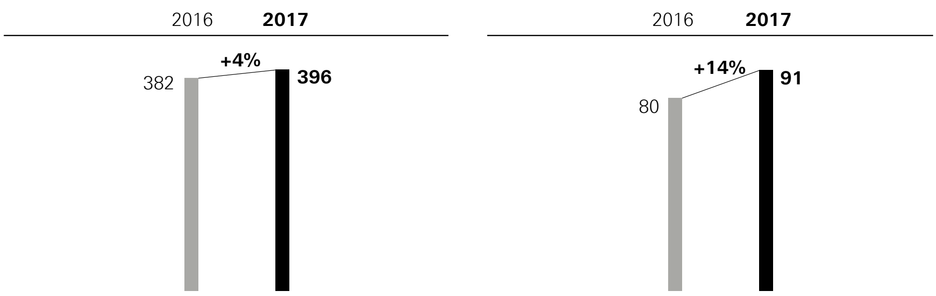
In the **United States**, sales fell by 4% in the reporting currency and by 1% in the local currency to EUR 423 million (2016: EUR 440 million). This was mainly due to a decline in sales with wholesale partners by a rate in the high single-digits. Increases in sales in the Group's own retail business did not fully offset this. Thanks to growth in the Group's own retail business, sales in **Canada** were, at EUR 84 million, 12% above the prior-year level in the reporting currency (2016: EUR 75 million). Currency-adjusted sales rose by 13%. The takeover of shop-in-shops brought about a shift in sales between the distribution channels. As a result, the wholesale channel sustained a decline in sales in this market. In **Latin America**, sales increased by 4% in the reporting currency to EUR 70 million (2016: EUR 67 million). This corresponds to a currency-adjusted sales increase of 6%. Whereas sales in the Group's own retail business were up in this market, the wholesale business remained stable.

Decline in segment profit

At EUR 119 million, **segment profit** in the Americas was down 11% on the prior year (2016: EUR 133 million). The reasons for this were the decline in sales in the wholesale business, an increase in operating expenses and negative currency effects. The adjusted EBITDA margin for the region, at 20.6%, was 230 basis points below that of the prior year (2016: 22.9%).

Asia/Pacific

Sales and profit development Asia/Pacific
(Sales in EUR million) (Segment profit in EUR million)



8% increase in Group's own retail business in currency-adjusted terms

Currency-adjusted sales in the Asia/Pacific region rose by 6% in the past fiscal year. Sales in the **Group's own retail business** in this region rose by 5% to EUR 364 million in the reporting currency (2016: EUR 347 million). This is equivalent to growth of 8% in local currencies compared to the prior year. On a comp store and currency-adjusted basis, sales increased by a percentage rate in the mid single-digits. At EUR 31 million, sales with **wholesale** partners were down 11% year on year in the Group's reporting currency and 10% in the local currency (2016: EUR 35 million). Takeovers in the prior year of selling space previously operated by wholesale partners made a material contribution towards this.

China and Japan the strongest growing markets in the region

At EUR 221 million, sales in **China** were up 5% on the prior year (2016: EUR 211 million). This is equivalent to a currency-adjusted increase in sales of 8%. Business in mainland China was stronger than in Hong Kong and Macau. At EUR 61 million, sales in **Oceania** increased 1% in the Group's reporting currency (2016: EUR 60 million). The market remained stable in local currencies. Due to strong business with tourists, at EUR 49 million, sales in **Japan** were up 4% on the prior year (2016: EUR 47 million). This is equivalent to a currency-adjusted increase in sales of 9%.

Growth in segment profit

At EUR 91 million, **segment profit** in Asia/Pacific was up 14% on the prior year (2016: EUR 80 million). This was largely due to higher sales, reduced discounting compared with the prior year and only a moderate increase in operating expenses. However, negative currency effects weighed on segment profit. Without these, the increase in profit would have been even higher. At 23.0%, the adjusted EBITDA margin in this region was up 220 basis points on the prior year (2016: 20.8%).

Licenses

Sales and profit development Licenses
(Sales in EUR million) (Segment profit in EUR million)

License business grows 14% in sales and earnings

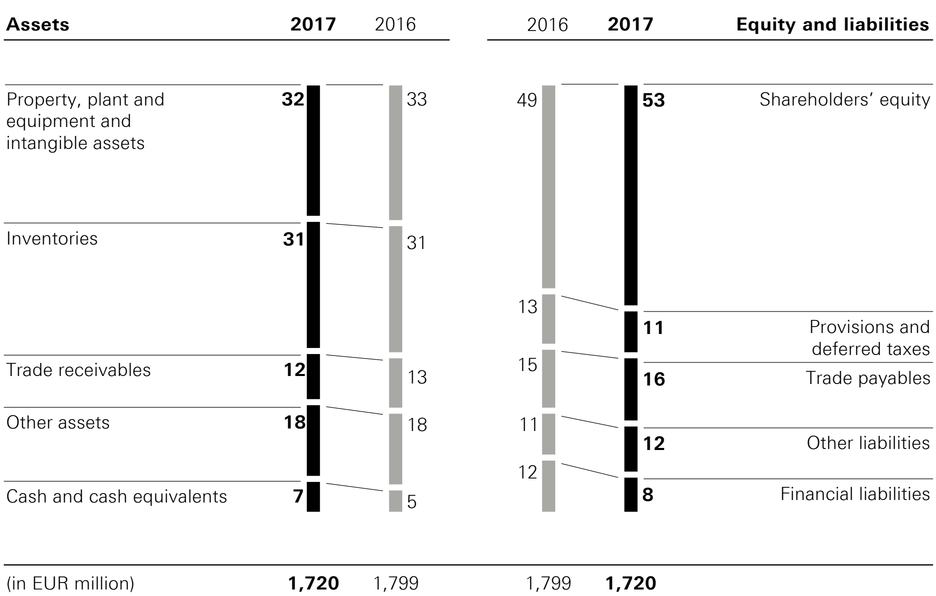
License business performed well in fiscal year 2017. → **Group Earnings Development, Sales by Distribution Channel**

Due to double-digit sales growth, at EUR 68 million, the **segment profit** increased by 14% on the prior year (2016: EUR 59 million).

NET ASSETS

- **Increase in equity ratio to 53%**
- **Strict management reduces inventories**
- **Substantial decline in trade net working capital**

Statement of financial position as of December 31 (in %)



Decrease in property, plant and equipment and intangible assets due to lower investments

Total assets declined by 4% compared to the prior year. This can be attributed in particular to a decrease in **property, plant and equipment and intangible assets**. Due to lower capital expenditure on the network of own retail stores and decreased impairments recognized on their property, plant and equipment, this balance sheet item decreased by 9%. → **Financial Position, Capital Expenditure**

At 61%, the **share of current assets** increased compared to the prior year (December 31, 2016: 58%). Accordingly, the **share of non-current assets** decreased to 39% as of December 31, 2017 (December 31, 2016: 42%). The **equity ratio** increased and stood at 53% at the end of the year (December 31, 2016: 49%). → **Consolidated Financial Statements, Consolidated Statement of Financial Position**

Trade net working capital as of December 31 (in EUR million)

	2017	2016	Change in %	Currency-adjusted change in %
Inventories	537	568	(5)	(1)
Trade receivables	208	228	(9)	(6)
Trade payables	286	272	5	9
Trade net working capital	**459**	**524**	**(13)**	**(8)**

Thanks to consistent management the **inventories** decreased on last year. The trend in **trade receivables** was mainly due to declining sales in the wholesale channel and continued strict management of receivables. The **trade payables** recorded a higher increase year-on-year as a result of delays in the receipt of invoices.

Positive development of trade net working capital

Year-on year, **trade net working capital** was thus 13% lower in the Group's reporting currency and 8% lower in local currencies. The moving average of **trade net working capital as a percentage of sales** on the basis of the last four quarters improved by 120 basis points as compared to the prior year and came to 18.6% at the end of the year (2016: 19.8%).

The decrease in **other assets** is mainly attributable to a decrease in deferred tax assets as a result of lower temporary differences in particular. This resulted in a substantial part from the revaluation of deferred tax assets in connection with the tax reform adopted in the United States. The use of tax losses also contributed to the decrease. → **Notes to the Consolidated Financial Statements, Notes 6**

The decline in **provisions and deferred tax liabilities** is mainly due to the use and release of provisions that had been recognized in the prior year in connection with the decision to early close around 20 freestanding retail stores worldwide. **Other liabilities** were roughly on a par with the prior year. → **Notes to the Consolidated Financial Statements, Notes 17 and 20**

Lower amount of debt as of the reporting date

Total **current and non-current financial liabilities** decreased by 38% to EUR 132 million as of the reporting date (December 31, 2016: EUR 211 million). This was driven mainly by a higher cash inflow from operating activities. → **Financial Position, Capital Structure and Financing**

FINANCIAL POSITION

- **Free cash flow increases to EUR 294 million**
- **Substantial reduction in net financial liabilities**
- **Investments focus on Group's own retail business and IT infrastructure**

Principles and goals of financial management

Central control of Group-wide financial management

Group-wide financial management is controlled centrally by the Group's central treasury department. The goals pursued include securing financial flexibility and stability, securing Group-wide liquidity and the management of financial risks. Group-wide financial management comprises Group financing, cash and liquidity management, the management of market price risks and the management of counterparty risks.

"In-house bank" concept reduces cost of capital

Within **Group financing** factors such as market capacity, cost of financing, investor diversification, flexibility, covenants and terms to maturity are taken into account when selecting financial instruments. External loans for Group financing are taken out centrally and primarily in the Group's reporting currency (euro) within the framework of an **"inhouse-bank" concept**. This allows economies of scale to be exploited and the cost of capital to be minimized. These funds are made available in the form of intercompany loans to cover the financing needs of the Group companies. The loans are issued in the local currency of the Group company concerned. A distinction is drawn between operating loans structured similarly to an overdraft facility and financing loans for Group companies with greater and longer-term financing requirements.

Cash pooling lowers external financing requirements

The Group's central treasury department optimizes and centralizes payment flows and secures Group-wide liquidity by its **cash and liquidity management**. The cash inflows from its operating activities is the Group's most important source of liquidity. The cash pooling method uses efficient cash management systems to channel liquidity surpluses of individual Group companies to other Group companies with financial requirements. This intercompany financial balancing system reduces external financial requirements and thus brings down net interest expenses. For remaining liquidity surpluses, the Group makes short-term investments mainly in money market funds.

Use of derivatives mitigates financial risks

The **management of market price risks** is intended to limit the effects of interest and currency risks on cash flow. For hedging purposes, the Group makes use of both spot transactions and derivative financial instruments, for example in the form of interest rate swaps. → Risk Report, Material financial risks

Central management of counterparty risk

The counterparty risk mainly results from the investment of liquid funds as part of cash and liquidity management and from the use of derivative financial instruments as part of interest rate and currency management. In its **management of counterparty risk** the Group aims for the broadest possible distribution of volumes and ensures that financial instruments are generally only contracted with counterparties that have very good credit ratings.

Capital structure and financing

Syndicated loan secures long-term financial flexibility

HUGO BOSS is safeguarding its financial flexibility by means of a revolving **syndicated loan** of EUR 450 million. In the past fiscal year, the Group exercised the second renewal option under this loan, securing the favorable terms until October 2022.

Financial leverage ratio substantially exceeds requirements in covenants

The syndicated loan agreement contains a standard covenant requiring the maintenance of **financial leverage**, defined as the ratio of net financial liabilities to EBITDA before special items. At 0.0, the ratio was still substantially below the maximum permissible as of the reporting date (December 31, 2016: 0.2). → **Notes to the Consolidated Financial Statements, Note 15**

Lower debt as of the reporting date

As of the reporting date, the Group's **debt** accounted for 47% of total assets (December 31, 2016: 51%). 16% of this, equivalent to EUR 132 million, took the form of current and non-current **financial liabilities** (December 31, 2016: 23%, equivalent to EUR 211 million). As of the reporting date, EUR 16 million of the syndicated loan had been drawn (December 31, 2016: EUR 80 million).

Financial liabilities mainly subject to variable interest rates

The Group has additional **liquidity secured** in the form of bilateral lines of credit with a total volume of EUR 210 million (December 31, 2016: EUR 269 million), of which EUR 106 million had been drawn as of December 31, 2017, due to favorable interest rates (December 31, 2016: EUR 117 million). Most of the financial liabilities subject to variable interest rates included in this, in the amount of EUR 100 million (December 31, 2016: EUR 171 million), have short-term fixed-interest periods. As of the reporting date, EUR 9 million of these liabilities were hedged against an increase in interest rates using interest rate swaps (December 31, 2016: EUR 10 million). → **Risk Report, Financial Risks,** → **Notes to the Consolidated Financial Statements, Note 19**

Apart from the undrawn amounts from the lines of credit amounting to EUR 538 million (December 31, 2016: EUR 523 million) as of the reporting date the Group has more than EUR 116 million in **cash and cash equivalents** (December 31, 2016: EUR 83 million). → **Financial Position, Statement of Cash Flows**

Land charges in connection with land and buildings amount to EUR 31 million (2016: EUR 35 million).

Significant financial obligations under operating leases

Financing is supplemented by **operating leases** for own retail locations and for logistics and administration properties. In subsequent periods, nominal minimum lease payments will fall due in the amount of EUR 1,389 million (2016: EUR 1,433 million). The slight decrease on the prior year results from reduced expansion activities in own retail business. There are no other contingent liabilities. → **Notes to the Consolidated Financial Statements, Note 23**

Statement of cash flows

The consolidated statement of cash flows is presented in accordance with IAS 7. The cash and cash equivalents reported here correspond to the “cash and cash equivalents” item in the balance sheet. As cash flow is adjusted for currency effects, these figures cannot be derived from the consolidated statement of financial position.

Statement of cash flows (in EUR million)

	2017	2016
Cash flow from operating activities	420	372
Cash flow from investing activities	(126)	(152)
Cash flow from financing activities	(254)	(218)
Change in cash and cash equivalents	**32**	**2**
Cash and cash equivalents at the beginning of the period	83	81
Cash and cash equivalents at the end of the period	116	83

Strong increase in free cash flow

The **free cash flow**, measured as the cash inflow from operating activities and the cash outflow from investing activities was, at EUR 294 million, 33% up on the prior year level in the past fiscal year (2016: EUR 220 million).

Cash inflow from operating activities above prior-year level

At EUR 420 million, **cash flow from operating activities** was 13% up on the prior year period (2016: EUR 372 million). In addition to the substantial increase in earnings, cash inflows primarily came from the development of inventories and of trade payables. These offset a cash outflow from the development of receivables. The cash outflow from paid income taxes also decreased. However, non-recurring cash outflows arose due to the early termination of leases in the Group’s own retail business decided on in the prior year. As a result of a low amount of debt and lower market interest rates, at EUR 1 million the net cash outflow from interest expenses and income remained at the prior year level as of the reporting date (2016: EUR 1 million).

Reduction in cash outflow from investing activities

The **cash outflow from investing activities** came to EUR 126 million, 17% down on the prior year period (2016: EUR 152 million). This was materially driven by the total capital expenditure on property, plant and equipment and intangible assets, which decreased year-on-year. However, there was an increased cash outflow from current and non-current assets acquired in connection with the acquisition of other business units. → **Notes to the Consolidated Financial Statements, Business Acquisitions**

Lower debt causes increased cash outflow from financing activity

The **cash outflow from financing activity** rose 16% in fiscal year 2017 to a total of EUR 254 million (2016: EUR 218 million). This development reflects a decline in current and non-current financial liabilities over the prior year. At EUR 179 million, the dividend payment was below the prior year level (2016: EUR 250 million).

Net financial liabilities

Development of free cash flow leads to decline in net financial liabilities

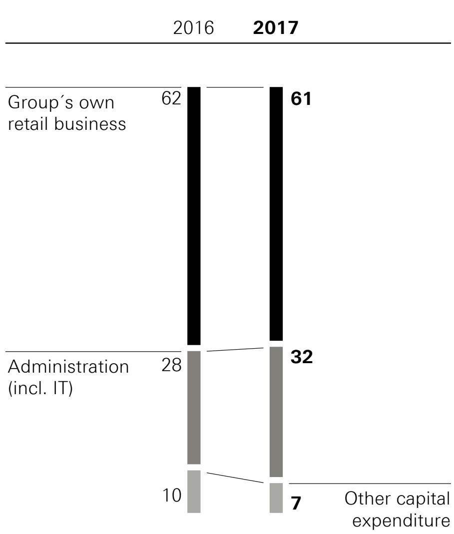
Net financial liabilities are the total of all financial liabilities due to banks less cash and cash equivalents. Liabilities from finance and operating leases are not included in the calculation of this indicator. The net financial liabilities decreased substantially as of the end of fiscal year 2017 to EUR 7 million (December 31, 2016: EUR 113 million). This was materially driven by the positive development of free cash flow. At EUR 122 million, financial liabilities due to banks was below the prior year level (December 31, 2016: EUR 197 million).

Capital expenditure

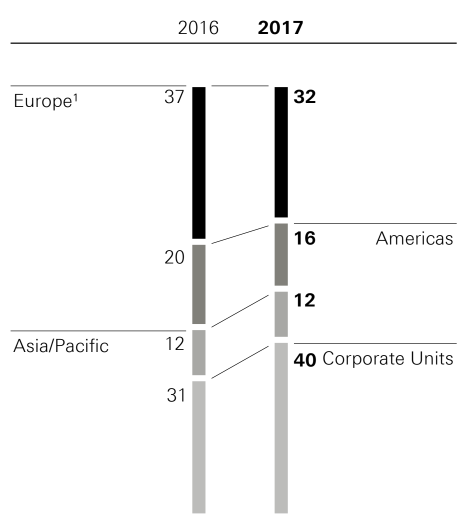
Lower investments in the fiscal year 2017

In the past fiscal year, HUGO BOSS **invested EUR 128 million in property, plant and equipment and intangible assets** (2016: EUR 157 million). The investment volume was thus substantially lower than in the prior year. This was primarily due to reduced expansion activity in the Group's own retail business. Moreover, with the introduction of the new store concepts, the Group is postponing part of the renovation of its own retail stores originally planned for 2017 to 2018.

Capital expenditure by functional area (in %)



Capital expenditure by region (in %)



[1] Including Middle East and Africa.

Capital expenditure remains focused on own retail business

With a total capital expenditure volume of EUR 77 million, the **global expansion and modernization of the Group's own retail business** also remained the focus of capital expenditure in the past fiscal year (2016: EUR 98 million). Capital expenditure on **new openings** in the Group's own retail business came to EUR 44 million (2016: EUR 51 million). EUR 33 million was spent on the **renovation and modernization** of existing retail locations during the same period (2016: EUR 47 million).

Expansion of the IT infrastructure links bricks-and-mortar retail stores with online business

Capital expenditure on **administration** came to EUR 41 million in the past fiscal year (2016: EUR 44 million). This mainly includes investments of EUR 31 million in the **IT infrastructure** (2016: EUR 31 million). In addition to the continuous further development of the ERP system, there was investment particularly in connection with the cross-channel integration and the digitization of the Group's own retail activities. Other capital expenditure on the production, logistics and distribution structure and on research and development in 2017 came to EUR 10 million (2016: EUR 15 million). The reason for the decline were one-off investments made in the prior year that were not repeated in the fiscal year 2017.

The **accumulated amortization and depreciation** on property, plant and equipment and intangible assets including own capitalized cost came to EUR 987 million (2016: EUR 910 million). Existing **obligations from investment projects** that had commenced as of December 31, 2017, amounted to EUR 11 million (December 31, 2016: EUR 3 million).
→ **Notes to the Consolidated Financial Statements, Note 9**

COMPENSATION REPORT

The compensation report describes the main features of the compensation system for the Managing Board and Supervisory Board of HUGO BOSS AG. It also explains the structure, composition and amount of the compensation components. The report is based on the recommendations of the German Corporate Governance Code in the version of February 7, 2017 and contains disclosures based on the requirements of German Accounting Standard (GAS) 17, the HGB ["Handelsgesetzbuch": German Commercial Code] and International Financial Reporting Standards (IFRS). The quantitative disclosures pursuant to IAS 24 are presented in the notes to the consolidated financial statements.

Compensation of the Managing Board

Decisions concerning the compensation of Managing Board members (including former Managing Board members and their surviving dependents) as well as regular deliberation on and the review of the compensation system are the responsibility of the full Supervisory Board. However, the Personnel Committee submits proposals in preparation for decisions on these matters. The personnel matters dealt with by the Supervisory Board and the Personnel Committee during the reporting year and compensation-related topics are explained in the Supervisory Board's report. ➜ **Report of the Supervisory Board**

The compensation structure is partly geared toward the sustainable growth of the Company by factoring in compensation components with a multiple-year assessment basis. The total compensation of individual members of the Managing Board is specified by the Supervisory Board based on a performance assessment, taking into account any payments made by Group companies. Criteria for determining the appropriateness of the compensation are the responsibilities of the individual member of the Managing Board, their personal performance, the economic situation, the performance and outlook of the Company, as well as the level of compensation usually paid, taking into account peer companies and the compensation structure in place in other areas of the Company. At its professional discretion, the Supervisory Board can make decisions as regards special payments for the outstanding achievements or successes of a member of the Managing Board.

Main features of the compensation system for the Managing Board

The compensation system in place since January 1, 2016 aligns the Managing Board's compensation more closely than previously to the Company's sustainable growth by means of setting relevant objectives in the field of long-term variable compensation. At the same time, sales, EBITDA before special items and trade net working capital are the target components of short-term variable compensation. This is intended to ensure a better response to short-term developments. Also, during the design process, a great deal of importance was attached to the fact that above-average performance would be rewarded more comprehensively, but variable compensation would cease to be paid more quickly than before in the event of below-average performance.

Since January 1, 2016, in addition to non-performance-related (fixed) compensation components, the compensation structure has provided for core performance-related (variable) compensation components in the form of a short-term incentive program (STI) and a long-term incentive program (LTI). In this regard, the average share of the fixed compensation components in the total target compensation amounts to 35%, while the average share of compensation from the STI and from the LTI come to 26% and 39% respectively, whereby a target achievement of 100% each is assumed for the information for the STI and the LTI.

Non-performance-related (fixed) compensation components

The fixed compensation components consist of a fixed basic compensation, fringe benefits and contributions to retirement benefits. The fixed basic compensation is paid as a monthly salary. The members of the Managing Board also receive fringe benefits to a small extent which they individually pay tax on as per the applicable tax regulations if they derive any financial advantage from private use of the same. The fringe benefits primarily include private use of the company car, supplementary payments to health and nursing care insurance, the conclusion of and contributions to accident and directors' and officers' (D&O) liability insurance as well as, to a small extent, other equipment and services needed to fulfill their duties as members of the Managing Board. In accordance with Sec. 93 (2) Clause 3 AktG ["Aktiengesetz": German Stock Corporation Act], the deductible for the D&O insurance is 10% of the relevant loss, but no more than one-and-a-half times the fixed annual compensation.

Performance-related (variable) compensation components

Short-term variable compensation – short-term incentive program (STI)

As a short-term performance-related compensation component, the STI is tied to the development of certain quantitative targets. In accordance with the Group's management system, the Supervisory Board has determined the following indicators as targets:

- Sales (the sales recognized in the consolidated financial statements using the exchange rates underlying the budget)
- EBITDA before special items (consolidated net income before interest, taxes, depreciation, amortization and special items)
- Trade net working capital (sum of raw and finished goods and trade receivables less trade payables) → **Group Management**

The targets for sales and trade net working capital are weighted at 25% each. The EBITDA before special items is included in the STI's target achievement with a weighting of 50%.

For the annual bonus of a fiscal year, the targets to be achieved are defined in a target-setting agreement between the Managing Board and the Supervisory Board at the start of the fiscal year and by March 31 at the latest. All targets may be replaced by other corporate goals or weighted differently for the respective financial year in the context of the target-setting agreement. It is therefore possible to respond to short-term developments following the completion of one performance period and at the start of another. The Supervisory Board thus has the opportunity to regularly align the Managing Board's compensation so that it is directly geared toward the Company's strategy and its successful implementation. The Managing Board and the Supervisory Board should reach an agreement concerning the targets and their weighting in this regard. The Supervisory Board shall only make decisions at its professional discretion if this does not happen.

If the agreed targets are fully achieved on average, the respective member of the Managing Board shall be paid 100% of the contractually agreed amount. Target fulfillment that is above the maximum target of 150% or below the minimum target of 75% agreed for the individual target shall not be taken into account when calculating the average. If the average target achievement comes to 150% or more, a maximum amount (cap) of 150% is paid out. If, on the other hand, the average degree of target achievement is below 75%, no annual bonus will be paid. Between the minimum target and the maximum target, target achievement shall be determined in each case by linear interpolation. The annual bonus is payable within a week of the Supervisory Board approving the consolidated financial statements for the fiscal year in question.

If the target were achieved in full (100%) for the 2017 STI, a total amount of EUR 1,502 thousand would be paid out (Mark Langer EUR 650 thousand, Bernd Hake EUR 400 thousand, Yves Müller EUR 33 thousand (on a pro rata basis) and Ingo Wilts EUR 419 thousand).

The degree of target achievement for the individual target components for fiscal year 2017 is summarized in the table below.

Target achievement for STI target components

Target component	Target weighting	Target achievement for 2017
Sales	25%	110%
EBITDA	50%	100%
Trade Net Working Capital	25%	133%
Total	**100%**	**111%**

For fiscal year 2017, the average degree of target achievement is 111% and thus above the minimum target of 75%. The annual bonus is thus paid out in the amount of EUR 1.664 thousand (Mark Langer EUR 720 thousand, Bernd Hake EUR 443 thousand, Yves Müller EUR 37 thousand (on a pro rata basis) and Ingo Wilts EUR 464 thousand).

Long-term variable compensation – long-term incentive program (LTI)

Under the LTI program, the members of the Managing Board receive a defined number (“initial grant”) of virtual shares (“tranches”) at the beginning of the plan or at the start of their activity. The initial grant is based on an amount (“LTI budget”) defined in the respective service agreement or by an additional agreement. The LTI budget should roughly correspond to the fixed annual salary. The initial grant is calculated by dividing the LTI budget by the share price for the last three months preceding the initial grant. Each tranche has a three-year performance term. A one-year qualifying period follows the expiry of a tranche’s performance term. Following the expiry of the performance term, the final number of virtual shares (“final grant”) is calculated based on the achievement of certain target components. The final entitlement to payment is calculated by multiplying the final grant by the Company’s share price during the last three months of the qualifying period.

The Supervisory Board has defined the following as target components for the 2016 to 2018 tranche and the 2017 to 2019 tranche:

- Shareholder return for the HUGO BOSS share compared to the MSCI World Textiles, Apparel & Luxury Goods Performance Index (relative total shareholder return (RTSR))
- Return on capital employed (ROCE)
- Employee satisfaction
- The Company's performance in the field of sustainability

The "relative total shareholder return" target component is measured based on the increase in enterprise value, comprising the share performance and hypothetically reinvested dividends, compared to the MSCI World Textiles, Apparel & Luxury Goods Performance Index. The return on capital employed is based on the development of the ROCE (return on capital employed) profitability indicator versus the budget. The degree of employee satisfaction is measured by an employee survey conducted annually by an independent institute, and the resulting "Employee Trust Index" is compared with the top 100 companies. The sustainability performance is determined by the Company's improvement in the Dow Jones Sustainability Assessment, in which the sustainability performance of listed companies is assessed by an index provider. The composition of the Dow Jones Sustainability Index (DJSI) is defined based on this assessment. The targets for the RTSR and ROCE performance criteria each account for one third of the LTI program, while the targets for employee satisfaction and sustainability each account for one sixth.

Specific target, minimum and maximum values are defined for each target component and are used to calculate the entitlement to payment. The targets are defined on March 31 at the latest of the first year of the performance term in a target-setting agreement concluded between the Managing Board and the Supervisory Board. The Managing Board and the Supervisory Board should reach an agreement in this regard. The Supervisory Board shall only make decisions at its professional discretion if this does not happen.

A target achievement of only 50% minimum and 200% maximum is taken into account for each target component for the purposes of calculating the final grant. A one-year qualifying period follows the expiry of the performance term. The entitlement to payment is based on the Company's share price during the last three months of the qualifying period and the amount is limited to 250% of the individual LTI budget for each member of the Managing Board (cap). Under certain circumstances (particularly when service agreements are terminated for due cause or when members of the Managing Board resign before a tranche's term has expired), entitlements of members of the Managing Board may expire under the LTI program.

The individual LTI budget in relation to fiscal year 2016 is EUR 850 thousand for Mark Langer, EUR 458 thousand for Bernd Hake and EUR 206 thousand for Ingo Wilts. In the case of Mr. Hake and Mr. Wilts, the LTI budget is determined from the start of their Managing Board activities in 2016 on a pro rata basis.

The individual LTI budget in relation to fiscal year 2017 is EUR 900 thousand for Mark Langer, EUR 592 thousand for Bernd Hake, EUR 54 thousand for Yves Müller and EUR 564 thousand for Ingo Wilts. In the case of Yves Müller, the LTI budget is determined on a pro rata basis from the start of his Managing Board activities in 2017.

Share-based compensation component for the fiscal year 2017 (LTI 2017–2019)

	Mark Langer[1] Chairman of the Managing Board (since May 19, 2016)	**Bernd Hake** Member of the Managing Board (since March 1, 2016)	**Yves Müller** Member of the Managing Board (since Dec. 1, 2017)	**Ingo Wilts** Member of the Managing Board (since Aug. 15, 2016)	**Total**
	2017–2019	**2017–2019**	**2017–2019**	**2017–2019**	
Fair values for the performance share plan when granted (in EUR thousand)	876	576	49	549	**2,050**
Number of virtual shares on the grant date	16,207	10,655	742	10,167	**37,771**
Cost of share-based compensation LTI 2017–2019 (in EUR thousand)	256	168	1	161	**586**
Cost of share-based compensation LTI 2016–2018 (in EUR thousand)	159	97	0	62	**318**
Total cost of share-based compensation (in EUR thousand)	415	265	1	223	**904**

Share-based compensation component for the fiscal year 2016 (LTI 2016 - 2018)

	Mark Langer[1] Chairman of the Managing Board (since May 19, 2016)	**Bernd Hake** Member of the Managing Board (since March 1, 2016)	**Yves Müller** Member of the Managing Board (since Dec. 1, 2017)	**Ingo Wilts** Member of the Managing Board (since Aug. 15, 2016)	**Total**
	2016–2018	**2016–2018**	**2016–2018**	**2016–2018**	
Fair values for the performance share plan when granted (in EUR thousand)	667	233	–	160	**1,061**
Number of virtual shares on the grant date	10,623	6,475	–	3,900	**20,998**
Total cost of share-based compensation (in EUR thousand)	110	64	–	19	**193**

[1] Member of the Managing Board since January 15, 2010.

Multiple-year bonus

Moreover, for Mark Langer, the Chairman of the Managing Board, the multiple-year bonus for the fiscal year 2015 has not been paid yet. The multiple-year bonus 2015 – 2017 was the earlier long-term variable compensation under the compensation system applicable until the end of the fiscal year 2015. The multiple-year bonus was assessed over a period extending over several years and was measured based on the development of quantitative targets defined for a three-year period. The quantitative targets were geared toward increasing the enterprise value and were tied to the development of the two performance indicators – sales and EBITDA before special items – over a period of three years. The EBITDA before special items was weighted at 75%, while sales had a weighting of 25% in the determination of the multiple-year bonus. The amount of variable compensation for a fiscal year depended on the degree to which a predefined target sales and target EBITDA before special items were achieved over a period of three years. For the three-year period, targets as well as maximum and minimum thresholds were defined for both earnings indicators for each of the three fiscal years. The degree of target achievement was determined separately for each of the three fiscal years. The payout was determined based on the weighted average annual target achievement for the three fiscal years. If the target is achieved in full, 100% of the amount contractually agreed with each member of the Managing Board is paid out. The maximum amount of 150% of the target multiple-year bonus is paid out if the specified maximum threshold was reached or exceeded. No multiple-year bonus is paid out if the indicators reach or drop below the specified minimum threshold.

Installments for the expected target multiple-year bonus were paid within a week of the consolidated financial statements for the first fiscal year of the three-year period being approved. The actual target achievement for the multiple-year bonus was determined at the end of the third fiscal year. If the amount of the multiple-year bonus determined based on actual target realization exceeds the installment amounts, the member of the Managing Board in question receives the difference within a week of the consolidated financial statements for the third fiscal year being approved. If the installments exceed the amount of the vested multiple-year bonus for the three-year period, the member of the Managing Board in question repays the difference to HUGO BOSS AG within one week of the consolidated financial statements for the third fiscal year being approved.

For the multiple-year bonus for fiscal year 2015, a degree of target achievement of 3.45% for EBITDA before special items and 4.18% for sales was recorded for the three-year period 2015 to 2017. This results in a payment of EUR 46 thousand, which is determined based on the cumulative target achievement of 7.63% and included in the total compensation for the fiscal year 2017.

Pension provision and provision for surviving dependents

All active members of the Managing Board have received pension commitments which are regulated in individual contracts and the amounts of which are measured as a percentage of the contractually agreed pensionable income depending on their duration of membership of the Managing Board. The basis for determining the pensionable income is defined as the basic salary under the service agreement.

For Mark Langer, the Chairman of the Managing Board, this is done in the form of a benefit-based commitment.

The members of the Managing Board appointed as from fiscal year 2016 were granted contribution-based pension commitments. This form of pension commitment also applies to any future appointments to the Managing Board.

The Supervisory Board received guidance from an independent compensation expert when designing the contribution-based pension scheme for the new members of the Managing Board.

Contribution-based pension commitments

As of fiscal year 2016, every year, for newly appointed members of the Managing Board, HUGO BOSS pays a pension contribution into an employer's pension liability insurance scheme taken out on the life of the member of the Managing Board. The contribution corresponds to 40% of the pensionable income, which is determined based on the basic salary under the service agreement.

The amount of retirement benefit in this regard corresponds to the amount accumulated by means of the individual employer's pension liability insurance. This results from the total unpaid pension contributions per year plus an annual interest rate depending on the insurance tariff in question. A member of the Managing Board shall be entitled to retirement benefit at or after a fixed age limit of 65 years or if they become permanently unable to work due to illness or accident and leave the Company before reaching the age limit. In the event of the death of the member of the Managing Board, their spouse or registered civil partner under the Civil Partnership Act and their surviving children shall be entitled to a survivor's pension.

If the member of the Managing Board leaves the Company before becoming eligible for a pension, the benefits shall still become vested if their pensionable service was longer than three years. If the member of the Managing Board leaves the Company before reaching the fixed age limit, the entitlement amount corresponds to the benefits arising from the premium-free employer's pension liability insurance at the time of departure.

Ongoing pension payments are adjusted annually by at least 1%.

Benefit-based pension commitments for Mark Langer, the Chairman of the Managing Board

A pension commitment exists for Mark Langer, the Chairman of the Managing Board, through the Company in the form of a benefit-based pension commitment. The amount of the subsequent post-employment benefit is limited to 60% of the pensionable income in this regard. Post-employment benefits are paid when the employment relationship ends at or after a fixed age limit of 60 years or if the Chairman of the Managing Board becomes permanently unable to work due to illness or accident and leaves the Company before reaching the age limit. Furthermore, in the event of the death of the Chairman of the Managing Board, a post-employment benefit shall be paid to the surviving dependents in the form of a widow's or an orphan's pension.

If the Chairman of the Managing Board leaves the Company before becoming eligible for a pension, the period by which the benefits become vested is agreed in accordance with the legal regulations. However, there is no pro rata temporis reduction of the pension entitlement as provided for under legal provisions.

Ongoing pension payments are adjusted annually by at least 1%.

Supplementary pension plan

In addition, the HUGO BOSS Group offers the members of the Managing Board the option of acquiring additional pension benefits under deferred compensation agreements. This supplementary pension plan can take the form of retirement benefits or, alternatively, the form of occupational incapacity benefits and/or surviving dependents' benefits and/or the form of a lump-sum death grant. The pension benefits take the form of monthly payments, while surviving dependents' benefits can also be granted in the form of a lump-sum capital payment. The contributions from deferred compensation agreements are included in the disclosure of the total compensation. Provisions and plan assets are recognized at the same amount.

Pension commitments (in EUR thousand)

	Mark Langer[1] Chairman of the Managing Board (since May 19, 2016)		**Bernd Hake** Member of the Managing Board (since March 1, 2016)		**Yves Müller** Member of the Managing Board (since Dec 1, 2017)		**Ingo Wilts** Member of the Managing Board (since Aug. 15, 2016)	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Service cost under IFRS	584	422	240	220	260	–	260	260
Pension provision under IFRS	3,935	5,005	0	0	0	–	0	0

	Claus-Dietrich Lahrs Chairman of the Managing Board (until February 29, 2016)		**Christoph Auhagen** Member of the Managing Board (until April 22, 2016)		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
Service cost under IFRS	–	134	–	324	**1,344**	**1,360**
Pension provision under IFRS	–	0	–	0	**3,935**	**5,005**

[1] Member of the Managing Board since January 15, 2010.

Benefits in the event of premature termination of employment

In the event of premature termination of the service agreement (without there being due cause for termination of the service agreement on the Company's part), the member of the Managing Board in question shall receive severance pay amounting to their total compensation (including fringe benefits) for the duration of the original remaining term, but for no longer than 15 months, starting from the time the service agreement is terminated (severance payment cap). For these purposes, the total compensation is calculated on the basis of the total compensation received for the last full fiscal year and, where appropriate, on the basis of the predicted total compensation for the current fiscal year.

The service agreements do not provide for any severance payment in the event of premature termination of the service agreement for due cause for which the member of the Managing Board in question is responsible. The service agreements do not stipulate any provisions in the event of regular termination, with the exception of the provisions governing pensions.

The service agreements with the members of the Managing Board each contain a provision under which, in the event of a change of control (acquisition of more than 30% of the voting rights in HUGO BOSS AG), the member of the Managing Board in question is granted an extraordinary right to termination and, if the service agreement is indeed terminated, a severance payment must be made to said member of the Managing Board. In principle, the amount of severance pay corresponds to the severance payment to be made in the event of the service agreement being terminated prematurely and is therefore subject to the same severance payment cap. The Company has not entered into any other compensation arrangements with members of the Managing Board or employees in the event of a takeover bid.

Total compensation of members of the Managing Board for the fiscal year 2017 under GAS 17

Total compensation (in EUR thousand)

	Mark Langer[1] Chairman of the Managing Board (since May 19, 2016)		**Bernd Hake** Member of the Managing Board (since March 1, 2016)		**Yves Müller** Member of the Managing Board (since Dec 1, 2017)		**Ingo Wilts** Member of the Managing Board (since Aug. 15, 2016)	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Basic compensation	850	829	550	464	54	–	650	247
Fringe benefits	30	41	12	17	3	–	78	4
Total	**880**	**871**	**562**	**481**	**57**	**–**	**728**	**251**
Special compensation	**200**	**13**	**140**	**0**	**0**	**–**	**0**	**0**
STI	**720**	**0**	**443**	**0**	**37**	**–**	**464**	**113**
Thereof contractually guaranteed	0	0	0	0	0	–	0	113
Thereof variable	720	0	443	0	37	–	464	0
Multiple-year variable compensation	**922**	**834**	**576**	**233**	**49**	**–**	**549**	**160**
Thereof LTI 2017–2019	876	0	576	0	49	–	549	0
Thereof LTI 2016–2018	0	667	0	233	0	–	0	160
Thereof multiple-year bonus 2015–2017	46	0	0	0	0	–	0	0
Thereof multiple-year bonus 2014–2016	0	167	0	0	0	–	0	0
Total compensation	**2,722**	**1,718**	**1,721**	**714**	**143**	**–**	**1,741**	**524**

	Claus-Dietrich Lahrs Chairman of the Managing Board (until February 29, 2016)		**Christoph Auhagen** Member of the Managing Board (until April 22, 2016)		**Total compensation**	
	2017	2016	**2017**	2016	**2017**	2016
Basic compensation	–	300	–	333	**2,104**	**2,174**
Fringe benefits	–	9	–	15	**123**	**87**
Total	**–**	**309**	**–**	**348**	**2,227**	**2,261**
Special compensation	**–**	**0**	**–**	**0**	**340**	**13**
STI	**–**	**0**	**–**	**0**	**1,664**	**113**
Thereof contractually guaranteed	–	0	–	0	**0**	**113**
Thereof variable	–	0	–	0	**1,664**	**0**
Multiple-year variable compensation	**–**	**0**	**–**	**0**	**2,096**	**1,228**
Thereof LTI 2017–2019	–	0	–	0	**2,050**	**0**
Thereof LTI 2016–2018	–	0	–	0	**0**	**1,061**
Thereof multiple-year bonus 2015–2017	–	0	–	0	**46**	**0**
Thereof multiple-year bonus 2014–2016	–	0	–	0	**0**	**167**
Total compensation	**–**	**309**	**–**	**348**	**6,327**	**3,613**

[1] Member of the Managing Board since January 15, 2010.

Benefits granted for fiscal year 2017 under GCGC

Benefits granted

	Mark Langer[1] Chairman of the Managing Board (since May 19, 2016)				Bernd Hake Member of the Managing Board (since March 1, 2016)			
	2017	**2017 (Min)**	**2017 (Max)**	2016	**2017**	**2017 (Min)**	**2017 (Max)**	2016
Fixed compensation	850	850	850	829	550	550	550	464
Fringe benefits	30	30	30	41	12	12	12	17
Total	**880**	**880**	**880**	**871**	**562**	**562**	**562**	**481**
Special compensation	**200**	**200**	**200**	**13**	**140**	**140**	**140**	**0**
STI	**720**	**0**	**975**	**0**	**443**	**0**	**600**	**0**
Thereof contractually guaranteed	0	0	0	0	0	0	0	0
Thereof variable	720	0	975	0	443	0	600	0
Multiple-year variable compensation	**922**	**0**	**2,700**	**834**	**576**	**0**	**1,184**	**233**
Thereof LTI 2017–2019	876	0	1,800	0	576	0	1,184	0
Thereof LTI 2016–2018	0	0	0	667	0	0	0	233
Thereof multiple-year bonus 2015–2017	46	0	900	0	0	0	0	0
Thereof multiple-year bonus 2014–2016	0	0	0	167	0	0	0	0
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**2,722**	**1,080**	**4,755**	**1,718**	**1,721**	**702**	**2,486**	**714**
Severance pay	–	–	–	–	–	–	–	–
Pension expenses	584	584	584	422	240	240	240	220
Total compensation	**3,306**	**1,664**	**5,339**	**2,140**	**1,961**	**942**	**2,726**	**934**

	Yves Müller Member of the Managing Board (since Dec. 1, 2017)				Ingo Wilts Member of the Managing Board (since Aug. 15, 2016)			
	2017	**2017 (Min)**	**2017 (Max)**	2016	**2017**	**2017 (Min)**	**2017 (Max)**	2016
Fixed remuneration	54	54	54	–	650	650	650	247
Fringe benefits	3	3	3	–	78	78	78	4
Total	**57**	**57**	**57**	**–**	**728**	**728**	**728**	**251**
Special compensation	**0**	**0**	**0**	**–**	**0**	**0**	**0**	**0**
STI	**37**	**0**	**50**	**–**	**464**	**0**	**628**	**113**
Thereof contractually guaranteed	0	0	0	–	0	0	0	113
Thereof variable	37	0	50	–	464	0	628	0
Multiple-year variable compensation	**49**	**0**	**108**	**–**	**549**	**0**	**1,128**	**160**
Thereof LTI 2017–2019	49	0	108	–	549	0	1,128	0
Thereof LTI 2016–2018	0	0	0	–	0	0	0	160
Thereof multiple-year bonus 2015–2017	0	0	0	–	0	0	0	0
Thereof multiple-year bonus 2014–2016	0	0	0	–	0	0	0	0
Other	**0**	**0**	**0**	**–**	**0**	**0**	**0**	**0**
Total	**143**	**57**	**215**	**–**	**1,741**	**728**	**2,484**	**524**
Severance pay	–	–	–	–	–	–	–	–
Pension expenses	260	260	260	–	260	260	260	260
Total compensation	**403**	**317**	**475**	**–**	**2,001**	**988**	**2,744**	**784**

[1] Member of the Managing Board since January 15, 2010.

Benefits received for fiscal year 2017 under GCGC

Benefits received

	Mark Langer[1] Chairman of the Managing Board (since May 19, 2016)		Bernd Hake Member of the Managing Board (since March 1, 2016)		Yves Müller Member of the Managing Board (since Dec. 1, 2017)		Ingo Wilts Member of the Managing Board (since Aug. 15, 2016)	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Fixed compensation	850	829	550	464	54	–	650	247
Fringe benefits	30	41	12	17	3	–	78	4
Total	**880**	**871**	**562**	**481**	**57**	**–**	**728**	**251**
Special compensation	**200**	**13**	**140**	**0**	**0**	**–**	**0**	**0**
STI	**720**	**0**	**443**	**0**	**37**	**–**	**464**	**113**
Thereof contractually guaranteed	0	0	0	0	0	–	0	113
Thereof variable	720	0	443	0	37	–	464	0
Multiple-year variable compensation	**46**	**167**	**0**	**0**	**0**	**–**	**0**	**0**
Thereof LTI 2017–2019	0	0	0	0	0	–	0	0
Thereof LTI 2016–2018	0	0	0	0	0	–	0	0
Thereof multiple-year bonus 2015–2017	46	0	0	0	0	–	0	0
Thereof multiple-year bonus 2014–2016	0	167	0	0	0	–	0	0
Other	**0**	**0**	**0**	**0**	**0**	**–**	**0**	**0**
Total	**1,846**	**1,051**	**1,145**	**481**	**94**	**–**	**1,192**	**364**
Severance pay	–	–	–	–	–	–	–	–
Pension expenses	584	422	240	220	260	–	260	260
Total compensation	**2,430**	**1,473**	**1,385**	**701**	**354**	**–**	**1,452**	**624**

[1] Member of the Managing Board since January 15, 2010.

Other compensation components

Advance payments of EUR 540 thousand made to Mark Langer, Chairman of the Managing Board are outstanding as at December 31, 2017. These will be offset against the bonus payments for fiscal year 2017 and definitively settled.

Total compensation of former members of the Managing Board

In fiscal year 2017, no members left the Managing Board, meaning that no bonus or severance payments were made to former members of the Managing Board.

Compensation of the Supervisory Board

The compensation of the members of the Supervisory Board set by the Annual Shareholders' Meeting is governed by Art. 12 of the Articles of Association of HUGO BOSS AG. The compensation is based on the company size and the scope of work of Supervisory Board members. Compensation of Supervisory Board members is split into fixed and variable components. The variable component is measured based on the amount of earnings per share in the consolidated financial statements. The position of Chairman of the Supervisory Board, that of the Deputy Chairman and membership of the Committees are taken into account when calculating the compensation. The fixed and variable compensation is paid out after the end of the Annual Shareholders' Meeting that decides on the exoneration of the Supervisory Board for the past fiscal year in question. Members of the Supervisory Board who have only been members of the Supervisory Board or a committee for part of the fiscal year are paid compensation proportionately to the duration of their office. Members of the Supervisory Board are reimbursed expenses incurred in connection with the performance of their duties. Any VAT is reimbursed by the Company if the members of the Supervisory Board are entitled to provide the Company with a separate invoice for VAT and exercise this right. The Supervisory Board received total compensation amounting to EUR 1,561 thousand for its activities in 2016. For 2017, the total compensation is expected to come to EUR 1,493 thousand. This figure includes a variable component of EUR 738 thousand (2016: EUR 785 thousand), which is calculated on the basis of the expected earnings per share in the consolidated financial statements.

LEGAL DISCLOSURES

- **Corporate governance statement published on website**
- **Non-financial statement published in separate sustainability report**
- **Disclosures under takeover law are made pursuant to Sec. 289a (1), 315a (1) HGB**

Corporate governance statement

The **corporate governance statement** (pursuant to Sec. 289f HGB ["Handelsgesetzbuch": German Commercial Code]) forms part of the combined management report and can be found at the Company's website at **http://cgs.hugoboss.com**. It is also included on pages 13 to 22 of this annual report.

Non-financial statement

HUGO BOSS prepares a separate sustainability report containing the **combined, separate non-financial report** for the HUGO BOSS Group and HUGO BOSS AG in accordance with Sec. 289b (1), (3) HGB in connection with Sec. 315b (1), (3) HGB. The sustainability report for 2017 will be published on the Company's website at **http://sr2017.hugoboss.com** on April 30, 2018 at the latest.

Disclosures under takeover law

The **disclosures under takeover law** pursuant to Sec. 289a (1) and Sec. 315a (1) HGB are presented and explained below. As far as the Managing Board is aware, there is no further need for any declarations under Sec. 176 (1) Sentence 1 AktG ["Aktiengesetz": German Stock Corporation Act].

Composition of subscribed capital

The subscribed capital of HUGO BOSS AG is made up of 70,400,000 no-par value registered ordinary shares with an imputed share in share capital of EUR 1.00 each.

Restrictions on voting rights or the transfer of shares

There are no restrictions on voting rights or the transfer of shares.

Shares in the Company's capital exceeding 10% of the voting rights

On the basis of the voting right notifications received by the Company on or before December 31, 2017 in accordance with Sec. 21, 22 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] (now Sec. 33, 34 WpHG), the following direct or indirect shares in the Company's capital exceed 10% of the voting rights:

There are shares in the Company's capital exceeding 10% of the voting rights

According to the voting right notification of June 9, 2016 received from PFC S.r.l., Vicenza, Italy, this company directly holds 4.13% of the voting rights pursuant to Sec. 21 WpHG (now Sec. 33 WpHG), and pursuant to Sec. 22 WpHG (now Sec. 34 WpHG), an additional 6.00% of the voting rights of Zignago Holding S.p.A., Fossalta di Portogruaro, Italy, has attributed to PFC S.r.l. In addition, Zignago Holding S.p.A., Fossalta di Portogruaro, Italy, directly holds 6.00% of the voting rights pursuant to Sec. 21 WpHG (now Sec. 33 WpHG), and pursuant to Sec. 22 WpHG (now Sec. 34 WpHG) an additional 4.13% of the voting rights of PFC S.r.l., Vicenza, Italy, has been attributed to Zignago Holding S.p.A. In total, the investments thus exceed 10% of the voting rights. HUGO BOSS AG has not been notified of any other direct or indirect capital investments that exceed 10% of the voting rights.

All **notifications on changes in the share of voting rights held** can be found at **financialreleases.hugoboss.com**. In addition, the reportable shares notified in fiscal year 2017 are set out in the annual financial statements of HUGO BOSS AG for fiscal year 2017.

Shares with special rights granting control authority

There are no shares with special rights granting control authority.

Voting right controls for shares held by employees in the Company's capital

There are no voting right controls applicable to employees who hold shares in the capital of HUGO BOSS AG and are unable to directly exercise their control rights.

Appointment and dismissal of the Managing Board

The appointment and dismissal of members of the Managing Board of HUGO BOSS AG is in accordance with Sec. 84 and Sec. 85 AktG and Sec. 31 MitbestG ["Mitbestimmungsgesetz": Co-Determination Act] in conjunction with Art. 6 of the Articles of Association. In accordance with Art. 6 (1) of the Articles of Association, the Managing Board comprises at least two members. The number of members of the Managing Board is determined by the Supervisory Board pursuant to Art. 6 (2) of the Articles of Association. The Supervisory Board can appoint a Chairman and a Deputy Chairman of the Managing Board. The Supervisory Board can revoke a person's appointment to the Managing Board and appointment to the position of Chairman of the Managing Board for due cause. In accordance with Art. 6 (3) of the Articles of Association, members of the Managing Board may not, as a rule, be older than 60 years of age when they are appointed. They are appointed by the Supervisory Board for no more than five years.

Amendments to the Articles of Association

Amendments to the Articles of Association are made by resolutions passed at the Annual Shareholders' Meeting. Unless prescribed otherwise by the German Stock Corporation Act, resolutions are passed pursuant to Art. 17 (2) of the Articles of Association by simple majority of the votes cast and – if a majority of the capital represented when passing a resolution is required – by simple majority of the share capital represented when the resolution is passed. Pursuant to Art. 20 of the Articles of Association, the Supervisory Board is authorized to make amendments to the Articles of Association that only affect the wording.

Powers of the Managing Board with respect to the issue and repurchase of shares

The Managing Board of HUGO BOSS AG may, with the Supervisory Board's consent, increase the share capital by up to EUR 35,200,000.00 on or before May 12, 2019, by issuing up to 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (Authorized Capital). In general, shareholders have a subscription right. However, the

Managing Board is authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of shareholders up to a maximum of 20% of the share capital (a) to avoid fractional amounts, (b) in the case of a capital increase in exchange for contributions in kind, and (c) in the event that the issue price of the new shares in cash-based capital increases is not significantly below the quoted price of the existing quoted shares at the time the issue price is finally determined, which time should be as close as possible to the time at which the shares are placed; whereby in case (c) the shares issued, including any own shares sold under exclusion of subscription rights pursuant to Sec. 186 (3) Clause 4 AktG may not exceed 10% of the share capital either at the time this authorization becomes effective or at the time when it is exercised.

Pursuant to the resolution of the Annual Shareholders' Meeting of May 12, 2015, the Managing Board is authorized on or before May 11, 2020, to acquire own shares of the Company up to a total share of no more than 10% of the share capital outstanding as of May 12, 2015, or, if this value is lower, the share capital outstanding at the time of the authorization is exercised. The authorization can be exercised directly by HUGO BOSS AG, by a company dependent on HUGO BOSS AG or in which it holds a majority interest, or by commissioned third parties and permits the acquisition of own shares fully or in partial amounts, once or several times. The acquisition can be made through the stock exchange or a public offer addressed to all shareholders to submit sale offers or through the granting of put options to the shareholders. The authorization also allows for a restriction of the principle of equal treatment of all shareholders and any rights of the shareholders to sell shares to the Company in connection with the acquisition of the shares.

Own shares acquired under this authorization can be sold again through the stock exchange or through an offer addressed to all shareholders (also while excluding subscription rights of shareholders). They can alternatively be redeemed as compensation, precluding the subscription rights of the shareholders, for the acquisition of companies and investments in companies, for sale at a price that does not fall materially short of the current quoted price and for the admission of the share to foreign stock exchanges. The Managing Board is also authorized to exclude fractional amounts from the subscription rights of shareholders for own shares with the consent of the Supervisory Board and to therefore prevent the offering of own shares to persons with a present or past employment relationship with HUGO BOSS AG. By resolution of the Annual Shareholders' Meeting of May 12, 2015, the Managing Board is further authorized to acquire own shares using equity derivatives.

Change of control regulations

The syndicated loan taken out by HUGO BOSS AG and HUGO BOSS International B.V. and guaranteed by HUGO BOSS AG as well as the bilateral lines of credit contain customary conditions that grant the contracting parties additional termination rights in the event of a **change of control** – known as "change of control clauses".

Compensation agreements

The service agreements of the members of the Managing Board contain a provision under which, in the event of a change of control (acquisition of more than 30% of the voting rights in HUGO BOSS AG), the contracting parties are granted an additional termination right under certain circumstances and, if the service agreement is in fact terminated, the member of the Managing Board must be compensated. ➔ **Compensation Report**

REPORT ON RISKS AND OPPORTUNITIES

- **A transparent approach as part of the risk management system**
- **Total risk position in 2017 largely unchanged**
- **Utilizing business opportunities an important element in ensuring sustainable and profitable growth**

The **risk and opportunities policy** of the HUGO BOSS Group is primarily dedicated to achieving the Group's financial and strategic targets. It therefore does not only pursue the goal of securing the Group's continuation as a going concern, but primarily that of sustainably increasing its enterprise value. Reporting of risks and opportunities in the combined management report always refers to a one-year period.

Risk report

The risk management system makes sure of a transparent and systematic approach towards risk

The success of HUGO BOSS is based on the systematic use of opportunities within the framework of the corporate strategy. The Group is exposed to a variety of risks. The Company's **risk management system** includes all measures of a systematic and transparent approach towards risk. It aims to identify risks at the first possible opportunity, evaluate them adequately, handle them using suitable measures, monitor them and document them. Risks are defined here as possible future developments or events which may lead to negative deviations from the planned operating result. All types of risk are divided into the five categories: external, strategic, financial, operative and organizational.

Risk management system

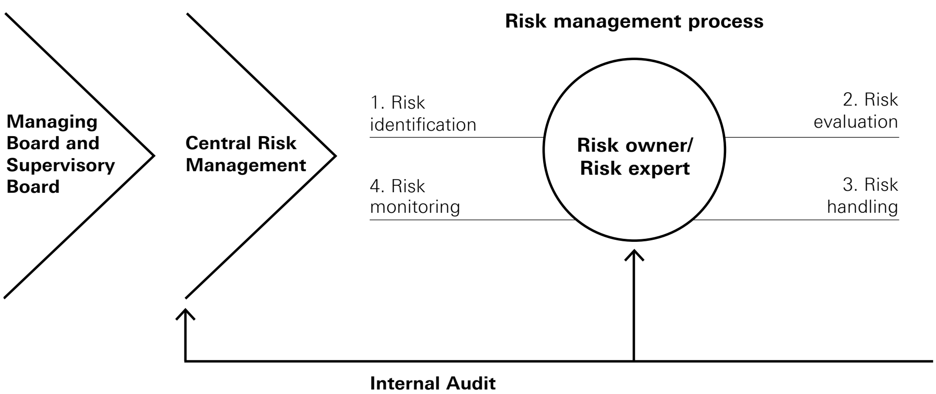
Clear definition of responsibilities

The Managing Board of HUGO BOSS AG has **overall responsibility for an effective risk management system**. The central risk management's job is to coordinate the implementation and ongoing development of the risk management system. It is responsible for the centrally managed risk management process, and is in close contact with the respective divisions and Group companies. There, the relevant defined risk experts and those responsible for risks ("risk owners") are responsible for identifying and evaluating risk and implementing effective risk mitigation measures. **Monitoring the effectiveness of the risk management system** is the task of the Supervisory Board of HUGO BOSS AG. This responsibility is exercised by the Audit Committee of the Supervisory Board, also with the involvement of the Group auditor. The risk management system is also reviewed at regular intervals by the internal audit department to ensure its proper functioning and appropriateness.

Consistent standards and modern software form the basis of an efficient risk management system

Group-wide standards for systematically handling risks form the basis of an efficient risk management system. These are set by the Managing Board and documented in a **risk manual** that is applicable across the whole of the Group. This is available for all employees to read online. All employees of the HUGO BOSS Group are obliged to be aware of risks in their behavior, especially regarding those risks that may threaten the existence of the Group. The use of modern **risk management software** makes it possible to record and evaluate all identified risks as well as the associated measures in a uniform way across the Group. The risk management system of HUGO BOSS is designed in accordance with the recommendations of the international standard ISO 31000.

Main features of the HUGO BOSS risk management system



The **risk management process** used at HUGO BOSS is made up of the four steps of risk identification, risk evaluation, risk handling and risk monitoring and reporting.

Risk identification

Risks should be identified at the earliest possible stage

To ensure that **risks are identified** at the earliest possible stage, the Group continuously monitors the overall economic environment, the competitive environment in the premium and luxury goods industry, and all internal processes. The central risk management supports the risk owners across the Group with the regular identification and efficient categorization of risks using a risk catalog as well as the risk manual that is available across the Group.

Risk evaluation

The risk owners delegate the regular assessment of identified risks to the risk experts and give their assessment after a thorough examination. The risk experts are supported in their job by the central risk management.

Measurement criteria for business risks

Likelihood of occurrence		Extent of financial impact	
unlikely	≤ 20%	low	≤ 2,5% of planned EBIT
possible	> 20–40%	moderate	> 2,5–5% of planned EBIT
likely	> 40–60%	significant	> 5–15% of planned EBIT
very likely	> 60%	high	> 15% of planned EBIT

Evaluating the Likelihood of occurrence and financial impact

Individual risks are evaluated by assessing their likelihood of occurrence on one hand and systematically analyzing their possible impact on the operating result (EBIT) on the other hand. Interest rate risks and tax risks however are evaluated based on their impact on cash flow. The likelihood of occurrence for individual risks is assessed as a percentage and is categorized into one of the four categories of unlikely, possible, likely and very likely. The extent of any financial impact is evaluated using four loss amounts of low, moderate, significant and high.

Risk overview - riskmap (aggregated risks)

Loss amount/exposure	unlikely	possible	likely	very likely
high	**Collection and industry**	**Suppliers and sourcing markets, sales and distribution**		
significant	**Politics and society, environment and health, personnel, governance and compliance**	**Overall economy, quality, taxes**		
moderate	**Logistics, IT**	**Investments, brand and corporate image**		**Currencies**
low	**Additional risks[1]**	**Legal**	**Changes in interest rates, provisions for pensions**	

Likelihood (within 1 year)

[1] Product piracy, competitive environment, vision and direction, counterparties, financing and liquidity, facilities, health and safety.

The risk presentation follows a net view

The valuation criteria likelihood of occurrence and loss amount together form the criteria which make up the **risk matrix**. This creates transparency regarding the current risk situation in the Company and so supports Management in prioritizing risk. Any net risk as an actual risk potential is defined as the gross risk reduced by the impact of measures taken to mitigate the risk identified.

Risks are evaluated using scenario analyses

The potential effects of identified risks are analyzed using different **risk scenarios** for the best, medium and worst case. This permits the inclusion of the potentially substantial effects from extreme scenarios that are unlikely to occur but which could have a severe impact on the Group's ability to achieve its goals. The average impact of a risk occurring is calculated using individual weightings of the three scenarios. In addition to the quantification of risk based on a 12-month planning period, a medium-term risk trend is also determined in order to be able to initiate the development of adequate countermeasures for growing risks promptly. For certain risks a medium and long-term risk assessment is also incorporated.

Risk handling

Coordinated implementation of risk mitigation measures

Preparing and implementing suitable risk mitigation measures is the job of the risk owners. Generally, **risks are handled** in four ways: risk avoidance, risk reduction, risk transfer to third parties and risk acceptance. An integral part of the risk management is therefore also the transfer of risk to the insurer, whereby the financial consequences of insurable risks are largely neutralized. The costs of the measures in question in relation to their effectiveness are also taken into consideration when deciding on how to implement the respective risk management strategy. By working closely together with the risk owners, the central risk management monitors the progress and effectiveness of risk mitigation measures which are in the planning stages as well as those which have already been implemented.

Risk monitoring and reporting

Continuous monitoring of the risk situation

The current status of all identified risks is assessed at least once a year, however depending on their extent up to a frequency of once a month. As part of the **risk monitoring**, insights into the latest trends are documented and the risk evaluation and risk handling measures are revised if necessary. The continuous monitoring of early warning indicators also enables the Group to identify possible deviations from the budget at an early stage. Reporting chains and the adoption of appropriate countermeasures defined in advance ensure a timely response in the event of a risk occurring. → **Group Management**

Regular risk reporting to the Managing Board and Audit Committee

As part of the **regular risk reporting**, the risk owners report the risks they have identified, including the respective likelihoods of occurrence, the potential impacts as well as the risk mitigation measures to the central risk management. They aggregate the information reported and regularly present a consolidated report to the Managing Board and to the Audit Committee. Significant individual risks and aggregated risk categories are given particular emphasis here. When critical or urgent issues arise, the regular reporting process is also supplemented by an ad-hoc report.

Development and composition of total risk exposure

Risk category	Trend	Share of total risk (expected value)
External risks	↘	14%
Strategic risks	→	11%
Financial risks	→	16%
Operative risks	→	55%
Organizational risks	↗	4%

Aggregation of individual risks to the total risk position in two ways

The individual risks are aggregated using two methods to obtain the most accurate possible picture of the HUGO BOSS Group's **total risk position**. On one hand, the expected loss values of all assessed risks within the five risk categories are added together. On the other hand, the probability distributions of all identified risks are aggregated to form a single probability distribution for a possible total loss by means of a **Monte Carlo simulation** and so determine maximum annual loss values. The result of this simulation in fiscal year 2017 shows that the Group's equity is in excess of all simulated risk-dependent loss values, even within the tightest confidence intervals.

Assessment of the risk situation by the Managing Board

No risks exist that may jeopardize the existence of the Company

The risk management system implemented forms the basis of the assessment of the risk situation by the Managing Board and is regularly monitored by the same. Significant risks faced by the Company are regularly discussed and evaluated by the Management Board. At the time this report was prepared, the Managing Board cannot recognize any individual or aggregated risks which may jeopardize the viability of the Company as a going concern. In fiscal year 2017 the **total risk position has only slightly decreased**.

Illustration of material risks

Residual risks remain despite a modern risk management system

The **risks considered to be material** in terms of the HUGO BOSS Group achieving its targets in fiscal year 2018 are explained below. This refers to those risks that have been evaluated in the risk management process as having a higher than "low" potential impact. In general, it is possible that additional latent risks or risks that are currently estimated as immaterial may adversely affect the Group's development in the future to more than the stated extent. Irrespective of the measures introduced to manage the identified risks, entrepreneurial activity is always exposed to **residual risks** that cannot be entirely avoided even by a modern risk management system such as that implemented in the HUGO BOSS Group.

Risk categories

External risks	Strategic risks	Financial risks	Operative risks	Organizational risks
Overall economy	**Collection and industry**	Financing and liquidity	**Suppliers and sourcing markets**	**IT**
Politics and society	**Brand and corporate image**	Changes in interest rates	**Quality**	**Personnel**
Product piracy	**Investments**	**Currencies**	**Logistics**	Facilities
Environment and health	Vision and direction	Counterparties	**Sales and distribution**	Legal
Competitive environment		**Taxes**		**Governance and compliance**
		Pensions		Health and safety

Material risks are shown in bold.

Risks with a low potential impact are not explained in more detail

The risks assessed as only having a **low potential impact** are not explained in more detail. This includes risks in connection with product piracy, risks from the competitive environment, the Company's vision and direction, financing and liquidity risks, interest rate risks, counterparty risks and pension risks. This also includes organizational risks from the operation of own facilities as well as in connection with occupational health and safety, as well as legal risks for which sufficient provisions were recognized for current litigation and legal consultation costs.

Material external risks

HUGO BOSS is subject to a wide variety of external risks, mainly in connection with macroeconomic, political and social developments as well as environmental and health aspects.

Macroeconomic risks

Industry development dependent on global economy

As a global company, HUGO BOSS is exposed to **macroeconomic risks** in terms of global economic trends. This means that an economic downturn usually results in a decline in demand for premium and luxury goods, which has a negative effect on the sales and earnings growth of the Group. The effects of macroeconomic developments can occur globally as well as limited to one region, and may influence each other.

Continuous monitoring of early indicators ensures responsiveness

In order to reduce the impact of economic fluctuations, HUGO BOSS aims to achieve a **balanced distribution of sales** between the most important regions. The Group continuously observes macroeconomic trends as well as the industry environment in order to identify risks at an early stage and be able to react to them accordingly by re-aligning its business activities. Internal **early indicators** are also analyzed regularly, which makes it possible to forecast the impacts of potential macroeconomic risks. → **Group Management**

In addition to reducing production and sourcing activity, some of the possible **reactions** to a cyclical decline in demand include strictly managing the trade net working capital, increasing cost controlling, price adjustments and the closing of retail stores.

Growth expected for global economy and the industry

Looking at fiscal year 2018, the Group expects **continued growth in the global economy**. It's expected that the upper premium segment of the apparel industry will record growth of between 3.5% and 4.5% adjusted for currency effects. Negative macroeconomic developments can have a significant impact on the Group's sales and earnings growth despite the measures described. Management judges the likelihood of occurrence as possible. → **Outlook**

Political and social risks

Political and social risks can influence consumer behavior

HUGO BOSS is exposed to **political and social risks** as a result of the global nature of its business activities. For example, changes in the political and regulatory environment, geopolitical tension, military conflicts, changes of government or terrorist attacks can have a negative impact on consumer behavior.

Continuing uncertainties set to shape events in 2018

The Group does not expect uncertainties regarding **worldwide political and social developments** to decrease in 2018. For example, the continued geopolitical tension in the Middle East, the North Korea conflict or the ongoing risk of terrorist attacks also represent significant risks for the premium and luxury goods industry and so also for the Group's business development in the coming year.

Brexit negotiations carry risks

There are also risks as a result of the ongoing uncertainty surrounding the **Brexit negotiations**. The process of leaving the European Union could undermine the confidence of both companies and consumers in Great Britain's economic prospects, reduce foreign investment in the country and lead to upheaval on global financial markets. A significant decline in consumer confidence in particular and an accompanying decline in customer demand could also have a negative impact on the business of HUGO BOSS. It is also uncertain what form any future tax and customs regulations will take. The Group is therefore keeping a very close eye on the exit process.

HUGO BOSS addresses the increasing significance of political and social risks

Due to its increased significance, HUGO BOSS assesses the risk resulting from political and social changes as an **"emerging risk"**. It raises strategic questions, for example regarding the influence of demographic changes on consumer behavior and the supply chain. This reveals the close link between the social risk and the industry risk and the risks associated with the suppliers and sourcing markets. In evaluating and handling the risk, the risk experts and risk owners in the Group work in interdisciplinary teams on the **ongoing analysis and monitoring of current political and social developments** and their influence on the Group's own business activity. The central risk management coordinates and supports this process.

Global distribution in more than 120 countries at Group level provides a **natural hedge** against adverse developments in individual countries or regions. Unexpected developments in important sales markets can have a significant financial impact. The Management however considers this risk to be unlikely.

Diversifying the sales markets reduces country risk

Environmental and health risks

The HUGO BOSS Group's global value chain is subject to **environmental and health risks** that may result from environmental and natural disasters or pandemics as well as the consequences of climate change. Risks as a result of climate change, such as increasing **water scarcity**, are classed as unlikely for fiscal year 2018 with low possible loss. In future however this risk will become more significant for HUGO BOSS, meaning that the impact is forecast to be moderate in the medium term. In the long term there is a risk that an increasing scarcity of water either locally or regionally will have negative consequences on the cultivation of cotton, and so may lead to a reduced availability of cotton fibers and higher material costs as a result.

Water scarcity has long-term risk potential

HUGO BOSS has a **central emergency management system** in order to be able to react promptly and appropriately to an environmental or natural disaster occurring. Its structural organization bundles the cross-functional skills needed to handle emergencies and guarantees efficient coordination with clear decision-making paths. Nevertheless, significant impacts on the net assets, financial position and results of operation cannot be entirely ruled out, although Management considers the occurrence of this to be unlikely.

HUGO BOSS has implemented a central emergency management system

Material strategic risks

HUGO BOSS considers collection and industry risks, risks to the brand and corporate image, and investment risk to be among the material strategic risks.

Collection and industry risks

Collection and industry risks can arise from changes in fashion and lifestyle trends. The challenges in the collection development process involve recognizing trends at an early stage as part of creative management and promptly incorporating these into commercially successful collections as part of development work. → **Research and Development**

Changes in trends cause collection and industry risks

Intensive **analyses of relevant target groups and markets** and the sale of previous collections serve to reduce this risk. Also, **proximity to customers** in the Group's own retail business and the increasing use of the data acquired as part of the systematic **customer relationship management** facilitate the recognition of global trends and changes in buying behavior and allow to take these into account when developing future collections.

Market analyses and customer feedback provide an important input to collection development

Early alignment towards increased demand for casual and athleisurewear

In the past few years there has been a discernible trend towards a more relaxed, sporty clothing style. This has meant that over the last few years, the **casualwear and athleisure segments** of the global apparel market have developed faster than classic tailoring. With the expansion of its casualwear and athleisurewear offerings HUGO BOSS has been quick to respond to this trend. The Group will also strengthen its collections in this area in future and allocate more space in its own stores to the casual and athleisurewear ranges. → Opportunities Report

Realignment of the brand strategy involves collection risk

The Group's sales development in fiscal year 2018 will be significantly influenced by the commercial success of the collections, which reflect the **focus on BOSS and HUGO** for the first time. Therefore, there is a risk that the repositioning of both brands will not be understood or not accepted by customers and that this may have a negative influence on customer demand. The repositioning of the two brands was accompanied by numerous events and campaigns during fiscal year 2017. The various brand communication activities will also be an important element in strengthening customer demand in 2018 and thus should contribute to the commercial success of the collections. → Group Strategy, → Outlook

Potential negative impacts from collection and industry risks are considered to be high. Based on the risk mitigation measures implemented however, Management deems the likelihood of occurrence to be unlikely.

Risks to the brand and corporate image

A wide range of risks to the brand and corporate image

The occurrence of **risks for the brand and corporate image** can have a negative influence on the economic success of HUGO BOSS. For example, an inadequate quality of the products or services on offer in the Group's own retail business, an uncontrolled price and discount policy, the use of distribution channels that are damaging to the brand, unattractive marketing campaigns or non-compliance with laws or social standards could have a negative impact on the brands' image.

Safeguarding the brand image a high priority

Protecting and maintaining brand image has a high priority at HUGO BOSS. A globally uniform brand and shopping experience, strict quality controls, a centrally managed price and discount policy, the constant focus on developing the distribution strategy, an effective compliance management system as well as exacting labor and social standards contribute towards this goal. In addition, legal trademark protection and the prosecution of product piracy are important efforts to secure the brand image.

Corporate communication in constant dialog with stakeholders

The corporate image of the HUGO BOSS Group is reflected in **how it is perceived by its stakeholders**. All communication activities are managed by the central corporate communications, investor relations and corporate sustainability departments. These are involved in continuous dialog with all important interest groups. Compliance with laws, standards and guidelines, both within the Group and by partners, is also regularly verified. The Management considers a negative impact on the brand and corporate image to be possible. Based on the measures taken, however, the effects on the Group's net assets, financial position and results of operations are deemed moderate.

Investment risks

Own retail activity involves investment risk

The Group's own retail activities come with **investment risks** in connection with the modernization of the store network, its expansion activity, as well as the cross-channel integration and digitization of the Group's own retail activities. The risk of bad investments refers for example to investments in stores for which long-term rental agreements have been entered into but which in retrospect fall short of the Group's profitability targets. Bad investments can also result from the development and implementation of new furniture designs and digital elements.

Risk of impairment of non-financial assets

The risk in connection with **impairment** of the value of ordinarily depreciated property, plant and equipment and amortized intangible assets at the level of the Group's own retail stores, other intangible assets with infinite useful lives (key money) and goodwill is the largest risk position in this area. First and foremost, the deterioration of the future business outlook can make an impairment of the relevant carrying amounts necessary. This kind of impairment would only have an effect on financial reporting and would not become a cash item. → **Notes to the Consolidated Financial Statements, Note 10**

Investment controlling secures Group's profitability targets

For key investment projects there is a specific **authorization process**. Apart from qualitative analyses, e.g. with respect to potential locations of own stores, this also includes an analysis of each project's present value. **Central investment controlling** appraises the planned investment projects with respect to their contribution to the Group's profitability targets. In addition, subsequent analyses are conducted at regular intervals to verify the profitability of projects that have already been realized. Appropriate countermeasures are taken in the event of any negative deviations from the profitability targets originally set. Based on the measures implemented, the investment risk is assessed as possible, but with a moderate financial impact. → **Group Management**

Material financial risks

The HUGO BOSS Group is subject to material currency and tax-related risks.

Currency risks

As a result of the global nature of its business activities as well as the Group's internal financing activities, HUGO BOSS is exposed to **currency risks**, which may have an impact on the Group's net income and equity.

Currency risks from global sourcing and sales activities

In **operating business** currency risks primarily arise due to the fact that products are bought and sold in different currencies in different amounts (transaction risk). Significant cash flows in foreign currency result from the sales activities of Group companies in the United States, Great Britain, Australia, Switzerland, Japan, Turkey, Hong Kong and China as well as the sourcing activities in foreign currencies such as the US dollar.

Significant financing loans hedged using forward exchange contracts

Currency risks in **financing** result from financial receivables and liabilities in foreign currency and loans in foreign currency granted to finance Group companies (transaction risk). A distinction is made between operating loans similar to an overdraft facility and financing loans for Group companies with greater and longer-term financing requirements. As of the reporting date, the main financing loans with repayment on final maturity were hedged using forward exchange contracts.

Balance sheet and income statement influenced by translation risk

In addition, currency risks exist in connection with the **translation of financial statements of Group companies** outside the Eurozone in the Group currency, the euro (translation risk). The translation risk is monitored on an ongoing basis, however the Group does not hedge it because the influence on the consolidated balance sheet and the Group's income statement are not a cash item. → Notes to the Consolidated Financial Statements, Currency Translation

Currency risks are managed centrally

Currency risks are managed centrally by the **Group's central treasury department**. Group-wide guidelines ensure strict separation of the functions of trading, handling and control for all financial market transactions and also form the basis for the selection and scope of hedges. The primary aim is to mitigate the exchange rate exposure using **natural hedges**. This way, currency exposures from business operations throughout the Group can be offset against each other as much as possible, thereby minimizing the need for hedging measures. **Forward exchange contracts and swaps** as well as **plain vanilla options** can be concluded to hedge the remaining exposures. The objective here is to limit the impact of exchange rate fluctuations on exposures already on the balance sheet as well as future cash flows. → Notes to the Consolidated Financial Statements, Note 21

Cash flow hedging reduces currency risk from production activities

Future cash flows from the **Group's production activities in Turkey** are designated to an effective hedging relationship shown on the balance sheet (hedge accounting). The derivative financial instruments used in this instance are solely intended to hedge underlying transactions. These derivatives are traded over the counter. As a rule, the terms are adjusted to the underlying hedged item when they are concluded, and transactions are concluded with the bank that offers the best terms.

In accordance with the **requirements set down in IFRS 7**, the HUGO BOSS Group has calculated the effects of translation risk on the Group's net income and equity. This is determined based on the balance sheet currency exposure as of December 31, 2017. The exposures include cash, receivables and liabilities, as well intercompany loans held in currencies other than the functional currency of each respective Group company.

Transaction risk quantified by sensitivity analysis

As in the previous year, the Group has implemented the **value-at-risk method** based on a parametric approach to quantify foreign currency risks. Since fiscal year 2016, this concept has also been used as an internal indicator for activities conducted by the Group's central treasury department. The value at risk is calculated on the basis of historical volatilities and correlations of exchange rates as well as a confidence level of 95%. The holding period is always adjusted to the remaining term of the current year. Furthermore, it is assumed that the total financial currency exposure and its hedging ratio as of the reporting date are representative for the entire reporting period.

Although the VaR is an important concept in measuring market price risks, the model assumptions can **limit its usefulness**. The actual impact on the Group's net income can vary considerably from the model-based values calculated using the VaR method. This is especially the case in the event of exceptional occurrences.

Swiss franc and Russian ruble pose transaction risk

Aggregated across all currencies examined, the **diversified portfolio risk** for the Group's net income calculated using this method comes to EUR 6.6 million (2016: EUR 11.6 million). The main drivers behind this are the Swiss franc and Russian ruble. The sensitivity of the Group's equity is not the same as that of the Group's net income due to the hedge accounting implemented in the Group. Had the euro appreciated or depreciated against the Turkish lira by one standard deviation, the Group's equity would have been EUR 0.9 million lower or higher in the reporting year (2016: EUR 2.1 million).

Translation effects to weigh heavily on earnings growth in 2018

The Management also expects significant changes in the exchange rates of relevance to HUGO BOSS to be very likely in fiscal year 2018. The Group's earnings forecast for fiscal year 2018 is based on the assumption that **translation effects** from the depreciation of many currencies which are important for the Group against the euro will have a negative impact on sales and – despite being partially offset by the manufacturing costs and operating expenses – also on the result. Based on the results of the VaR analysis, the impact of the **transaction risk** on the Group's net income is considered to be low. In summary, Management considers the financial impact of currency risks to be moderate. → Outlook

Tax risks

Group tax department is responsible for the management of tax risks

As a globally operating group, HUGO BOSS is subject to a variety of tax **laws and regulations**. Changes in this area could lead to higher tax expenses and tax payments and also have an influence on recognized actual and deferred tax assets and liabilities. All tax-related issues are regularly analyzed and evaluated by the **Group's tax department**. The estimation of external local experts such as lawyers and tax advisors is also taken into account.

Known tax risks are covered by provisions

Tax risks exist for all assessment periods still open. Sufficient provisions were recognized in prior fiscal years for known tax risks. The amount provided for is based on various assumptions, for example the interpretation of respective legal requirements, the latest court rulings and the opinion of the authorities, which is used as a basis for measuring the loss amount and its likelihood of occurrence. → Notes to the Consolidated Financial Statements, Note 6

Regular monitoring of the usability of deferred tax assets on losses carried forward

The Group tax department regularly assesses the likelihood of the future usefulness of **deferred tax assets** which have been recognized on unused tax losses. This assessment takes into account various factors, such as future taxable results in the planning periods, past results and measures already taken to increase profitability. HUGO BOSS applies a forecast period of a maximum of three years for this purpose. Actual figures may differ from the estimates.

In terms of tax law, risks may result from changes in the tax legislation of individual countries, tax field audits or from diverging estimations of existing issues by the tax authorities. Transfer prices in particular must also be mentioned because of the HUGO BOSS business model. As a result of this, the Group is expecting additional tax risks with a significant financial impact.

Material operational risks

HUGO BOSS considers risks associated with the suppliers and sourcing markets, as well as quality, logistics and sales and distribution risks to be among the material operational risks.

Risks associated with the suppliers and sourcing markets

Risks associated with the suppliers and sourcing markets exist in connection with a possible dependence on individual suppliers or production sites, a possible increase in product costs as well as any possible discrepancy between production and sales.

Dependency on individual suppliers should be avoided

HUGO BOSS attaches key importance to the careful selection of suppliers and the establishment and maintenance of long-term strategic relationships. However, there is a risk that production from one or more suppliers may break down due to supplier-related factors or incidents affecting a particular region. An excessive **dependency on individual suppliers or production sites** could therefore lead to upheaval in the Group's supply chain and therefore to sales risks. The Group therefore ensures as balanced a distribution of sourcing volumes as possible. The production and sourcing process is always coordinated centrally. The supplier relationships are regularly monitored and evaluated with the aim of identifying risks at the earliest possible opportunity and introducing appropriate measures to ensure the supply of goods. Indeed, the largest external supplier made up about 9% in fiscal year 2017, and the largest single external production site made up about 5% of the total volume sourced (2016: 9% and 4% respectively). ➔ **Sourcing and Production**

A wide range of measures implemented at production site in Turkey

In view of the known **earthquake risk** and possible risks as a result of **ongoing political uncertainties**, a particularly wide range of measures have been implemented at the Company's largest production site in Turkey in order to limit the impact on the sales of HUGO BOSS of a possible downturn in production. For the majority of production volumes, emergency plans are in place to transfer production to external suppliers. Also, the financial risk in the unlikely event of an earthquake is covered by insurance as far as possible. Given the measures that have been implemented, Management estimates overall that risks from dependence on individual suppliers or the regional distribution of the sourcing volume are unlikely to occur. The associated financial consequences however could still be high.

Increasing wages for production employees and raw materials prices have a potential negative impact on profitability

Increasing wages for production employees, in particular in emerging economies, as well as an increase in the price of relevant raw materials to the Group such as cotton, wool and leather may lead to **higher product costs** and so have a negative influence on the profitability of the Group. HUGO BOSS counters this risk with margin-based collection planning, measures to improve efficiency in the production and sourcing processes, continuous optimization in the use of materials and rigorous implementation of its pricing policy. It is assumed at present that, although risks from higher production costs are possible, they would only have a low negative impact on the development of earnings.

The forecasting of sales volumes, planning of production capacities and allocation of raw materials and finished goods as part of the sourcing processes involves **scheduling risks**. Deviations from an appropriate allocation can lead to excess allocation resulting in high inventory levels on the one hand. On the other, it can also lead to insufficient allocation and the risk of failing to benefit from sales opportunities. In order to reduce this risk, the Group is making great efforts to continually improve the forecast quality and to keep making the goods management more flexible across channels and markets. In view of the large volumes involved, the risk is considered likely. The associated financial consequences could be high depending on their magnitude.

Continuously improving the quality of forecasts should reduce scheduling risks

Overall, the aggregate potential impact of risks associated with the suppliers and sourcing markets is considered to be high. Aggregated together, the likelihood of occurrence is considered as possible.

Quality risks

When sourcing materials and manufacturing its products, HUGO BOSS sets exacting standards with regard to **quality**. Thorough quality controls at all stages and the incorporation of customer feedback should contribute to the continuous improvement of the production process. Also, both the company's own production sites as well as those belonging to partners are regularly monitored to make sure they comply with central quality specifications. Incoming goods checks as well as intensive quality tests at the Metzingen site should also ensure the quality standards at HUGO BOSS. Nevertheless, the Group considers a certain amount of product returns for quality reasons to be possible. However, the impact on the development of earnings is considered as significant despite the recognition of appropriate provisions for returned goods and the regular review of the amounts recognized. → **Sourcing and Production**

Ensuring product quality by means of an extensive range of measures

Logistics risks

HUGO BOSS is exposed to **logistics risks**, which mainly relate to the temporary downtime or loss of warehouse locations and an accompanying potential loss of turnover. The storage of all raw materials and finished goods is concentrated in a few chosen sites. Therefore, the distribution centers for hanging garments, flat-packed goods and the European online business, all located in the immediate vicinity of the headquarters in Metzingen, form the core of the Group-wide logistics network. The three sites guarantee the highest quality standards and are operated independently by HUGO BOSS as are several smaller regional distribution centers. → **Business Activities and Group Structure**

Central distribution centers near to the corporate headquarters guarantee smooth logistics

The **adherence to comprehensive fire protection and safety measures** is continuously monitored at all warehouse locations. HUGO BOSS has also taken out insurance to cover the direct financial risk from a loss of goods or equipment in warehouses. Based on the measures implemented, the likelihood of occurrence of logistics risks is considered to be unlikely. The associated financial consequences are expected to be moderate.

A comprehensive fire protection and safety concept has been implemented

Sales and distribution risks

Sales and distribution risks exist in connection with the Group's own retail activities, in particular with regard to inventory management as well as slow-moving goods and the resulting impairment. In the wholesale channel the sales risks mainly refer to a possible dependency on individual wholesale partners as well as bad debts.

Central inventory and discount management system to reduce the inventory risk

The aim of the centrally organized inventory management system is the forward-looking and optimal allocation of the inventory across the Group while at the same time ensuring that it remains flexible, in order to be able to react to any increase or decrease in demand at short notice. **Downturns in demand** or **erroneous assessments of sell-through rates** can potentially have a negative impact on inventory turnover. HUGO BOSS therefore aims to continuously improve its inventory management system. The countermeasure of **granting additional discounts** necessarily translates to a reduced gross profit margin and is therefore continually monitored by the Group controlling department. A centrally managed pricing policy, differentiated retail formats and collections adjusted to the respective distribution channel serve to further improve the efficiency of sales floor space.

A uniform, Group-wide process to value the inventory

Inventory risks may result from inventory items being kept in storage for longer and a potential reduction in their marketability as a consequence. According to the lower-of-cost-or-market principle, **impairments** on inventories are recognized accordingly and are monitored on a monthly basis. As part of the process, system-based analyses of movement rate, range of coverage and net realizable value are applied in a uniform manner across the Group. Sufficient write-downs were recognized as of the reporting date from the Management's perspective. → **Notes to the Consolidated Financial Statements, Note 12**

A balanced customer structure to avoid overdependence

Attention is paid to ensuring a **balanced customer structure** to avoid a potential over-dependence on individual customers in the wholesale channel. The Group controlling department constantly monitors key indicators such as the order intake, sales and supply rates and report on these to the Management on a regular basis. If risks occur, counter-measures can be adopted promptly. → **Group Management**

Receivables management follows uniform standards

In the wholesale channel, the Group is exposed to a **bad debt risk** based on the potential insolvency of individual trading partners and a concentration of bad debts in the event of an economic slowdown in individual markets. The **Group-wide receivables management** follows uniform regulations, for example regarding the credit rating checks and the setting and observance of customer credit limits, monitoring of the age structure of receivables and the handling of doubtful accounts. In specific cases, this means that deliveries are only made upon prepayment or business is discontinued with customers with an insufficient credit rating. The internal audit function regularly checks compliance with the Group guidelines. As of the reporting date, there was no concentration of default risks caused by significant overdue payments of individual customers. Consequently, risks in connection with the default of wholesale partners are possible but their overall impact is estimated to be low. → **Notes to the Consolidated Financial Statements, Note 13**

In summary, the Management estimates the likelihood of occurrence of sales risks as possible. The cumulative financial impact is largely classed as high due to the potential discounts and impairments.

Material organizational risks

HUGO BOSS considers IT risks, personnel risks and governance and compliance risks to be among the material organizational risks.

IT risks

Central IT department secures Group-wide IT system against outages and cyber attacks

Smooth business operations with efficient processes are strongly dependent on a powerful and secure IT infrastructure uniformly implemented throughout the Group. Serious **outages of the Group's IT systems** can lead to significant business interruptions, while **cyber attacks** can lead to system interruptions, the loss of confidential data and as a result to damage to the company's reputation as well as liability claims. In order to reduce these risks, preventative system maintenance and security checks are carried out by the central IT department on a regular basis, multi-level security and anti-virus concepts are implemented and job-related access rights are assigned. In addition to this, access control systems, daily data backups in the Group-wide ERP system, an uninterrupted power supply as well as regular online training sessions for staff should increase IT security in the Group. The internal audit function regularly monitors the security and reliability of the IT systems as well as the effectiveness of the control mechanisms which have been implemented.

HUGO BOSS considers cyber attacks as an emerging risk

HUGO BOSS assumes that global cyber attacks will continue to increase in future, and consequently classes it as an **"emerging risk"**. For this reason, the Group is working on implementing a so-called security information and event management (SIEM) system. The completion of this approach to security management due in 2018 will make it possible to gain a comprehensive view of the IT security in the Group. Also, an anti-threat protection system was implemented with the introduction of Windows 10, which is also intended to protect the Group against attacks by ransomware and phishing. Furthermore, HUGO BOSS also works with external service providers to avert risks. Due to the measures carried out, management currently considers the occurrence of IT risks to be unlikely and the financial impact to be moderate.

Personnel risks

The Group's personnel strategy addresses personnel risks

Achieving the Group's strategic and financial goals is largely dependent on the skills and motivation of its employees and on safeguarding a fair and value-based corporate culture. **Personnel risks** mainly stem from recruitment bottlenecks, a shortage of specialists and excessive employee turnover. HUGO BOSS combats this risk with a forward-looking HR policy, comprehensive development and training offerings, the continuous development of its performance-based remuneration system and a variety of measures to support a healthy work-life balance. HUGO BOSS considers itself to be well positioned in the increasing international competition for skilled workers and so classes this risk as unlikely, however at the same time with a significant financial impact. → **Employees**

Governance and compliance risks

All employees of the HUGO BOSS Group are required to comply with the **code of conduct** applicable throughout the Group and the **compliance rules** applicable in specific areas. All Group companies are subject to regular risk analyses and detailed audits where applicable. Adherence to the compliance rules is monitored centrally and breaches are reported to the Managing Board and Supervisory Board. → **Corporate Governance Report**

Breaches of **data protection laws**, especially customer data protection laws, represent an increased compliance risk. Employees receive data protection training and are required to comply with the code of conduct. New processes and systems and those which have already been implemented are measured against data protection requirements on an ongoing basis and are continuously improved in order to comply with legal requirements. With a view to the future applicability of the General Data Protection Regulation (GDPR) of the European Union and the potential fines for breaches thereof which have been significantly increased, HUGO BOSS has introduced fundamental measures to implement the regulations and thus to mitigate risk.

Management classes risks in the context of governance and compliance as unlikely overall due to the corporate compliance system which has been implemented, however the potential financial risk is seen as significant.

Report on the accounting-related internal control system and the risk management system pursuant to Sec. 289 (4) and 315 (4) HGB

The aim is to accurately show all business transactions in the accounting records

The system of internal control and risk management of the HUGO BOSS Group, as applied to the Group financial reporting process and the financial statements closing process, aims to accurately show all business transactions in the accounting records. This should ensure the **reliability of the financial reporting** and that all **accounting-related activities with laws and guidelines** are complied with. All assets and liabilities should be recorded accurately with regard to recognition, disclosure and valuation, which should enable a reliable statement to be made on the Group's net assets, financial position and results of operations. As well as adherence to legal regulations and the Company's internal guidelines, the use of efficient IT systems, a clear definition of responsibilities as well as suitable training and development for employees in the finance department form the basis of a proper, consistent and efficient financial reporting process.

Using efficient IT systems

A uniform ERP system across the Group ensures control quality

Management controls across all divisions depend on accurate and up-to-date information. The HUGO BOSS Group's reporting systems are therefore of paramount importance. The use of a uniform, SAP-based ERP system across the Group makes sure of **a high control quality**.

The aim of the **Group-wide SAP Security Policy** is to prevent unauthorized access to data and to ensure the integrity, availability and authenticity of data of relevance to financial reporting at all times. It also contains requirements for controls designed to ensure a properly functioning central finance department. System-enabled controls and workflow-based processes that impose the dual-control principle, a suitable separation of functions, and internal approval procedures supplement the IT security of the accounting-related processes. This includes invoice verification and approval, the sourcing processes or SAP authorization management carried out by the central IT department.

SAP Security Policy protects the content relevant for accounting purposes

Clear definition of responsibilities

As part of the standardized reporting, the Group companies produce separate financial statements on a monthly basis based on the IFRS and submit these to the central finance department together with additional key figures and explanations. The central **finance department of HUGO BOSS AG** is responsible for specifying and monitoring compliance with reporting obligations and deadlines. Automated and standardized reporting formats are in place for the vast majority of reporting topics. The central finance department is responsible for the maintenance of all the master data for the chart of accounts applicable throughout the Group as well as the continuous review of all reporting formats with respect to their observance of the latest applicable international financial reporting requirements. Additionally, the finance department ensures that all business transactions in the HUGO BOSS Group are shown in a uniform way when compiling the Group's consolidated financial statements.

Central definition of reporting obligations and deadlines

The central finance department is also responsible for developing uniform **guidelines and instructions** for accounting and tax-related processes and keeping them up to date. This mainly encompasses the preparation and revision of a bad debt allowance policy, an investment guideline, the IFRS accounting manual and binding intercompany reconciliation requirements.

The finance department develops guidelines for all accounting-related processes

All Group companies are legally independent entities. Apart from the managing directors, who are responsible for business operations in the respective market, the finance managers are responsible for all issues of relevance to the Company's financial reporting or tax situation. The **finance manager is also responsible** for the continuous monitoring of key performance indicators and the monthly reporting of KPIs to the central finance department and the preparation of a three-year plan for the respective market. In his capacity as technical supervisor of all finance managers, the CFO of HUGO BOSS AG is authorized to issue directives on and is thus responsible for the Group-wide financial management and financial reporting processes.

Finance managers are responsible for accounting of Group companies

On a quarterly basis, the finance managers and managing directors of the Group companies **confirm compliance in writing with the defined principles** on a quarterly basis and the **execution of management controls** with regard to the accounting process. Reports also have to be submitted regarding the appropriateness of controls for ensuring data integrity and data access protection as well as in the event of fraud or serious infringements of the internal control system.

Significant accounting and valuation matters and the effects of the new or changed IFRS standards and interpretations are discussed with the **auditors of the consolidated financial statements** in regular meetings held at least on a quarterly basis.

The internal audit function regularly reports to the Managing Board and Audit Committee

The **internal audit function** is part of the system of internal control and in its oversight function reviews compliance with and the effectiveness of the defined controls with regard to the accounting process. The annual audit plan is coordinated with the Managing Board and the Audit Committee of the Supervisory Board. This is where the areas of focus are defined. Additional ad hoc audits can also be performed at any time. All audit reports are submitted directly to the CFO and on request to the Managing Board as a whole. The internal audit function also regularly reports to the Audit Committee.

Training and development of employees

Regular training sessions on accounting-related topics

Training sessions are organized at regular intervals for all employees involved in the accounting process. Updates on accounting-related topics are also communicated across the Group via the "Accounting Newsletter". Once a year the finance managers meet with managers in the central finance department for the "Finance Manager Meeting". In addition, the "Financial College" training is held in the fourth quarter. Here, finance employees from the entire Group receive training in current developments in international financial reporting and all matters relevant to the preparation of the annual financial statements.

Opportunities report

Systematically identifying and utilizing value-enhancing business opportunities is a key element of efforts to ensure that the Company grows profitably. In the HUGO BOSS Group opportunities are defined as possible positive deviations from planned targets or corporate planning assumptions.

Decentralized organization of opportunity management

Due to its direct link to the targets of the respective business divisions, **responsibility** for the identification, assessment and entrepreneurial utilization of opportunities lies with the operational management in the regions, individual markets and central functions. In this context, opportunities are always considered in conjunction with any associated risks. They are only pursued when they outweigh the associated risk and when the risk is assessed to be manageable and its potential consequences limited.

Ongoing monitoring and close links to Group planning

Short-term opportunities, in the sense of potential, positive deviations from the planned operating profit in the current fiscal year are discussed with regional management at regular intervals. Appropriate actions to exploit such opportunities are initiated as required. The **long-term management of opportunities** is directly linked to corporate planning. Opportunities identified and evaluated in terms of their contribution to the enterprise value are analyzed in detail in the context of strategic planning and the annual budget discussions. On this basis, the Managing Board allocates the necessary resources to the operational units to enable them to benefit from their realization.

HUGO BOSS has identified the following key opportunities that stem from the Company's environment, its corporate strategy and operational implementation itself.

External opportunities

Favorable macroeconomic developments

As a company operating in the apparel industry, HUGO BOSS can benefit directly from **favorable macroeconomic developments** and their effect on consumer confidence and customers' buying behavior. The persistent low inflation and low interest rates coupled with rising real wages could contribute towards a further improvement in consumer confidence in many markets and have a positive influence on the purchase of fashionable clothing and accessories.

Changes in consumer behavior

Over the last few years, however, the apparel industry has benefited less than most industries from the positive trend in consumer spending. A cyclical reversal of this development due to **social trends** that enhance the value of high-quality apparel again, for example, could also support the sales of HUGO BOSS on the whole, regardless of how consumer confidence develops.

Regulatory changes in the market environment

Regulatory and legal changes can potentially have a positive impact on sales opportunities and the Company's profitability. More consistent prosecution and punishment of violations of trademark law may for example improve the Company's sales situation and the reduction of customs charges may improve profitability.

Financial opportunities

Favorable exchange rate and interest rate fluctuations

Favorable **exchange rate and interest rate developments** can potentially have a positive impact on the development of the Group's earnings. The Group's central treasury department analyzes the market environment continuously and is responsible for identifying and tapping into relevant opportunities within the framework of financial management principles. → **Financial Position**

Strategic and operational opportunities

Growth in the relevant customer segment

In many emerging markets, especially in China, economic researchers are expecting **continued growth within the middle class**. This would bring about an increase in the number of people demanding products in the upper premium segment as a result of their purchasing power. The Group is working systematically to capture the identified growth potential with market entry and market penetration strategies tailored to specific countries through collaboration with business partners and independent subsidiaries. In addition to this, it is systematically strengthening its distribution activities in markets with high growth potential and low brand penetration.

Increased interest in fashion among men

In recent years, **interest in fashionable clothing has grown considerably, particularly among younger men**. More and more men are paying increasing attention to maintaining a fashionable appearance as a means of expressing their personality or standing out from the crowd. Clothing is also increasingly considered an important determinant of how an individual's competence in the workplace is perceived by others. Accordingly, market observers are expecting the share of men's fashion in the apparel market as a whole to increase in the future. Among other things, this corresponds with the measure introduced by HUGO BOSS in 2017 to focus brand communication activities even more strongly in this area.

Growing demand for casualwear and athleisurewear

Recently, **the casualwear and athleisure segments** in the global apparel market have developed faster than classic tailoring. This development underlines the trend towards a relaxed clothing style and many consumers' need to dress in a sporty style without compromising on value or quality. Independent studies, such as the current market outlook of The Business of Fashion and McKinsey & Company, also expect above-average growth rates for the athleisure segment in the future. HUGO BOSS has therefore strengthened its offering in this area by integrating BOSS Orange and BOSS Green into the core BOSS brand. The Company is also giving these formats more space in its own stores again to benefit from this trend. → **Group Strategy**

Growth in contemporary fashion segment above market average

In addition, the **contemporary fashion segment**, which means the part of the market that is even more fashionable and trend-oriented, is seeing above-average growth rates. The Company wants to exploit the opportunities resulting from this by implementing a two-brand strategy and, within this, focusing on the HUGO brand.

Increasing digitization of shopping habits and lifestyles

The rapidly **increasing use of digital offerings** has significantly changed consumers' shopping habits and lifestyles over the last few years. By performing online searches, customers nowadays are far better informed before visiting a store than they were in the past. HUGO BOSS sees these changes as an opportunity. With the expansion and continuous improvement of its online presence, the Group is addressing consumers' expectations with respect to a high-quality brand experience. The even closer integration of its online presence with the in-store retail business and the expansion of omnichannel offerings is designed to provide customers with an appealing and uncomplicated shopping experience. Growing commercial use is also making the Company examine opportunities which previously might have arisen for digital channels used purely for commercial purposes. → **Group Strategy**

Growing need for individuality

The Group addresses its **customers' growing need for individuality** with both its brand strategy and its distribution strategy. By building up and regionally extending its "Made to Measure" offering, the Group can offer to a growing number of interested consumers the option of wearing individually modified and tailored products with which they can stand out from the crowd. The exclusivity of this offering is also conveyed in the shopping experience, with dedicated selling space specially designed for this purpose. In addition, HUGO BOSS is creating a more personalized offering in other product groups and price brackets. Opportunities are also seen in an individual approach to customers with **systematic customer relationship management**. Stronger ties are forged between BOSS and HUGO and their and customers, and brand loyalty is strengthened by targeted phone calls, personalized mailings and individual newsletters. In the online sector in particular, analyzing user behavior provides good opportunities to further individualize the way the Company speaks to customers.

Improvements in operational processes

HUGO BOSS is addressing the growing importance of its own retail business by **optimizing critical operational processes**. Thanks to its IT-supported selling space, assortment and volume planning, the Group is in a position to align its product range even more effectively with the needs of end consumers and to flexibly respond to changes in the market. The management of the flow of goods across more and more distribution channels offers opportunities to improve the availability of merchandise and to reduce discounts, for example. The Group is also working hard to increasingly **digitize various processes** along the value chain to generate time and cost advantages. Therefore, increasing the use of digital prototypes in developing products shortens development times and reduces costs in the medium term. In the wholesale channel, HUGO BOSS sees opportunities to make the sales process more simple in future through the use of digital showrooms. → **Group strategy**

Organizational opportunities

An active change to the corporate culture

HUGO BOSS has set itself the goal of changing its **corporate culture** so that decision-making processes become faster and entrepreneurial thinking among employees is encouraged. In doing this, the Company sees opportunities to adapt to changes faster and more comprehensively than in the past and to increase customer benefits.

Targeted employee development

HUGO BOSS is aligning its **human resource work** towards shaping the environment in the Company in such a way that employees can constantly grow and develop their full potential. The Group places a lot of value in the results from the annual employee surveys in this regard. Successes on this front and recruiting highly-qualified talent can in future have a direct positive effect on the sales and earnings situation. → **Employees**

Sustainable business model

The Group is committed to pursuing sustainability from the point of view of economic, ecological and social aspects. On the one hand, this allows it to fulfill its social responsibility. On the other, **sustainable behavior** offers key economic opportunities, not only with regard to direct increases in sales and reductions in costs, but also in terms of the general reputation of the Company and its brands in general. → **Sustainability**

SUBSEQUENT EVENTS AND OUTLOOK

- **Global economy and industry continue to post positive growth**
- **HUGO BOSS expects increased sales growth in 2018**
- **Stable development in the operating profit forecast**

Subsequent events

No reportable events

Between the end of fiscal year 2017 and the release for publication of this report on February 20, 2018, there were no macroeconomic, socio-political, industry-related or Company-specific changes that the Management expects to have a significant influence on the Group's earnings, net assets and financial position.

Outlook

Forward-looking statements are subject to opportunities and risks

The following report presents the **forecasts by the Management of HUGO BOSS** with respect to the future course of business and describes the expected development of significant macroeconomic and industry-specific conditions. It reflects management's current knowledge at the time the report was prepared, while also taking into account the fact that actual developments may differ considerably from these forecasts, either positively or negatively, due to the occurrence of risks and opportunities as described in the report on risks and opportunities. Other than the statutory publication requirements, the HUGO BOSS Group does not assume any obligation to update the statements contained in this report.

External factors influence development of business

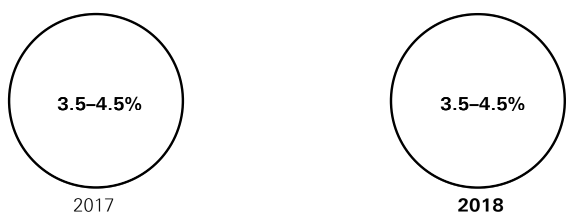
Economic and industry-specific developments have a major influence on the development of the Company's operations and financial position. The Group must accordingly base its forecasts for expected business performance on assumptions regarding global economic and industry trends. These assumptions are outlined below. The Group continuously monitors these conditions over the course of the year so that it can respond to possible changes as quickly and comprehensively as possible. → Group Management

Continued upturn in global economic growth expected

The IMF expects the **global economy** to grow at an accelerated pace of 3.9% in 2018 (2017: 3.7%). The reasons behind this are a more positive growth outlook for emerging markets and developing economies in particular, as well as the tax reforms adopted in the United States, which should provide a further boost to growth in 2018. For industrialized countries, the IMF is expecting stable growth rates for 2018 overall compared to the prior year. The country-specific growth rates however are forecast to differ from one another considerably. Uncertainty surrounding the outcome of the Brexit negotiations, volatile exchange rates and geopolitical tension are regarded as significant risks for the global economy in 2018.

Growth in **the Eurozone** in 2018 should benefit from continued strong consumer confidence and solid demand from overseas. According to estimates from the IMF, growth is expected to be only slightly below last year's level at 2.2% (2017: 2.4%). The reasons for this include weak growth prospects in Spain in particular due to political uncertainties. The economy in Great Britain is also expected to grow slightly more slowly than in the previous year at 1.5% (2017: 1.7%). In the **U.S.**, economic growth is predicted to accelerate to 2.7% (2017: 2.3%). An expected increase in foreign demand as well as the adopted tax reforms are set to provide a stimulus to growth. The IMF is also expecting growth in Latin America to continue. The economy in **China** and other emerging markets in Asia is predicted by the IMF to continue the trend seen in previous years with growth of 6.5% (2017: 6.5%). This would mean that around half the growth in the world economy in 2018 is in this region. The Japanese economy is also predicted to grow slightly this year, stimulated by higher foreign demand as well as monetary and fiscal policy measures.

Estimates of industry growth[1] (in %)



[1] Estimates The Business of Fashion and McKinsey & Company for the upper premium segment of the apparel industry.

Upper premium segment of the apparel industry likely to see similar growth in 2018 to prior year

In a joint study, The Business of Fashion and the consultancy firm McKinsey & Company expect that the **upper premium segment of the apparel industry**, which is the best benchmark for HUGO BOSS, would grow by around 3.5% to 4.5% in 2018 and therefore at a similar rate to the prior year (2017: 3.5% to 4.5%). For the **global apparel industry** as a whole, growth rates are expected to be in the 3.5% to 4.5% range when adjusted for currency effects, and therefore slightly higher than in 2017 (2017: 2.5% to 3.5%). These estimates are made on the expectation that demand for apparel, shoes and accessories will rise, especially in emerging markets.

Athleisure segment also set to outperform the market in 2018

The Business of Fashion and McKinsey & Company expect an increase in the number of customers that have previously demanded products in the medium price segment but will increasingly focus on either the premium and luxury segments or the cheaper market segments. The Business of Fashion and McKinsey & Company also expect above-average growth in the **Athleisure segment** in the global clothing market in 2018, which has already grown significantly in the past few years. However, it is assumed that the trend towards a more sporty clothing style has already peaked in certain developed markets. Generally speaking, the industry outlook is characterized by considerable differences between individual companies. → **Risk Report**

Continued strong demand expected in Europe

In **Europe**, industry development in 2018 is expected to profit from continued strong local demand. Business with tourists is expected to contribute towards overall industry growth in the low to mid single-digits. However, industry growth in Great Britain is expected to be lower than in 2017 after strong growth following the depreciation of the pound sterling in recent years. In Germany too, sales in the industry are expected to increase, mostly through growth in the online sector, due to the still-favorable macroeconomic development.

Below-average industry growth expected in the U.S.

In the **Americas**, industry growth is expected to accelerate due to an improved outlook in Latin America. For the U.S. market, industry growth is only expected to be in the low single-digits in 2018, despite the expected positive impact from the adopted tax reforms. Although it is predicted that consumer confidence in the United States will remain strong, industry experts continue to see uncertainties regarding the possible impacts of changes in trade policy as well as the continued discount and consolidation pressure on the side of market participants.

Industry growth in Asia expected to accelerate

In **Asia**, industry growth in 2018 is set to accelerate thanks to strong demand in China as well as in other emerging markets in the region. It is assumed that the strong macroeconomic growth seen in China will continue to have a positive impact on the demand for premium and luxury goods. The changes to the business model and adjustments to the store network made by a number of market participants should continue to support growth. In Hong Kong and Macau, the market situation should continue to improve over the course of the year after the recovery in 2017. However, The Business of Fashion and McKinsey & Company expect that developed markets in the region such as Japan or South Korea will grow at a slightly lower rate in 2018 than in 2017.

Industry-related conditions remain challenging

HUGO BOSS expects that the economic and industry-specific conditions described will have an impact on the Group's business performance similar to that in 2017. But particularly because industry development is expected to remain weaker than the long-term average, HUGO BOSS still considers itself to be exposed to **major market-related challenges**. This applies in particular to the U.S. market, which indeed has recovered to some extent from the drastic declines seen in 2016, but is predicted to remain under structural pressure above all in the department store segment in 2018.

Increase in Group sales expected to be in the low to mid single-digits

As a consequence, the Group expects to increase **sales** in fiscal year 2018 by a rate in the low to mid single-digits, adjusted for currency effects. This means that business growth is expected to be similar to that of the global economy and the development of the industry overall.

All regions to contribute towards sales growth in 2018

In 2018, all regions are expected to contribute towards sales growth. The Group assumes that sales in **Europe** will increase by a percentage rate in the low to mid single-digits adjusted for currency effects. Sales development in Great Britain and southern Europe should be slightly better on a currency-adjusted basis when compared to the region as a whole. Growth in Great Britain, however, is expected to be lower than in the prior year. In 2017, the market benefited from significantly higher demand from tourists as a result of the devaluation of the pound sterling. Bolstered by an ongoing positive economic environment, also Germany and its neighboring countries are predicted to achieve sales increases. For the **Americas**, 2018 is predicted to see the upward trend continue. As a result, sales should increase by a low single-digit percentage rate when adjusted for currency effects. All markets in the region should make a positive contribution towards sales growth in the own retail business. Also, the wholesale business in the United States which has been declining of late is set to stabilize. In **Asia**, sales are forecast to grow by mid to high single-digit percentage rates, particularly due to an unchanged positive outlook in the Chinese market. Alongside solid increases on the Chinese mainland, the Group is also expecting above-average growth in Japan and the south-east Asian markets compared to the region as a whole. Sales in the **license** segment should grow in the mid single-digit percentage range. This outlook is based in particular on the expectation that the fragrance business will record further growth.

Sales in the Group's own retail business to grow at a mid single-digit percentage range

For the **Group's own retail business**, sales in 2018 are expected to grow at a mid single-digit percentage rate on a currency-adjusted basis. The forecast is based on the assumption that comp store sales will grow in the mid single-digit percentage range, too. In the **online business** faster sales growth is expected compared to the prior year. In addition to this, the improvements in the BOSS and HUGO collections, the broadening of the casualwear and athleisurewear offerings, the expansion of omnichannel services and the gradual introduction of new store concepts will continue to improve the customer experience and thus increase selling space productivity. → **Group Strategy**

Size of store network likely to remain stable

The **size of the Group's own store network** will not change significantly in 2018. Closures of stores with expiring leases are likely to be offset by a similar number of new store openings. In some cases, this reflects the relocation of sites within the same metropolitan area. The Group also plans to open its first HUGO stores in selected major European cities. The amount of retail space managed by HUGO BOSS directly will therefore not change significantly. As a result, the Group expects that expansion effects will not make any major contribution to the development of Group sales in 2018.

Wholesale business predicted to return to growth in 2018

The Group also sees growth potential in its **wholesale business** by aligning its product range more closely to the needs of its partners and expanding online cooperations. The Group is therefore expecting this distribution channel to grow in 2018, and is forecasting an increase in sales in the low single-digit percentage range. In the U.S. market, conditions continue to be difficult. Nonetheless, based on the progress made in the prior year, the upgrading of the distribution should also make a positive contribution in 2018. As a result, sales performance in the wholesale channel is expected to be similar in Europe and the Americas. → **Group Strategy**

Gross profit margin predicted to remain largely stable

HUGO BOSS expects the **Group's gross profit margin** to remain largely stable in 2018 compared to the prior year. The growing share of own retail is expected to have a positive impact on the gross profit margin. The gross profit margin generated through this distribution channel is higher than in wholesale. The Group is also aiming for a moderate reduction in discounts in own retail. However, investments in the product quality of BOSS and HUGO will partially offset these effects. Likewise, negative currency effects from the depreciation of many currencies which are important for the Group against the euro will weigh on the gross profit margin in 2018.

Strict cost management limits increases due to investments in digitization and customer experience

The Group's **operating expenses** will increase in 2018, predominantly as a result of further investments in the digital transformation of the business model. HUGO BOSS expects these investments to deliver an important stimulus to sales and to accelerate operational processes. With this in mind, the Group continues to invest in omnichannel distribution and a high-quality customer experience. Brand communication activities will remain an important element in strengthening customer demand in 2018. Strict cost management will limit the increase in administrative expenses forecasted for 2018. The share of research and development expenses in Group sales should remain more or less stable.

Currency effects and cost increases weigh on earnings outlook

EBITDA before special items is expected to develop within a range of -2% to +2% in 2018 compared to the prior year. Cost increases will roughly offset the expected sales growth. This forecast is based on the assumption that translation effects from the depreciation of many currencies which are important for the Group against the euro will have a negative impact on sales and – despite some opposing effects within sourcing costs and operating expenses – also on operating profit. Depreciation and amortization expenses will decline slightly due to the lower investment level seen in the prior year. The financial result is expected to remain virtually unchanged compared to the prior year. The Group tax rate is expected to decline since negative effects associated with the U.S. tax reform adopted in 2017 will not be repeated. However, the absence of one-off income from the release of unutilized provisions in 2017 will place a damper on earnings development. The sum of all these effects should let the **Group's net income** increase by a percentage rate in the low to mid single-digits compared to the prior year.

HUGO BOSS expects that investments in its brands, product quality, the shopping experience and the digitization of its business model will promote future sales growth. Accordingly, for **2019 and beyond** the Group anticipates that its sales growth will surpass that of the relevant market segment. Given these assumptions, the operating margin (ratio of EBITDA before special items to sales) is then forecast to increase again.

Increase in trade net working capital relative to sales expected

HUGO BOSS is committed to strictly managing **trade net working capital** also in 2018. However, the Group is predicting an increase in average trade net working capital as a percentage of sales of up to one percentage point. This primarily reflects the fact that delays in the receipt of invoices that favored the development of trade payables in the prior year will likely not be repeated in 2018.

Increase in investment forecasted

The Group's own retail business will remain the focus of its **investment activities** in 2018. The renovation of existing retail stores and investments in the cross-channel integration and digitization of the Group's own retail activities enjoy priority. Alongside the accelerated conversion of existing BOSS stores to the new furniture concept, in 2018 the Group is also investing in opening the first HUGO stores, particularly in Europe, as well as in relocating the outlet at the headquarters in Metzingen. HUGO BOSS will also further expand and strengthen its IT infrastructure, especially at the Company headquarters in Metzingen, particularly with a view to making improvements in the areas of e-commerce and digital brand communication, introducing additional omnichannel services and improving its customer relationship management. Capital expenditure is thus expected to increase to between EUR 170 million and EUR 190 million in 2018. Investments will be financed by operating cash flows in 2018 as well.

Substantial decrease in free cash flow expected

In 2018, the Group expects **free cash flow** of between EUR 150 million and EUR 200 million. The decline compared to the prior year particularly reflects the expected increase in investments as well as the projection of a higher cash outflow from the changes in trade net working capital. The Group expects **financial leverage** at the end of the year to be more or less at the prior year's level. Due to its strong internal financing capability and the favorable terms of its syndicated loan, which has been extended until 2022, the Group does not plan any significant financing activities in 2018. → **Financial Position**

Dividend of EUR 2.65 per share proposed

HUGO BOSS pursues a **profit-based distribution policy** that allows the shareholders to participate appropriately in the Group's earnings development. Between 60% and 80% of net income is to be distributed to shareholders on a regular basis. The Managing Board and the Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 3, 2018, a **dividend of EUR 2.65 per share for fiscal year 2017** (2016: EUR 2.60). The proposal is equivalent to a payout ratio of 79% of the consolidated net income attributable to the equity holders of the parent company in 2017 (2016: 93%). The proposed dividend takes account of the positive earnings development and strong growth in free cash flow in 2017 in particular. Assuming that the shareholders approve the proposal, the dividend will be paid out on May 8, 2018. Based on the number of shares outstanding at year-end, the **payout will come to EUR 183 million** (2016: EUR 179 million).

The occurrence of opportunities or risks may influence annual financial results

Adverse macroeconomic and industry-specific market developments in key sales markets, rising sourcing costs and unexpected fluctuations in demand in the Group's own retail business could have negative financial implications, causing the actual development of the annual financial results to differ from this forecast. The Group has contingency plans in place to limit the likelihood and impact of these and other **risks**. Details are presented in the risk report. Conversely, capturing **opportunities** presented in the opportunity report may lead to positive deviations from the forecast. → **Report on Risks and Opportunities**

Target achievement and outlook

	Targets 2017	**Result 2017**	Outlook 2018
Group sales[1]	Largely stable development	+3%	Increase at a low to mid single-digit percentage rate
Sales by region[1]			
Europe	Stable development	+2%	Increase at a low to mid single-digit percentage rate
Americas	Slight decline	+1%	Increase at a low single-digit percentage rate
Asia/Pacific	Slight increase	+6%	Increase at a mid to high single-digit percentage rate
Sales by distribution channel[1]			
Group's own retail business	Increase of up to mid single-digit percentage rate	+5%	Increase at a mid single-digit percentage rate
Wholesale	Decline at a low to mid single-digit percentage rate	(2)%	Increase at a low single-digit percentage rate
Licenses	Solid growth	+14%	Increase at a mid single-digit percentage rate
Gross profit margin	Slight increase	Increase by 20 basis points to 66.2%	Largely stable
EBITDA before special items	Development within a range of -3% to +3%	0%	Development within a range of -2% to +2%
Consolidated net income	Increase at a low double-digit percentage rate	+19%	Increase at a low to mid single-digit percentage rate
Trade net working capital as a percentage of sales	More or less stable	Decrease by 120 basis points to 18.6%	Increase of up to one percentage point
Capital expenditure	EUR 150 million to EUR 170 million	EUR 128 million	EUR 170 million to EUR 190 million
Total retail space	More or less stable compared to the prior year	+1%	More or less stable compared to the prior year
Free cash flow	More or less stable compared to the prior year	Increase by 33% to EUR 294 million	EUR 150 million to EUR 200 million
Financial leverage	More or less stable compared to the prior year	Decrease by 0.2 to 0.0	More or less stable compared to the prior year

[1] On a currency-adjusted basis.

HUGO BOSS AG

- **HUGO BOSS AG is the parent company of the HUGO BOSS Group**
- **Service relationships to subsidiaries characterize its operational development**
- **Statements regarding risks, opportunities and forecasts for the HUGO BOSS Group also apply to HUGO BOSS AG**

Management of the central functions influences the results of HUGO BOSS AG

HUGO BOSS AG is the **parent company of the HUGO BOSS Group**. The annual financial statements of HUGO BOSS AG are prepared in accordance with the rules set down in the HGB [“Handelsgesetzbuch”: German Commercial Code]. The results of HUGO BOSS AG are influenced by the management of the central functions in particular. The main line items in this regard are the allocation of costs for services rendered to Group companies and the investment income resulting from the holding function of HUGO BOSS AG. The business development of HUGO BOSS AG is subject for the most part to the same **risks and opportunities** as those applicable to the HUGO BOSS Group. Due to its integration with the Group’s companies and its importance within the Group, the **expectations** for HUGO BOSS AG are for the most part reflected in the Group’s forecast. The previous versions therefore apply to both the HUGO BOSS Group and to HUGO BOSS AG.

Earnings development

Income statement HUGO BOSS AG (in EUR million)

	2017	**In % of sales**	2016	In % of sales	Change in %
Sales	**1,262**	**100.0**	**1,234**	**100.0**	**2**
Cost of sales	(797)	(63.1)	(767)	(62.1)	(4)
Gross profit	**465**	**36.9**	**467**	**37.9**	**0**
Distribution expenses	(300)	(23.8)	(298)	(24.2)	(1)
General administrative expenses	(113)	(8.9)	(99)	(8.0)	(14)
Other operating income	78	6.1	79	6.4	(1)
Other operating expenses	(64)	(5.1)	(114)	(9.3)	(44)
Operating profit	**66**	**5.2**	**35**	**2.8**	**88**
Income from investments in affiliated companies	215	17.0	227	18.4	(5)
Net interest income/expenses	(7)	(0.5)	(7)	(0.5)	0
Taxes on income and other taxes	(37)	(2.9)	(41)	(3.3)	8
Net income	**237**	**18.8**	**215**	**17.4**	**10**
Transfer to (–)/from (+) other revenue reserves	(54)	(4.3)	(37)	(3.0)	(45)
Accumulated income previous year	4	0.3	5	0.4	(28)
Unappropriated income	**187**	**14.8**	**183**	**14.8**	**2**

Sales increase of HUGO BOSS AG

Sales of HUGO BOSS AG comprise external sales with wholesale partners, the sales of the Group’s own retail business in Germany and Austria, and intercompany sales with foreign subsidiaries.

Sales by region (in EUR million)

	2017	In % of sales	2016	In % of sales	Change in %
Europe	1,004	79	980	80	2
Americas	171	14	165	13	4
Asia/Pacific	87	7	89	7	(2)
Total	**1,262**	**100**	**1,234**	**100**	**2**

Sales with third parties in the Europe region rose by 3% last year to EUR 510 million (2016: EUR 496 million).

Sales by brand (in EUR million)

	2017	In % of sales	2016	In % of sales	Change in %
BOSS	953	75	939	76	1
HUGO	221	18	217	18	2
Other services	88	7	78	6	13
Total	**1,262**	**100**	**1,234**	**100**	**2**

Gross profit margin decreases by 100 basis points

In addition to the higher sales with third parties in Europe, it was primarily higher sales with subsidiaries in the Americas that resulted in increased sales in the past fiscal year. **Gross profit** was unchanged over the prior-year period. In addition to currency effects, the reduction in sales prices in Asia made last year contributed to a decline in the **gross profit margin** in particular.

Increase in general administrative expenses

The slight increase in **distribution expenses** mainly reflects higher cost for logistics. The **general administration expenses** mainly comprise personnel expenses, rent for premises, lease expenses, amortization and depreciation as well as various IT costs. The increase results primarily from higher year-on-year cost allocations and services rendered to HUGO BOSS AG and from greater amortization due to IT investments in prior years.

The **other operating income** remained stable in comparison to the prior year and mainly resulted from the cost allocations and services rendered to affiliated companies. The **other operating expenses** essentially include research and development costs, bad debt allowances and exchange rate effects. In the previous year, the settlement claims of affiliated companies in particular resulted in a temporary increase in this item.

Decline in investment result

The **income from investments in affiliated companies** was 5% below the prior-year level. Income from investments amounting to EUR 92 million (2016: EUR 91 million) mainly concerns the net income of HUGO BOSS Trade Mark Management GmbH & Co. KG, which is transferred to the loan account of HUGO BOSS AG as limited partner in accordance with the partnership agreement. Income from profit and loss transfer agreements with subsidiaries amounted to EUR 122 million (2016: EUR 136 million) and resulted from the transfer of profit from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In the fiscal year 2017, this company received dividend income from HUGO BOSS Holding Netherlands B.V.

Mainly as a result of temporary differences, the **tax rate** of 14% was below the rate of the prior year (2016: 16%).

Net assets and financial position

Slight increase in property, plant and equipment and intangible assets in the reporting period

The **property, plant and equipment and intangible assets** increased 1% year-on-year to EUR 860 million (December 31, 2016: EUR 854 million). This was due to investments in the IT infrastructure in connection with the continuous further development of the ERP system and of own online stores. In addition to investments in the Metzingen site, in fiscal year 2017 the company invested in the modernization of the retail network in Germany and Austria.

Trade Net Working Capital (in EUR million)

	2017	2016	Change in %
Inventories	189	195	(3)
Trade receivables	26	31	(16)
Trade payables	102	98	4
Trade net working capital	**113**	**128**	**(12)**

Significant decrease in trade net working capital

The decrease in **inventory** essentially results from lower stock levels for finished goods due primarily to delivery cycles that differed from those of the previous year. HUGO BOSS AG is a supplier for the Group's global distribution companies. This decrease in **trade receivables** was due to a declining wholesale business. The **trade payables** recorded a slightly higher volume-driven increase year-on-year. The **trade net working capital** was consequently significantly down on the prior-year level at year-end.

The **receivables from affiliated companies** sustained a substantial decrease to EUR 56 million (December 31, 2016: EUR 150 million). The **liabilities due to affiliated companies** decreased by 27% and came to EUR 337 million at year-end (December 31, 2016: EUR 459 million). The decrease in these two balance sheet items is primarily attributable to intercompany financial balancing. **Provisions** decreased by 25% to EUR 96 million (December 31, 2016: EUR 127 million). In the previous year, provisions for claims for compensation to affiliated companies in particular resulted in a temporary increase in this item.

Cash and cash equivalents of HUGO BOSS AG at prior-year level

As of December 31, 2016, **cash and cash equivalents**, as the sum of cash on hand and bank balances, stood at EUR 2 million. Cash inflow from ongoing operating activities was at the prior-year level. The main cash outflows arose in connection with the company's investment activity and from the **dividend payment** for fiscal year 2016. At EUR 179 million, this was below the level of the prior year (2016 for 2015: EUR 250 million).

OVERALL ASSESSMENT OF THE MANAGING BOARD ON THE ECONOMIC SITUATION AND EXPECTED DEVELOPMENT OF THE GROUP

HUGO BOSS achieves annual targets

HUGO BOSS achieved its sales and earnings targets formulated for fiscal year 2017 and exceeded some of them. The Group benefited from the first results of its **strategic realignment** adopted in 2016. The **catalog of measures** already initiated in advance had a positive effect on the business performance. For example, improvements to the market position in the United States and Asia, savings in operating costs and the optimization of its store network helped stabilize sales and operating profit. Finally, the **performance of the global economy and industry** had a favorable impact on financial development.

Currency-adjusted increase in sales of 3%, stable earnings development

Primarily thanks to the better-than-anticipated sales development in own retail, **Group sales** in 2017 rose by 3% in currency-adjusted terms and thus more strongly than assumed at the start of the year. The **operating profit (EBITDA before special items)**, at EUR 491 million, remained at the prior-year level and thus in line with the forecast. The increase in sales was balanced by investments in repositioning the BOSS and HUGO brands, the digital transformation of the business model and negative currency effects.
→ Group Earnings Development

Free cash flow increased substantially due to the lower investment volume and the decrease in trade net working capital. With its low level of financial liabilities, the Group is therefore still in an exceedingly solid economic situation. **→ Financial Position**

HUGO BOSS expects return to profitable growth in 2019

For **2018** HUGO BOSS expects accelerated growth in sales. The EBITDA before special items is expected to develop within a range of -2% to +2% compared to the prior year. Investments in future growth, which will still have an adverse effect on earnings growth in 2018, are intended to ensure that Group sales in **2019 and beyond** will grow more strongly than the relative market segment. The operating margin should therefore also increase again. **→ Subsequent Events and Outlook**

Metzingen, February 20, 2018

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Yves Müller
Ingo Wilts

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

of the HUGO BOSS Group for the period from January 1 to December 31, 2017

Consolidated income statement (in EUR thousand)

	Notes	2017	2016
Sales	(1)	**2,732,573**	**2,692,846**
Cost of sales	(1)	(924,278)	(915,384)
Gross profit		**1,808,295**	**1,777,462**
In % of sales		66.2	66.0
Selling and distribution expenses	(2)	(1,195,453)	(1,175,454)
Administration expenses	(3)	(280,275)	(271,804)
Other operating income and expenses	(4)	8,487	(66,701)
Operating result (EBIT)		**341,054**	**263,503**
Net interest income/expenses		**(2,703)**	**(2,162)**
Other interest and similar income		1,608	1,567
Interest and similar expenses		(4,311)	(3,729)
Other financial items		**(7,059)**	**(5,705)**
Financial result	(5)	**(9,762)**	**(7,867)**
Earnings before taxes		**331,292**	**255,636**
Income taxes	(6)	(100,091)	(61,991)
Net income		**231,201**	**193,645**
Attributable to:			
Equity holders of the parent company		231,147	193,513
Non-controlling interests		54	132
Earnings per share (EUR)[1]	(7)	**3.35**	**2.80**
Dividend per share (EUR)	(16)	**2.65**[2]	**2.60**

[1] Basic and diluted earnings per share.
[2] 2017: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of the HUGO BOSS Group for the period from January 1 to December 31, 2017

Consolidated statement of comprehensive income (in EUR thousand)

	2017	2016
Net income	**231,201**	**193,645**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	3,415	(2,817)
Items to be reclassified subsequently to profit or loss		
Currency differences	(27,612)	(7,486)
Gains/losses from cash flow hedges	897	(2,252)
Other comprehensive income, net of tax	**(23,300)**	**(12,555)**
Total comprehensive income	**207,901**	**181,090**
Attributable to:		
Equity holders of the parent company	207,847	180,879
Non-controlling interests	54	211
Total comprehensive income	**207,901**	**181,090**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of the HUGO BOSS Group as of December 31, 2017

Consolidated statement of financial position (in EUR thousand)

Assets	Notes	2017	2016
Intangible assets	(9)	182,940	185,449
Property, plant and equipment	(9)	365,661	416,278
Deferred tax assets	(6)	94,420	124,685
Non-current financial assets	(11), (21)	18,301	21,027
Non-current tax receivables	(6)	0	55
Other non-current assets	(11)	1,158	4,233
Non-current assets		**662,480**	**751,727**
Inventories	(12)	536,843	567,971
Trade receivables	(13)	207,626	228,176
Current tax receivables	(6)	49,337	42,617
Current financial assets	(11), (21)	38,834	28,339
Other current assets	(11)	109,227	96,302
Cash and cash equivalents	(14)	115,700	83,490
Current assets		**1,057,567**	**1,046,895**
Total		**1,720,047**	**1,798,622**

Equity and liabilities			
Subscribed capital	(15)	70,400	70,400
Own shares	(15)	(42,363)	(42,363)
Capital reserve		399	399
Retained earnings		868,612	813,289
Accumulated other comprehensive income		18,007	44,778
Equity attributable to equity holders of the parent company		**915,055**	**886,503**
Non-controlling interests		(350)	1,048
Group equity		**914,705**	**887,551**
Non-current provisions	(17), (18)	69,796	78,554
Non-current financial liabilities	(19), (21)	62,966	134,111
Deferred tax liabilities	(6)	10,634	9,193
Other non-current liabilities	(20)	55,132	49,353
Non-current liabilities		**198,528**	**271,211**
Current provisions	(17)	107,468	148,614
Current financial liabilities	(19), (21)	68,827	77,077
Income tax payables	(6)	32,263	27,339
Trade payables		285,778	271,731
Other current liabilities	(20)	112,478	115,099
Current liabilities		**606,814**	**639,860**
Total		**1,720,047**	**1,798,622**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of the HUGO BOSS Group for the period from January 1 to December 31, 2017

Consolidated statement of changes in equity (in EUR thousand)

	Subsribed capital	Own shares	Capital reserve	
Notes	(15)	(15)		
January 1, 2016	**70,400**	**(42,363)**	**399**	
Net income				
Other income				
Comprehensive income				
Dividend payment				
Changes in basis of consolidation				
December 31, 2016	**70,400**	**(42,363)**	**399**	
January 1, 2017	**70,400**	**(42,363)**	**399**	
Net income				
Other income				
Comprehensive income				
Dividend payment				
Changes in basis of consolidation				
December 31, 2017	**70,400**	**(42,363)**	**399**	

	Retained earnings		Accumulated other comprehensive income		Group equity		
	Legal reserve	Other reserves	Currency translation	Gains/losses from cash flow hedges	Total before non-controlling interests	Non-controlling interests	Group equity
	6,641	**866,466**	**54,401**	**194**	**956,138**	**(463)**	**955,675**
		193,513			193,513	132	193,645
		(2,817)	(7,565)	(2,252)	(12,634)	79	(12,555)
		190,696	**(7,565)**	**(2,252)**	**180,879**	**211**	**181,090**
		(249,839)			(249,839)		(249,839)
		(675)			(675)	1,300	625
	6,641	**806,648**	**46,836**	**(2,058)**	**886,503**	**1,048**	**887,551**
	6,641	**806,648**	**46,836**	**(2,058)**	**886,503**	**1,048**	**887,551**
		231,147			231,147	54	231,201
		3,415	(27,612)	897	(23,300)		(23,300)
		234,562	**(27,612)**	**897**	**207,847**	**54**	**207,901**
		(179,442)			(179,442)		(179,442)
		203	(56)		147	(1,452)	(1,305)
	6,641	**861,971**	**19,168**	**(1,161)**	**915,055**	**(350)**	**914,705**

CONSOLIDATED STATEMENT OF CASH FLOWS

of the HUGO BOSS Group for the period from January 1 to December 31, 2017

Consolidated statement of cash flows (in EUR thousand)

	Notes	**2017**	2016
	(24)		
Net income		231,201	193,645
Depreciation/amortization	(8)	158,824	169,179
Unrealized net foreign exchange gain/loss		21,549	(6,576)
Other non-cash transactions		(1,207)	4,980
Income tax expense/refund	(6)	100,091	61,991
Interest income and expenses	(5)	2,703	2,162
Change in inventories		2,886	(5,320)
Change in receivables and other assets		(12,752)	13,716
Change in trade payables and other liabilities		38,813	(1,097)
Result from disposal of non-current assets		(906)	(2,542)
Change in provisions for pensions	(18)	(8,019)	5,321
Change in other provisions		(35,231)	43,332
Income taxes paid		(77,388)	(105,708)
Cash flow from operations		**420,564**	**373,083**
Interest paid	(5)	(2,113)	(2,380)
Interest received	(5)	1,605	1,559
Cash flow from operating activities		**420,056**	**372,262**
Investments in property, plant and equipment	(9)	(91,001)	(121,477)
Investments in intangible assets	(9)	(28,019)	(31,025)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired	(24)	(7,262)	(2,825)
Effects from disposal of subsidiaries		(1,069)	0
Cash receipts from sales of property, plant and equipment and intangible assets		847	3,296
Cash flow from investing activities		**(126,504)**	**(152,031)**
Dividends paid to equity holders of the parent company	(16)	(179,442)	(249,839)
Dividends paid to non-controlling interests		0	0
Change in current financial liabilities	(21)	(5,796)	32,844
Cash receipts from non-current financial liabilities	(21)	0	3,842
Repayment of non-current financial liabilities	(21)	(68,853)	(5,479)
Cash outflows for the purchase of additional interests in subsidiaries without change of control		0	0
Cash flow from financing activities		**(254,091)**	**(218,632)**
Changes in basis of consolidation		(1,589)	0
Exchange-rate related changes in cash and cash equivalents		(5,662)	482
Change in cash and cash equivalents		**32,210**	**2,081**
Cash and cash equivalents at the beginning of the period		83,490	81,409
Cash and cash equivalents at the end of the period	(14)	**115,700**	**83,490**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2017

General information

HUGO BOSS AG is a publicly listed stock corporation with registered offices in Dieselstrasse 12, 72555 Metzingen, Germany. The Company is filed in the commercial register of Stuttgart local court under HRB 360610.

The purpose of HUGO BOSS AG and its subsidiaries (together the "HUGO BOSS Group") is the development, marketing and distribution of high-end men's and women's fashion and accessories in the premium segment.

The consolidated financial statements of HUGO BOSS AG as of December 31, 2017, were prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the additional regulations pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code].

The consolidated financial statements and the combined management report of HUGO BOSS AG, Metzingen, were approved by the Managing Board for submission to the Supervisory Board by a decision of February 20, 2018.

Due to rounding and the presentation in EUR thousand, it is possible that the individual figures in the consolidated financial statements do not add up to the stated total.

Financial Reporting

Adoption of the standards and interpretations of the IASB revised in 2017 does not have any material effects on the presentation of the Group's results of operations, net assets and financial position. As a result of the standard IAS 7, which was revised and entered into force on January 1, 2017, the user of the financial statements is able to assess changes in the debts in connection with the financing activity.

The following significant accounting standards were not yet compulsory for the fiscal year 2017. The Group expects the following effects to arise from the application of the new accounting standards.

IFRS 9: Financial instruments
In July 2014, the IASB published the final version of the IFRS 9 "Financial instruments". The standard was adopted by the EU in November 2016 and includes revised guidance on the classification and measurement of financial assets, including guidance on the impairment of financial instruments, and thus replaces IAS 39. The recognition of losses is therefore preferred in the new "expected loss model", meaning that realized losses and expected losses must be recorded. The HUGO BOSS Group has assessed the effects of the first application of the standard on January 1, 2018, at present. The effects were examined with regard, for example, to the existing currency hedges, intercompany financing, guarantees and the potential additional ECL (expected credit loss) for receivables of the Group. On the basis of the available results of the analysis, HUGO BOSS assumes that the first application of the new standard will only have an immaterial effect on the net assets, financial position and results of operations of the consolidated financial statements. With the first application, derivatives not designated to a hedge relationship will be reported in the FVTPL (fair value through profit or loss) category in the future. The effective part of derivatives designated to a hedge relationship will be reported in the FVOCI (fair value through other comprehensive income) category in the future. Assets in the current LaR (loans and receivables) category will be reported in the AC (amortized cost) category in the future.

IFRS 15: Revenue from contracts with customers

The IFRS 15 "Revenue from contracts with customers" published by the IASB in May 2014 was adopted by the EU in September 2016 and becomes effective for the first time for fiscal years beginning on or after January 1, 2018. The guidance and definitions contained in IFRS 15 will replace the content of both IAS 11 and IAS 18 and the related interpretations in future. The new standard does not make any distinction between different types of contracts and services, instead defining uniform criteria to determine when a performance obligation is to be recognized at a point in time or over time. IFRS 15 prescribes a standardized five-step model for recognizing revenue, which must in principle be applied to all contracts with customers. HUGO BOSS has examined the effects of introducing the standard. Various HUGO BOSS business models particularly Retail, Wholesale and License were analyzed. Results of the analysis show that material revenue recognition adjustments are not required for any of the business models except for the so called "shop fit contribution", which must be accounted for differently under the new IFRS. Shop fit contributions are grants to wholesale partners to subsidize expenses for store fittings. For periods not impacted by IFRS 15, the grants are reported as "Selling and Marketing" expenses. For periods beginning on or after January 1, 2018, the grants are reclassified as a reduction to revenue. The effect on revenue amounts to a single-digit million euros and is deemed to be insignificant. The first application of IFRS 15 will lead to changes in the balance sheet, such as separate postings for assets and liabilities under contract as well as additional quantitative and qualitative notes to the financial statements. However, the analysis did not indicate any material impact on the consolidated financial statements. The Group will apply the modified transitional approach for the implementation of IFRS 15.

IFRS 16: Leases

IFRS 16 "Leases" provides guidance on recognition, measurement, presentation and disclosure requirements and replaces IAS 17 and the related interpretations. The guidance for recognition by the lessor still makes a distinction between finance leases and operating leases and therefore does not differ materially from the accounting guidance provided in IAS 17. For the lessee, however, no distinction will be made between finance and operating leases in the future. Most of the contracts which were previously categorized as operating leases must be recorded in the balance sheet from January 1, 2019. In accordance with IFRS 16, the lessee discloses a leasing liability of the value of the future leasing payments in the balance sheet as well as a corresponding right-of-use asset.

As of December 31, 2017, the Group has payment obligations from non-cancellable leases (including reasonably certain extension options) of EUR 1,389,244 thousand. A provisional assessment indicates that these agreements meet the definition of a lease agreement pursuant to IFRS 16 and that the Group would have to disclose corresponding discounted right-of-use assets and lease liabilities in the balance sheet. Since the Group is awaiting an assessment of the option for the capitalization of service components, short-term leases and low-value leased assets, it is not yet possible to make a final statement regarding the effects on the consolidated net income. According to the current status of the analysis a positive effect in the low three-digit millions range is expected for the EBITDA before special items. Initial analysis showed a positive effect on EBIT in the low of two digit million range. The Group rules out an early application as of January 1, 2018 and intends to apply IFRS 16 for the first time as of January 1, 2019. The Group will utilize the modified transitional approach for the application of IFRS 16.

Consolidation principles

The HUGO BOSS Group's basis of consolidation comprises HUGO BOSS AG and all subsidiaries, including structured entities, over which HUGO BOSS AG can exercise direct or indirect control. HUGO BOSS AG is deemed to exercise control if as the parent company it has power over the subsidiary on account of voting or other rights, is exposed to variable returns from its involvement in the subsidiary and is able to use its power over the subsidiary to affect the amount of these returns. The subsidiary is deconsolidated as soon as the parent company relinquishes control over it.

Subsidiaries with an immaterial influence on the net assets, financial position and results of operations of the Group are not included in the consolidated financial statements. Influence is deemed immaterial if the aggregate sales, earnings and total assets make up less than 1% of the corresponding figures for the Group. This is reassessed at each reporting date. Non-consolidated subsidiaries are measured at fair value or, if this cannot be determined reliably, at cost, and reported under other non-current financial assets.

Structured entities which are controlled by the parent company are also consolidated. These are entities which have been structured in such a way that they are controlled by the parent company regardless of who holds the voting or comparable rights. This is the case, for example, if the exercise of voting rights is confined to administrative tasks and the material activities are governed by contracts.

Joint ventures are consolidated using the equity method. Joint control is the contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The sale of shares in subsidiaries as a result of which the Group's share in such subsidiary increases or decreases without any loss of control is recognized within the equity of the corresponding equity providers.

Basis of consolidation

The HUGO BOSS Group's consolidated financial statements include HUGO BOSS AG based in Metzingen, Germany, and the entities that it controls in the reporting period from January 1 to December 31, 2017. The main Group companies included in the consolidated financial statements are as follows:

BIL Leasing Verwaltungs-GmbH & Co. 869 KG	Pullach, Germany[1,3]
GRAMOLERA Grundstücks-Vermietungsgesellschaft Objekt Ticino mbH	Metzingen, Germany[3]
HUGO BOSS (Schweiz) AG	Zug, Switzerland
HUGO BOSS Australia Pty. Ltd.	Preston, Australia
HUGO BOSS Benelux B.V. y CIA S.C.	Madrid, Spain
HUGO BOSS Benelux Retail B.V.	Amsterdam, Netherlands
HUGO BOSS Beteiligungsgesellschaft mbH	Metzingen, Germany[3]
HUGO BOSS Canada, Inc.	Toronto, Canada
HUGO BOSS China Retail Co. Ltd.	Shanghai, China
HUGO BOSS Fashions, Inc.	Wilmington, DE, U.S.A.
HUGO BOSS France SAS	Paris, France
HUGO BOSS International B.V.	Amsterdam, Netherlands
HUGO BOSS International Markets AG	Zug, Switzerland
HUGO BOSS Internationale Beteiligungs-GmbH	Metzingen, Germany[3]
HUGO BOSS Italia S.p.A.	Milan, Italy
HUGO BOSS Retail, Inc.	New York, NY, U.S.A.
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey
HUGO BOSS Ticino S.A.	Coldrerio, Switzerland
HUGO BOSS Trade Mark Management GmbH & Co. KG	Metzingen, Germany[3]
HUGO BOSS UK Limited	London, Great Britain
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG	Metzingen, Germany[3]
Lotus (Shenzhen) Commerce Ltd.	Shenzhen, China
Lotus Concept Trading (Macau) Co., Ltd.	Macau
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG	Grünwald, Germany[3]
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG	Grünwald, Germany[2,3]

[1] Investments with a 94% share in capital and 10% of voting rights.
[2] Investments with a 94% share in capital and 15% of voting rights.
[3] Subsidiaries that exercise the exemption of Sec. 264 (3) and 264b HGB ["Handelsgesetzbuch": German Commercial Code].

In the reporting period from January 1 to December 31, 2017, the number of consolidated companies in comparison to the consolidated financial statements as of December 31, 2016 decreased from 60 to 59.

Effective October 9, 2017, the HUGO BOSS Group established a new subsidiary in Estonia, known as HUGO BOSS Estonia OÜ. The HUGO BOSS Group has a 100% shareholding in this company. On grounds of immateriality for the Group, HUGO BOSS Estonia OÜ is not included in the consolidated financial statements as of December 31, 2017.

Effective November 16, 2017, the HUGO BOSS Group established a new subsidiary in Latvia, known as HUGO BOSS Latvia SIA. The HUGO BOSS Group has a 100% shareholding in this company. On grounds of immateriality for the Group, HUGO BOSS Latvia SIA is not included in the consolidated financial statements as of December 31, 2017.

As of January 1, 2017, HUGO BOSS AL FUTTAIM UAE TRADING L.L.C., Dubai, U.A.E., which was established together with the AL FUTTAIM Group in Dubai and in which HUGO BOSS Middle East FZ-LLC, Dubai, U.A.E., holds 49% of the shares, is recognized using the equity method of accounting.

Companies in which HUGO BOSS and one more party have joint control are accounted for using the equity method:

Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG	Pullach, Germany[1]
GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG	Grünwald, Germany[2]
HUGO BOSS ALFUTTAIM UAE TRADING L.L.C.	Dubai, V.A.E.[3]

[1] Investment with a 100% share in capital and 20% of voting rights.
[2] Investment with a 100% share in capital and 15% of voting rights.
[3] Investment with a 49% share in capital and 49% of voting rights.

Concerning the consolidation of structured entities, HUGO BOSS performs judgements insofar as leasing property companies are included in the scope of consolidation, if HUGO BOSS has the power of control over the companies' relevant activities and has therefore the ability to affect the amount of their variable returns. In its assessment of the two first-mentioned companies, HUGO BOSS assumes that the power of control over the relevant activities exists in those cases in which the purchase rights over the shares of the property companies represent a favourable purchase option in relation to their future market value. Significant influencing factors that are dependent on the measure are the externally observable developments of the property values, the achievable gross rental income of the properties, as well as the underlying projected real estate interest. HUGO BOSS assesses these factors at the end of each fiscal year. As of December 31, 2017, HUGO BOSS assumes that the purchase rights are still unfavourable and therefore do not represent the power of control over the relevant activities of the companies.

Business combinations

When a company obtains control over another company, this constitutes a business combination within the meaning of IFRS 3. All business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed (including contingent liabilities) in a business combination are measured at their acquisition-date fair values. Non-controlling interests are measured at their proportionate share in the fair value of the identifiable assets and liabilities. Acquisition-related costs incurred are expensed.

Goodwill

The goodwill resulting from a business combination is the excess between the consideration transferred and the fair value of the non-controlling interest in the assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the acquiree, the difference is reassessed and then recognized in profit or loss.

After initial recognition, goodwill is carried at cost in the functional currency of the foreign acquiree less any accumulated impairment losses. Any goodwill recognized is tested for impairment annually and whenever there is an indication that the assets might be impaired.

Intercompany transactions

The effects of intercompany transactions are eliminated. Receivables and liabilities between the consolidated companies are offset against each other, intercompany gains and losses pertaining to intangible assets, property, plant and equipment and inventories are eliminated; intercompany income is offset against the corresponding intercompany expenses. Deferred taxes are recognized on temporary differences arising on consolidation in accordance with IAS 12.

Determination of the functional currency

The Group's reporting currency is the functional currency of the parent company, HUGO BOSS AG. As a rule, the functional currency of the subsidiaries included in the consolidated financial statements is the corresponding local currency. For units that conduct a significant portion of their sales and procurement activities and that finance operations in a currency other than the corresponding local currency, the functional currency is the currency of the primary business environment. Accordingly, the euro is the functional currency of HUGO BOSS Textile Industry Ltd., Turkey, and HUGO BOSS International Markets AG, Switzerland, as these companies conduct most of their business in euro.

Foreign currency transactions and balances

In the separate financial statements, transactions in foreign currency are translated at the exchange rates valid at the dates of the transactions. Monetary items (cash and cash equivalents, receivables and liabilities) denominated in foreign currencies are translated into the functional currency at closing rates.

The resulting exchange rate gains and losses are recognized through profit and loss in other financial items.

Translation of the separate financial statements

The financial statements of the foreign Group companies whose functional currency is not the euro are translated into the Group reporting currency, the euro. Items are translated using the modified closing rate in accordance with IAS 21, under which assets, including goodwill, and liabilities are translated at closing rates, and income statement items are translated at the average exchange rates for the reporting period. The items of the income statement were translated into euros at the average monthly exchange rates and aggregated in the course of the year. Differences from currency translation of income statements at average rates and statements of financial position at closing rates are reported without effect on profit or loss in other comprehensive income. The currency difference resulting from the translation of equity at historical rates is likewise posted to other comprehensive income. Currency differences recognized in other comprehensive income are recycled to the income statement if the corresponding Group company is sold.

The most important exchange rates applied in the consolidated financial statements developed as follows in relation to the euro:

	Currency	Average rate		Closing rate	
Country	1 EUR =	**2017**	2016	**2017**	2016
Australia	AUD	1.5486	1.4352	1.5346	1.4596
China	CNY	7.8071	7.2944	7.8044	7.3202
Great Britain	GBP	0.8825	0.8447	0.8872	0.8562
Hong Kong	HKD	9.2497	8.1759	9.3720	8.1751
Japan	JPY	133.6619	122.2803	135.0100	123.4000
Switzerland	CHF	1.1696	1.0749	1.1702	1.0739
Turkey	TRY	4.5545	3.6817	4.5155	3.7099
U.S.A.	USD	1.1839	1.0537	1.1993	1.0541

Accounting policies

The financial statements of HUGO BOSS AG and the German and foreign subsidiaries are prepared pursuant to uniform accounting policies in accordance with IFRS 10.

Recognition of income and expenses

Income is recognized to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured. Income is measured at the fair value of the consideration received. Income is reported after deductions including discounts and other price deductions and net of VAT. The specific recognition criteria described below must also be met before income is recognized.

Sale of merchandise and goods

In the wholesale channel, income from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. This is the case as soon as delivery to the wholesale partner has been executed and all obligations affecting the acceptance of the goods by the wholesale partner have been settled.

In the Group's own retail business, opportunities and risks arising from the goods pass to the customer upon payment of the goods. Sales are recognized when transactions with customers are completed.

Sales via the online channel are recognized upon delivery of the goods to the customer. The date of delivery is deemed to be the date on which the opportunities and risks arising from the goods pass to the customer.

Claims under return agreements and rights of return are recognized in gross figures in the income statement and the balance sheet in connection with the recognition of sales. The income recognized in the income statement is reduced by an amount equaling the estimated sales attributable to the returned goods and the disposal of goods recorded through profit and loss when the goods are dispatched is adjusted for the estimated value of the returns. A miscellaneous non-financial asset is recognized equaling the amount of the historical costs for which a return is expected. Allowance is also made for additional costs and the loss arising from the resale of the returned goods.

Lincese and other income

License and other income are recognized in the period in which they are generated in accordance with the terms of the underlying agreements.

Operating income is recognized in the income statement when the service is used or generated where there is a direct relationship between the costs incurred and the corresponding income.

Interest income

Interest is recognized pro rata temporis taking into account the effective yield on the asset.

Functional costs

Operating expenses are essentially allocated to the individual function based on the respective cost centers. Expenses incurred in connection with cross-functional activities or projects are spread among the function costs concerned using an adequate allocation principle.

Research and development costs

Research costs are expensed as incurred. Development costs are likewise expensed as incurred if they do not satisfy the criteria for recognition as internally generated intangible assets. Production-related development costs are generally included in the calculation of the cost of unfinished and finished goods. These essentially comprise the cost of technical product development in the third phase of the collection creation process.

Income taxes

The tax rates and tax laws used to calculate the income tax are those that are enacted or substantively enacted on the reporting date in the countries where the Group operates and generates taxable income.

Receivables and provisions for current income taxes are recognized as soon as the realization is probable.

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the tax bases and the carrying amounts for financial reporting purposes of the separate entities and the carrying amounts in the consolidated financial statements in accordance with IFRS and for certain consolidation entries.

Deferred tax assets also include tax credits that result from the expected utilization of existing unused tax losses in subsequent years and the realization of which can be assumed with reasonable assurance. Deferred tax assets and deferred tax liabilities are presented on a net basis to the extent that the deferred tax assets and deferred tax liabilities relate to the same taxable entity. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse.

Income taxes are recorded in the income statement with the exception of those relating to items recognized directly in equity.

Intangible assets

Intangible assets are recognized if it is probable that a future economic benefit will flow to the company from the use of the asset and the cost of the asset can be reliably determined. Acquired intangible assets and internally generated intangible assets are measured at cost. Cost of conversion includes all costs directly allocable to the production process as well as an appropriate portion of production-related overheads. Intangible assets with a finite useful life are systematically amortized using the straight-line method over their useful life.

Intangible assets include software and licenses, reacquired rights and key money with a finite and infinite useful life (one-off payments made to the previous tenant when leases are entered into for the Group's own retail stores in prime locations). Intangible assets with an infinite useful life are tested for impairment once a year. If the carrying amount of the asset is no longer recoverable, an impairment loss is recognized.

Property, plant and equipment

Property, plant and equipment that are used in business operations for longer than one year are measured at cost less accumulated depreciation. Cost of conversion includes all costs directly allocable to the production process as well as an appropriate portion of production-related overheads. The underlying useful lives correspond to the expected useful lives within the Group. Property, plant and equipment are generally depreciated using the straight-line method.

Buildings and leasehold improvements on third-party land are depreciated over the term of the underlying lease agreements or the lower useful lives. The present value of the expected cost for the disposal or decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a corresponding provision are satisfied.

The useful lives and depreciation methods used for property, plant and equipment are reviewed regularly to ensure that the methods and periods of depreciation are consistent with the expected economic benefit from the items of property, plant and equipment.

Impairment of non-financial assets

Non-financial assets (property, plant and equipment and intangible assets including goodwill) are assessed at every reporting date as to whether there is an indication of impairment ("triggering events"). If there is any such indication, the recoverable amount of the asset is estimated. Irrespective of whether there is any indication of impairment, intangible assets with indefinite useful lives (key money and brand rights) and goodwill acquired in a business combination are tested for impairment annually. The recoverable amount is the higher of fair value of the asset less costs to sell and value in use. The value in use is the present value of the expected cash flows. The expected cash flows are discounted using the after-tax weighted average cost of capital that reflects the risks specific to the asset. In determining fair value less costs to sell, external appraisals are taken into account, if available. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the smallest identifiable group of assets to which the asset belongs (cash-generating unit – CGU) is determined.

If the carrying amount of the asset or CGU exceeds the corresponding recoverable amount, an impairment loss is immediately recognized through profit or loss. If a CGU is impaired, the carrying amount of any goodwill allocated to the unit is reduced first. Any remaining impairment loss reduces the other non-current assets of the CGU pro rata.

If, following an impairment loss recognized in prior periods, an asset or CGU has a higher recoverable amount, the impairment loss is reversed up to the maximum of the recoverable amount. The reversal is limited to the amortized carrying amount which would have been determined had no impairment loss been recognized in the past. The impairment loss is reversed through profit or loss. Reversals of impairment losses recognized on goodwill are not permitted.

Inventories

Raw materials and supplies as well as merchandise are generally measured at moving average cost. Work in progress and finished goods are measured at cost. Cost of conversion of finished goods includes direct material, direct labor, proportionate material and production overheads, and production-related amortization and depreciation insofar as this is a consequence of production. Also included are general administrative expenses, product development expenses, expenses for social facilities, expenses for voluntary social benefits and occupational pensions, to the extent that they are related to production and are incurred in the production period. Borrowing costs are expensed as incurred to the extent that the criteria for recognition in the carrying amount of an asset are not satisfied.

Inventories are carried at the lower of cost or realizable sales price less costs to sell.

Leases

In the case of lease arrangements with the Group as lessee, economic ownership of the leased asset is allocated to the lessee in accordance with IAS 17 if substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the Group (finance lease). The depreciation methods and useful lives applied correspond to those for comparable assets acquired for a consideration. Leased assets are generally capitalized as at the date on which the agreement is entered into at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the asset. The lease obligations, which correspond to the carrying amount of the leased assets and are amortized and measured in subsequent periods using the effective interest method, are reported under financial liabilities. The interest component of the lease liabilities is reported in the consolidated income statement over the term of the lease.

If economic ownership of a leased asset is attributable to the lessor (operating lease), the leased asset is recognized by the lessor. The corresponding lease payments are generally recognized as an expense on a straight-line basis over the lease term.

Financial instruments

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

Financial assets and financial liabilities, to the extent that they are currently relevant to the HUGO BOSS Group, are classified into the following categories:

a / Financial assets at fair value through profit or loss (FAHfT)
b / Loans and receivables (LaR)
c / Financial liabilities at fair value through profit or loss (FLHfT)
d / Other financial liabilities measured at amortized cost using the effective interest method (FLAC)
e / Available-for-sale assets at fair value (AfS)

Financial assets and liabilities are designated to the above categories upon initial recognition.

Financial assets

Financial assets are recognized initially at fair value. This takes into account any directly attributable transaction costs relating to the acquisition.

All purchases and disposals of financial assets are recognized at their value at the settlement date, the day when the group is obliged to purchase or sell the asset.

As a rule, the fair values recognized in the statement of financial position are the market prices of the corresponding financial assets. If these are not available, fair value is determined using generally accepted valuation models by reference to current market parameters. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, or discounted cash flow analysis and other valuation models.

Cash and cash equivalents recognized in the statement of financial position comprise cash in hand, balances with banks and other short-term deposits with an original term of less than three months; they are measured at amortized cost.

Trade receivables and other loans and receivables are subsequently measured at amortized cost (less any impairment losses), using the effective interest method where applicable. Gains and losses are recognized through profit or loss when the receivables are derecognized, impaired or settled.

Financial assets are measured at fair value through profit or loss if they were acquired for the purpose of selling them in the near future. This includes derivative financial instruments that are not designated to an effective hedging relationship in accordance with IAS 39. Gains and losses from financial assets measured at fair value through profit or loss are always posted to profit or loss.

Financial assets that are not measured at fair value through profit or loss are tested for impairment at every reporting date. If the carrying amount of a financial asset exceeds its fair value, it is reduced to the fair value. This decrease constitutes an impairment loss that is posted through profit or loss. An impairment loss recognized in profit or loss in a prior period is reversed if this is necessary on account of events occurring after it was originally recognized. Available-for-sale assets comprise non-derivative financial assets which are not allocated to any other measurement category and other financial assets which include non-consolidated subsidiaries.

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset expire or are transferred. In the latter case, substantially all the significant risks and rewards of ownership of the financial assets must be transferred or control over the asset must be transferred.

Financial liabilities

Financial liabilities are recognized initially at fair value. This takes into account any directly attributable transaction costs.

Derivatives that are not designated to an effective hedging relationship are measured at fair value through profit or loss. Negative fair values are reported under other financial liabilities. Gains and losses from subsequent measurement are recognized in profit or loss.

Trade payables and other financial liabilities are subsequently measured at amortized cost using the effective interest method. Any resulting gains and losses are posted to profit or loss when the liabilities are derecognized or extinguished.

A financial liability is derecognized when the obligation underlying the liability is discharged, canceled or expired.

Hedging instruments

In the HUGO BOSS Group, derivative financial instruments are solely used to hedge interest rate and currency risks from the operating business.

When hedges are entered into, specific derivatives are allocated to hedged items. The requirements of IAS 39 for the designation of hedges are satisfied.

Pursuant to IAS 39, all derivative financial instruments are to be allocated to the “Financial assets measured at fair value through profit or loss” category and measured at fair value. Changes in the fair value of derivative financial instruments are generally recognized in profit or loss.

To the extent that the financial instruments used are effective hedges as part of a hedging relationship in accordance with the requirements of IAS 39 (cash flow hedges), fair value fluctuations during the term of the derivative do not affect profit or loss for the period. Instead, fair value fluctuations are recognized in equity in the corresponding reserve item. The cumulative amounts recognized in equity are recycled through profit or loss in the same period during which the hedged cash flows affect profit or loss.

Provisions

Provisions are recognized if a past event has led to a current legal or constructive obligation to third parties which is expected to lead to a future outflow of resources that can be estimated reliably. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions for rebuild obligations in retail stores are recognized as liabilities at the present value of the best estimate of the amount required to settle the obligation. Corresponding assets are capitalized at the equivalent amount and depreciated over the term of the lease agreement. Provisions with a term of more than one year are discounted using a risk-free interest rate. Where the effect of the time value of money is material, the amount of the provision equals the present value of the expenditures expected to be required to settle the obligation.

Provisions for pensions

The measurement of pension provisions relates to the Group's obligation to provide benefit-based and contribution-based plans. IAS 19 mandates the use of the projected unit credit method for the provision of benefit-based plans, which takes into account future adjustments to salaries and pensions. The year-end present value determined using the projected unit credit method was compared to the fair value of plan assets in the employer's pension liability insurance to the extent that offsetting is permissible (asset ceiling). Actuarial gains and losses are immediately posted in full to other comprehensive income. Actuarial gains and losses are not reclassified from other comprehensive income to consolidated net income in subsequent years. The same applies to all effects of the asset ceiling. Net interest determined by multiplying the net pension liability by the discount rate underlying the gross pension obligation (DBO) is reported in the financial result. The difference between the actual interest return on plan assets and the anticipated return on plan assets obtained using the discount rate is posted separately to other comprehensive income. The service cost is reported under the relevant functional costs. The contributions from contribution-based pension schemes are recognized as expenses in the income statement on maturity.

Restructuring provisions

Restructuring expenses are recognized in the period in which they are incurred or in which the criteria for the recognition of a provision are satisfied. Early termination payments are recognized as an expense and an obligation if the Company has verifiably made a commitment under a formal plan by either offering termination benefits intended as an incentive for voluntary redundancy or has committed to early termination before the normal retirement age is reached.

Share-based compensation programs

Share-based compensation programs are accounted for in accordance with IFRS 2. The HUGO BOSS Group's long-term incentive (LTI) program initiated with effect from January 1, 2016, for members of the Managing Board and eligible management staff is a cash-settled, share-based payment transaction. The expenses arising from the LTI and the liabilities for settling these benefits are recognized over the expected vesting period. This amount is recalculated on each reporting date and measured using an option price model. Any changes in the fair value are posted to profit and loss. The resultant expense is recorded within personnel expenses and the liability recognized as a provision for personnel expenses.

Contingent liabilities and contingent assets

Contingent liabilities are not recognized. They are disclosed in the notes to the financial statements, unless an outflow of resources embodying economic benefits is very unlikely. Contingent assets are likewise not recognized. They are disclosed in the notes to the financial statements if an inflow of economic benefits is probable.

Exercise of judgment and estimates when applying accounting policies

The preparation of the Group's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. These estimates and judgments are made to obtain a fair presentation of the Group's net assets, financial position and results of operations. The main judgments and estimates used are specified in the notes to the financial statements.

Business combinations/acquisitions of other business units

Takeovers in fiscal year 2017

In the fiscal year 2017, the HUGO BOSS Group took over three stores and the related assets and inventories under an asset deal with a former franchise partner in Dubai. The three stores in Dubai were acquired via HUGO BOSS Middle East FZ-LLC, Dubai, U.A.E, with effect from April 1, 2017.

The following overview shows the allocation of the purchase price to the acquired net assets as well as the resulting goodwill:

(in EUR thousand)	2017
Purchase consideration transferred	
Agreed purchase price	7,262
Liabilities incurred	0
Total purchase price	**7,262**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	678
Property, plant and equipment	85
Inventories	382
Total assets	**1,145**
Total liabilities	**0**
Goodwill	**6,117**

Control over the assets is achieved through payment of the agreed purchase price. Goodwill is attributable to Europe and contains non-separable intangible assets and expected synergy effects. Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

As part of the purchase price allocations, intangible assets were identified in the form of reacquired rights. These are rights to use the HUGO BOSS and HUGO brand names that HUGO BOSS had granted to the franchise partners for the respective stores under franchise agreements. The franchise agreements were concluded at arm’s length conditions.

The additional Group sales generated by the takeovers came to EUR 1,474 thousand in the fiscal year 2017. The effects on consolidated net income were immaterial.

The acquisition in the fiscal year 2016 of stores operated in Malaysia and Hong Kong by former franchise partners was based on a preliminary purchase price allocation as not all the information required to account for the business combination in full was available in the fiscal year 2016. The finalization of the purchase price allocation did not have any effect on the net assets, financial position and results of operations of the HUGO BOSS Group in the fiscal year 2017.

Takeovers in fiscal year 2016

In the fiscal year 2016, the HUGO BOSS Group took over a total of six stores and the related business activities in asset deals from former franchise partners in Malaysia and Hong Kong. Three stores in Malaysia were acquired with effect from January 1, 2016, and two outlets in Malaysia with effect from July 1, 2016, via HUGO BOSS Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia, which had been incorporated in the fiscal year 2015 and consolidated for the first time in 2016. One store in Hong Kong was acquired via HUGO BOSS Hong Kong Ltd., Hong Kong, China, with effect from May 1, 2016. The business acquisitions were made to support the expansion of the Group's own retail business in Asia/Pacific.

The following overview shows the preliminary allocation of the purchase price to the acquired net assets as well as the resulting goodwill:

(in EUR thousand)	2016
Purchase consideration transferred	
Agreed purchase price	2,825
Contingent purchase price payment (not paid yet)	0
Total purchase price	**2,825**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	345
Property, plant and equipment	1,027
Inventories	615
Total assets	**1,987**
Total liabilities	**0**
Goodwill	**838**

Control over the assets is achieved through payment of the agreed purchase price. Goodwill is attributable to the Asia/Pacific segment and contains non-separable intangible assets and expected synergy effects. The goodwill is not expected to be tax-deductible. Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

As part of the purchase price allocations, intangible assets were identified in the form of reacquired rights. These are rights to use the HUGO BOSS brand name that HUGO BOSS had granted to the franchise partners for the respective stores under franchise agreements. The franchise agreements were concluded at arm's length conditions.

If the stores had been purchased as of January 1, 2016, Group sales would have been EUR 878 thousand higher in the fiscal year 2016. The change in consolidated net income would have been immaterial. The additional Group sales generated by the takeovers came to EUR 4,859 thousand in the fiscal year 2016. The effects on consolidated net income were immaterial.

Notes to the Consolidated Income Statement

1|Sales and cost of sales

(in EUR thousand)

	2017	2016
Total sales	**2,732,573**	**2,692,846**
Sales of goods	2,653,518	2,623,360
Licences	79,055	69,486
Total cost of goods	**924,278**	**915,384**
Cost of purchase	812,382	792,511
Cost of conversion	111,896	122,873

Cost of purchase contains the cost of materials, which corresponds to the amount of inventories expensed in the fiscal year. The line item also mainly includes freight-in and customs costs.

2|Selling and marketing expenses

(in EUR thousand)

	2017	2016
Expenses for Group's own retail business, sales and marketing organization	928,334	921,702
Marketing expenses	184,958	179,315
Logistic expenses	82,161	74,437
Total	**1,195,453**	**1,175,454**

The expenses for the Group's own retail business and the sales and marketing organization mostly relate to personnel and lease expenses for wholesale and retail distribution. They also include sales-based commission, freight-out, customs costs, credit card charges as well as impairment losses of receivables and of assets of the retail stores.

The marketing expenses comprise expenses of EUR 196,300 thousand (2016: EUR 195,203 thousand) and income from the allocation of marketing expenses of EUR 11,342 thousand (2016: EUR 15,888 thousand). Income from the allocation of marketing expenses mainly contains costs for the allocation of the cost of store fittings, marketing materials and advertising and sponsorship activities.

Logistics expenses mainly include personnel and lease expenses for warehouse logistics.

In total, selling and distribution expenses contain other taxes of EUR 3,768 thousand (2016: EUR 3,589 thousand).

3|Administration expenses

(in EUR thousand)

	2017	2016
General administrative expenses	217,460	207,795
Research and development costs	62,815	64,009
Total	**280,275**	**271,804**

Administration expenses primarily comprise rent for premises, maintenance expenses, IT operating expenses and legal and consulting fees as well as personnel expenses in these functions.

Research and development costs in the HUGO BOSS Group primarily relate to the creation of collections. Total expenditure on research and development breaks down as follows: personnel expenses of EUR 44,060 thousand (2016: EUR 46,137 thousand), amortization of EUR 2,098 thousand (2016: EUR 2,221 thousand), and other operating expenses of EUR 16,657 thousand (2016: EUR 15,651 thousand).

Significant income was generated in the area of administration expenses by cross-charging of other costs and services amounting to EUR 9,849 thousand (2016: EUR 9,557 thousand) and from the reversal of provisions EUR 5,909 thousand (2016: EUR 4,345 thousand).

In total, administration expenses contain other taxes of EUR 4,543 thousand (2016: EUR 5,461 thousand).

4|Other operating expenses and income

In the fiscal year 2017, the net income arising from other operating expenses and income was EUR 8,487 thousand (2016: Net expenses of EUR 66,701 thousand).

Store closures
Income of EUR 14,530 thousand relates to a provision recognized in the prior year in connection with the store closures that were agreed upon, which was not used in full. The company was able to achieve more favorable conditions compared with the original plans for the early termination of leases. In addition, the lease terms for some stores were improved in the closure negotiations with the result that these stores were kept open contrary to original plans.

The expenses recognized in this connection came to EUR 48,204 thousand in fiscal year 2016. The provisions that gave rise to these related in particular to compensation payments for lessors, losses from the fulfillment of leases by subletting the premises below the rental price and impairment losses of store fittings.

Further other operating expenses
Further other operating expenses of EUR 7,167 thousand arise in the reporting year as a result of organizational changes in the regions and the early dissolution of an agreement with a trade agent in the Middle East.

In the prior year, expenses of EUR 10,610 thousand were incurred from changes in the Managing Board and further expenses from organizational changes in the regions.

Further other operating income

In addition to income in connection with store closures, there was further other operating income of EUR 1,124 thousand in the fiscal year 2017. This resulted from the reduction of provisions in relation to organizational changes in the regions.

Of the income of EUR 2,458 thousand included in the prior year, EUR 1,057 thousand was in connection with the sale of a showroom in France. Other income of EUR 1,401 thousand was largely attributable to the reversal of provisions from prior years.

5 | Financial result

(in EUR thousand)

	2017	2016
Interest and similar income	1,608	1,567
Interest and similar expenses	(4,311)	(3,729)
Net interest income/expenses	**(2,703)**	**(2,162)**
Exchange rat gains/losses from receivables and liabilities	(16,758)	7,989
Gains/losses from hedging transactions	9,974	(12,977)
Other financial expenses/income	(275)	(717)
Other financial items	**(7,059)**	**(5,705)**
Financial result	**(9,762)**	**(7,867)**

Interest income includes income from bank deposits amounting to EUR 276 thousand (2016: EUR 247 thousand) and other interest income of EUR 1,332 thousand (2016: EUR 1,320 thousand).

Interest expenses include expenses from financial liabilities amounting to EUR 2,098 thousand (2016: EUR 2,384 thousand) as well as interest expenses of EUR 2,213 thousand (2016: EUR 1,345 thousand). In addition to loan interest, these items primarily include expenses for interest-rate swaps amounting to EUR 538 thousand (2016: EUR 569 thousand), net interest amount from pension provisions and interest expenses from the measurement of other non-current provisions at present value amounting to EUR 2,213 thousand (2016: EUR 1,345 thousand).

The exchange rate gains and losses from receivables and liabilities comprise exchange rate gains of EUR 22,538 thousand (2016: EUR 25,795 thousand) as well as exchange rate losses of EUR 39,296 thousand (2016: EUR 17,806 thousand). The result from hedging transactions contains the effects from the fair value measurement and derecognition of foreign exchange forwards and swaps.

6 | Income taxes

(in EUR thousand)

	2017	2016
Current taxes	74,038	66,845
Deferred taxes	26,053	(4,854)
Total	**100,091**	**61,991**

Income taxes report corporate income tax plus solidarity surcharge and trade tax of German Group companies together with the comparable income taxes of foreign Group companies.

At HUGO BOSS AG, the domestic income tax rate comes to 29.5% (2016: 29.5%). As in the prior year, the tax rates abroad range between 0% and 40%.

In the fiscal year 2017, current income taxes include expenses relating to other periods amounting to EUR 693 thousand (2016: EUR 1,218 thousand) as well as income relating to other periods of EUR 3,194 thousand (2016: EUR 11,164 thousand) and deductible withholding tax of EUR 805 thousand (2016: EUR 2,945 thousand).

The following table presents a reconciliation of the expected income tax expense that would be theoretically incurred if the current domestic income tax rate of 29.5% (2016: 29.5%) were applied at a Group level to the current income tax expense reported by the Group. The domestic income tax rate applied takes into account a corporate income tax rate (including solidarity surcharge) of 15.8% (2016: 15.8%) and a trade tax rate of 13.7% (2016: 13.7%).

(in EUR thousand)

	2017	2016
Earnings before taxes	**331,292**	**255,636**
Anticipated income tax	97,897	75,540
Tax effect of permanent items	6,744	7,435
Tax rate-related deviation	(11,524)	(28,016)
thereof effects of changes in tax rates	14,946	905
thereof adjustment of tax amount to diverging local tax rate	(26,470)	(28,921)
Tax refund/tax arrears	(1,695)	(7,001)
Deferred tax effects from prior years	(3,871)	(3,415)
Valuation allowance on deferred tax assets	11,820	17,242
Tax effects from distributable profit of subsidiaries	737	974
Other deviations	(17)	(768)
Income tax expenditure reported	**100,091**	**61,991**
Income tax burden	30%	24%

The income tax burden was reduced by tax-free income of EUR 4,376 thousand (2016: EUR 1,624 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 11,120 thousand (2016: EUR 5,811 thousand).

Other comprehensive income includes deferred tax expense amounting to EUR 1,442 thousand (2016: income of EUR 1,657 thousand). As in 2016, this amount in the fiscal year 2017 is calculated from the recognition of actuarial gains and losses from pension provisions in equity.

Deferred tax assets and liabilities are presented on a net basis if they pertain to the same taxable entity and the same taxation authority. Deferred taxes in the consolidated statement of financial position are related to the following items:

(in EUR thousand)

	2017		2016	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	17,252	(23,102)	30,556	(24,293)
Unused tax losses	6,023	0	13,705	0
Inventory measurement	37,245	(2,709)	48,584	(3,159)
Recognition and measurement of non-current assets	54,017	(16,104)	48,851	(13,997)
Receivables measurement	5,663	(126)	6,785	(399)
Market valuation of financial instruments	688	(1,093)	886	(922)
Retained earnings of subsidiaries	0	(4,887)	0	(4,382)
Other differences in recognition and measurement	12,654	(1,735)	14,332	(1,055)
Net amount	**133,542**	**(49,756)**	**163,699**	**(48,207)**
Netting	(39,122)	39,122	(39,014)	39,014
Total	**94,420**	**(10,634)**	**124,685**	**(9,193)**

Of the deferred tax assets, EUR 58,262 thousand (2016: EUR 64,224 thousand) are non-current, while EUR 40,430 thousand (2016: EUR 37,826 thousand) of the deferred tax liabilities are non-current. The full amount is reported as non-current in the statement of financial position.

This reporting year was the first time that, in keeping with the regulations laid down in IAS 12, the deferred tax assets in the table above were recognized as a net amount taking account of depreciation. The previous year's presentation was adjusted accordingly.

Due to the reduction in the corporate tax rate (Federal tax) from 35% to 21% as part of the tax reform in the United States, the corresponding deferred taxes were recalculated to temporary differences as of December 31, 2017. This recalculation produced a one-time, non-cash expense of EUR 12,325 thousand.

Distributable profits at foreign subsidiaries are to be paid out in the coming years, partly to Germany. The tax expense attributable to the distribution amounting to EUR 1,393 thousand (2016: EUR 1,496 thousand) was recognized as a deferred tax liability. In addition, deferred taxes were recognized for distributable profits from subsidiaries paid out to other subsidiaries to the extent that withholding tax is payable on future dividends. For these withholding tax charges, deferred tax liabilities of EUR 3,494 thousand (2016: EUR 2,887 thousand) were recognized.

Further deferred tax liabilities were not recognized due to differences between their respective net assets and tax part carrying amount at subsidiaries amounting to EUR 218,772 thousand (2016: EUR 237,484 thousand, the value differs from the value reported in the previous year as a result of an adjusted calculation method) as the present intention is to permanently reinvest these profits. If the profits were to be distributed in Germany, 5% would be subject to taxation in Germany or possibly trigger withholding tax in other countries. Distributions thus as a rule lead to an added tax expense. Estimation of unrecognized deferred tax liabilities on undistributed profits would require an unreasonable effort.

Deferred tax assets on losses carried forward and allowable temporary differences were included insofar as deferred tax liabilities exist or the corporate planning yields a profit in subsequent years. As of the reporting date, deferred tax assets amounting to EUR 31,806 thousand (2016: EUR 46,008 thousand) were accounted for at Group companies that made losses in the reporting period or prior period. Planning assumptions are based on positive business development of the impacted entities during the reporting year. In addition, a business development with a positive impact is expected to be driven by the adjusted price strategy on the sales market as well.

Unused income tax losses mainly pertain to foreign Group companies and break down as follows:

(in EUR thousand)

	2017	2016
Expiry within		
1 year	7,629	383
2 years	5,461	2,411
3 years	8,167	9,738
4 years	4,096	12,748
5 years	4,138	19,643
After 5 years	13,775	22,500
unlimited carryforward	65,878	73,945
Total	**109,144**	**141,368**

As in prior fiscal years, a corresponding deferred tax asset of EUR 6,023 thousand was recognized on unused tax losses as of December 31, 2017 (2016: EUR 13,705 thousand were recognized). In the fiscal year 2017, no deferred taxes were recognized for losses carried forward of EUR 76,169 thousand (2016: EUR 80,612 thousand).

Judgments that deferred tax assets are recognized on unused tax losses were made to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses can be utilized. The probability of the future usability is assessed taking into account various factors, such as future taxable results in the planning periods, past results and measures already taken to increase profitability. HUGO BOSS applies a forecast period of a maximum of three years for this purpose. Actual figures may differ from the estimates.

The income tax receivables relate mainly to tax advance payments and reimbursement claims. These are based on reasonable estimates to the extent that reimbursement by the financial administration office is judged to be largely probable on the basis of relevant case law. This assessment also takes into account the estimates of local external experts.

7 | Earnings per share

There were no shares outstanding that could have diluted earnings per share as of December 31, 2017, or December 31, 2016.

(in EUR thousand)

	2017	2016
Net income attributable to equity holders of the parent company	231,147	193,513
Average number of shares outstanding[1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR[2]	3.35	2.80

[1] Not including own shares.
[2] Basic and diluted earnings per share.

8 | Additional disclosures to the consolidated income statement

Personnel expenses

(in EUR thousand)

	2017	2016
Cost of sales	86,031	93,170
Selling and distribution expenses	355,381	338,464
Administration expenses	159,201	154,221
Other operating expenses/income	3,778	18,714
Total	**604,391**	**604,569**

The net expenses resulting from other operating expenses and income in the fiscal year 2017 were EUR 3,778 thousand and are largely attributable to restructuring expenses. In the prior year, net expenses of EUR 18,714 thousand were incurred mainly due to the changes in the Managing Board and organizational changes in the regions.

(in EUR thousand)

	2017	2016
Wages and salaries	514,758	517,174
Social security	84,932	80,342
Expenses and income for retirement and other employee benefits	4,701	7,053
Total	**604,391**	**604,569**

The average headcount for the year was as follows:

Employees

	2017	2016
Industrial employees	4,826	5,048
Commercial and administrative employees	11,144	10,785
Total	**15,970**	**15,833**

Ordinary depreciation

(in EUR thousand)

	2017	2016
Cost of sales	6,434	6,339
Selling and distribution expenses	92,425	102,255
Administration expenses	34,765	30,226
Total	**133,624**	**138,820**

Cost of materials

In the past fiscal year, the cost of materials came to EUR 803,009 thousand (2016: EUR 791,558 thousand).

Notes to the Consolidated Statement of Financial Position

9 | Intangible assets and property, plant and equipment

(in EUR thousand)

2017	Gross Value Jan. 1	Change in the basis of consolidation	Currency differences	Additions	Disposals	Transfers	Gross Value Dec. 31
Software, licences and other rights	**224,268**	0	(2,956)	28,103	(2,054)	0	**247,361**
Brand rights	**14,992**	0	0	0	0	0	**14,992**
Key Money	**47,396**	0	(1,696)	691	(1,017)	0	**45,374**
Internally developed Software	**5,603**	0	0	0	0	0	**5,603**
Goodwill	**54,200**	0	(2,701)	6,117	(286)	0	**57,330**
Intangible Assets	**346,459**	**0**	**(7,353)**	**34,911**	**(3,357)**	**0**	**370,660**
Lands and buildings	**231,804**	0	(20,921)	5,710	(408)	59	**216,244**
Technical equipment and machinery	**80,925**	(5)	(501)	2,707	(2,399)	33	**80,760**
Other equipment, operating and office equipment	**843,298**	(984)	(30,769)	74,553	(36,372)	1,922	**851,648**
Construction in progress	**9,177**	(33)	(768)	10,324	(86)	(2,014)	**16,600**
Property, plant and equipment	**1,165,204**	**(1,022)**	**(52,959)**	**93,294**	**(39,265)**	**0**	**1,165,252**
Total	**1,511,663**	**(1,022)**	**(60,312)**	**128,205**	**(42,622)**	**0**	**1,535,912**

2016							
Software, licences and other rights	**199,074**	0	(1,940)	28,904	(1,845)	75	**224,268**
Brand rights	**14,992**	0	0	0	0	0	**14,992**
Key Money	**45,130**	0	(738)	3,160	(532)	376	**47,396**
Internally developed Software	**5,603**	0	0	0	0	0	**5,603**
Goodwill	**53,928**	0	73	838	0	(639)	**54,200**
Intangible Assets	**318,727**	**0**	**(2,605)**	**32,902**	**(2,377)**	**(188)**	**346,459**
Lands and buildings	**259,862**	0	(29,127)	1,265	(3,209)	3,013	**231,804**
Technical equipment and machinery	**83,532**	0	32	3,664	(7,494)	1,191	**80,925**
Other equipment, operating and office equipment	**737,998**	0	24,250	113,777	(40,702)	7,975	**843,298**
Construction in progress	**15,085**	0	(1)	5,161	(47)	(11,021)	**9,177**
Property, plant and equipment	**1,096,477**	**0**	**(4,846)**	**123,867**	**(51,452)**	**1,158**	**1,165,204**
Total	**1,415,204**	**0**	**(7,451)**	**156,769**	**(53,829)**	**970**	**1,511,663**

Accumulated amortization, depreciation and impairment Jan. 1	Change in the basis of consolidation	Currency differences	Depreciation	Impairment	Disposals	Transfers	Accumulated amortization, depreciation and impairment Dec. 31	Net Value Dec. 31
129,364	0	(1,780)	26,829	0	(2,041)	0	**152,372**	**94,989**
0	0	0	0	0	0	0	**0**	**14,992**
24,491	0	(1,135)	1,950	3,932	(1,017)	0	**28,221**	**17,153**
5,603	0	0	0	0	0	0	**5,603**	**0**
1,552	0	(28)	0	286	(286)	0	**1,524**	**55,806**
161,010	**0**	**(2,943)**	**28,779**	**4,218**	**(3,344)**	**0**	**187,720**	**182,940**
117,710	0	(16,705)	11,769	0	(407)	0	**112,367**	**103,877**
61,815	0	(491)	4,948	0	(2,396)	16	**63,892**	**16,868**
569,398	(67)	(20,376)	88,128	20,982	(34,721)	(15)	**623,329**	**228,319**
3	0	0	0	0	0	0	**3**	**16,597**
748,926	**(67)**	**(37,572)**	**104,845**	**20,982**	**(37,524)**	**1**	**799,591**	**365,661**
909,936	**(67)**	**(40,515)**	**133,624**	**25,200**	**(40,868)**	**1**	**987,311**	**548,601**

109,102	0	(1,376)	23,460	0	(1,825)	3	**129,364**	**94,904**
0	0	0	0	0	0	0	**0**	**14,992**
20,287	0	(317)	2,220	2,833	(532)	0	**24,491**	**22,905**
5,603	0	0	0	0	0	0	**5,603**	**0**
1,133	0	419	0	0	0	0	**1,552**	**52,648**
136,125	**0**	**(1,274)**	**25,680**	**2,833**	**(2,357)**	**3**	**161,010**	**185,449**
124,670	0	(16,895)	12,900	0	(2,917)	(48)	**117,710**	**114,094**
63,920	0	47	4,835	0	(6,987)	0	**61,815**	**19,110**
468,096	0	16,814	95,405	27,526	(38,829)	386	**569,398**	**273,900**
3	0	0	0	0	0	0	**3**	**9,174**
656,689	**0**	**(34)**	**113,140**	**27,526**	**(48,733)**	**338**	**748,926**	**416,278**
792,814	**0**	**(1,308)**	**138,820**	**30,359**	**(51,090)**	**341**	**909,936**	**601,727**

Software, licenses and other rights

The Columbus IT project launched in the fiscal year 2003 led to the acquisition of new software covering all areas of enterprise resource management. Over the full duration of the project, intangible assets with a historical cost of EUR 82,545 thousand (2016: EUR 80,590 thousand) were capitalized in connection with the ERP system, of which EUR 66,055 thousand (2016: EUR 59,159 thousand) had already been amortized as of the reporting date. The remaining amortization period reduced to 2.3 years (2016: 3.1 years). Apart from the aforementioned software, other software licenses totaling EUR 68,994 thousand (2016: EUR 61,081 thousand) are included, whose remaining amortization period is 4.0 years (2016: 4.3 years). The average useful life of software and licenses is in between 3 to 20 years.

In addition, the line item "Software, licenses and other rights" contains intangible assets from purchase price allocations. Among others, business licenses and repurchased franchise rights with a useful life of 1 to 10 years were included.

Brand rights

The reported brand rights amounting to EUR 14,992 thousand (2016: EUR 14,992 thousand), which are primarily attributable to the brand rights acquired for the use of the brand names BOSS, HUGO and HUGO BOSS in the United States, are classified as assets with infinite useful lives. The infinite useful life stems from the estimate of an indefinite use of the registered brand name.

Key Money

Key money totaling EUR 17,153 thousand (2016: EUR 22,905 thousand) was recognized as of the reporting date. Of that amount, EUR 5,629 thousand (2016: EUR 5,832 thousand) pertains to key money with an infinite useful life and EUR 11,524 thousand (2016: EUR 17,073 thousand) to key money with a finite useful life. As of December 31, 2017, key money with an infinite useful life only concerns the Group's own retail stores in France at EUR 5,629 thousand (2016: EUR 5,832 thousand). The key money with a finite useful life has a remaining amortization period of 6.4 years (2016: 9.0 years) and mainly refers to the Group's own retail stores in Great Britain, Switzerland and Spain. Key money is written down on a straight-line basis over the term of the lease agreement in question.

Property, plant and equipment

Land charges in connection with land and buildings amount to EUR 31,056 thousand (2016: EUR 35,009 thousand).

Impairment losses of EUR 20,982 thousand (2016: EUR 27,526 thousand) is attributable to property, plant and equipment. Most of the impairment losses were recognized on property, plant and equipment for individual areas of the Group's own retail stores after impairment testing.

In terms of property, plant and equipment, buildings are generally amortized over a useful life of 30 years, technical facilities and machines over a useful life of 5 to 19 years, and other facilities and operating and office equipment over 2 to 15 years.

Purchase obligations

In addition, there are purchase obligations for investments amounting to EUR 10,619 thousand (2016: EUR 2,907 thousand). Of this amount, EUR 10,042 thousand (2016: EUR 2,261 thousand) is attributable to property, plant and equipment and EUR 577 thousand to intangible assets (2016: EUR 647 thousand). The obligations as of December 31, 2017, are due for settlement within one year.

10|Impairment testing in the HUGO BOSS Group

An impairment test must be carried out for all assets within the scope of application of IAS 36, insofar that there is any evidence of impairment ("triggering events") as of the reporting date. Regardless of the existence of any triggering events, the following non-current assets were tested for impairment in the course of annual impairment testing on the reporting date of December 31, 2017:

- Other intangible assets with infinite useful lives (key money)
- Brand rights with an infinite useful life
- Goodwill

Systematically depreciated property, plant and equipment and amortized intangible assets at the level of the Group's own retail stores
In the HUGO BOSS Group, the Group's own retail stores (DOS) have been identified as a CGU, i.e. the smallest group of assets that can independently generate cash flows.

The DOS assets amortized or depreciated on a systematic basis are tested for impairment if there are indications of or changes to planning assumptions suggesting that the carrying amount of the assets is not recoverable. For this purpose, after preparing the annual budget plan, HUGO BOSS conducts a triggering event test at DOS level. If defined year-on-year sales and profitability indicators are not reached, the non-current assets of the DOS in question are tested for impairment.

The recoverable amount of the DOS is determined by calculating the value in use on the basis of discounted cash flow models. The planned cash flows for the DOS from the bottom-up one-year budget approved by the Management of HUGO BOSS AG are used for calculating the value in use. Furthermore, the gross profit margin of the upstream entities and the corporate assets at the level of the subsidiary and at the level of the DOS were taken into consideration. The forecast period is derived based on the expected useful lives for all DOS and is reassessed annually. After the bottom-up budget, the values for the remaining useful lives are determined based on sales and cost developments specific to each country and CGU. The growth rates used for this purpose are based on the expected nominal retail growth in each respective market for the corresponding planning year. Single-digit growth rates were thus determined for all DOS. At the end of the residual useful life, it is assumed that the respective DOS is wound up and that the operating assets are sold. In the calculation of the value in use of the DOS, the cash flows were discounted using a weighted average cost of capital of between 3.1% and 11.2% (2016: between 3.7% and 14.6%). This was based on a risk-free interest rate with an equivalent term of +0.1% (2016: -0.4%) and a market risk mark-up of 6%. Alternatively, the recoverable amount of the DOS is determined with the assistance of external reports which calculate the fair value less the costs to sell at level 3 of the fair value hierarchy in accordance with IFRS 13. Depending on the underlying legal framework and the available information, the fair value, particularly for key money with a finite useful life, is determined by reference to previous and comparable transactions using a multiplication process or as the present value of the differences in rents between the current lease and current market rents; in this case, the valuation period is determined on the basis of the lease.

Scheduled DOS impairment testing in the past fiscal year resulted in impairment losses on non-current assets of EUR 24,711 thousand (2016: EUR 24,060 thousand), which were recognized through profit or loss under "Selling and distribution expenses". The impairments pertain in particular to retail locations in the Americas and Europe.

Based on the calculation of the fair value by external assessors, for the DOS with allocated key money with an infinite useful life impairment losses of EUR 203 thousand were allocated in the fiscal year 2017 (2016: EUR 729 thousand).

Goodwill and intangible assets with infinite useful life

The assessment of impairment is based on detailed planning of results of operations, of the statement of financial position and of investments for the next three years for all units of the Group, which is prepared annually in the Company-wide budget planning process and approved by the Supervisory Board, taking account of the current business situation. For periods beyond the budget's planning horizon, a long-term growth rate is set to project future cash flows in the detailed planning period of two additional years. The long-term growth rates used for this purpose are consistent with external sources of information. Investment and trade net working capital planning is based on budget planning data and is extrapolated on the basis of historical experience. The cost of capital for the HUGO BOSS Group determined using an after-tax WACC model that discounts all forecast cash flows in the local currency factors in both general market and country-specific risk mark-ups (sovereign risk mark-up) as well as a currency risk mark-up (inflation risk mark-up). The after-tax cost of capital rate used as of December 31, 2017, is based on a risk-free interest rate of 1.25% (2016: 0.5%) and a market risk mark-up of 6.0% (2016: 6.0%).

The following table presents the carrying amounts as well as the main assumptions underlying the calculation of the value in use or fair value less costs to sell off the goodwill and intangible assets with infinite useful lives assigned to each group of CGUs. The **goodwill** created in previous fiscal years as a result of the takeover of the monobrand stores of former franchise partners is allocated to the relevant sales units (groups of CGUs). Production units will continue to be regarded as corporate assets. The joint assets are taken into account in the impairment tests of the units. The **intangible assets with infinite useful lives** are pooled at the level of the respective country. The key money with an infinite useful life is allocable to various retail locations in France; viewed individually, these are not material. Brand rights for the use of the brand names in the U.S. and Italian markets are tested for impairment at country level.

(in EUR thousand)

	Carrying amount		Assumptions	
	Goodwill	**Intangible assets with indefinite useful life**	**WACC**	**Long-term growth rate**
2017				
DOS within the sales unit France	0	5,629	5.1%	3.2%
Sales unit Macau	5,930	0	5.2%	3.1%
Sales unit Australia	8,298	0	6.6%	3.5%
Sales unit South Korea	7,379	0	6.0%	3.6%
Sales unit China	8,121	0	6.3%	3.5%
Sales unit U.S.A.	234	13,615	6.2%	2.7%
Sales unit Italy	0	1,377	6.1%	2.2%
Sales unit Dubai	5,540	0	6.7%	3.5%
Other sales units	20,305	0		
Total	**55,807**	**20,621**	**5.1–6.7%**	**2.2–3.6%**
2016				
DOS within the sales unit France	0	5,832	5.3%	3.4%
Sales unit Macau	6,818	0	5.7%	3.6%
Sales unit Australia	8,724	0	6.2%	3.5%
Sales unit South Korea	7,439	0	6.9%	3.5%
Sales unit China	8,704	0	6.2%	3.7%
Sales unit U.S.A.	266	13,615	6.8%	2.9%
Sales unit Italy	0	1,377	6.4%	2.5%
Other sales units	20,696	0		
Total	**52,647**	**20,824**	**5.3–6.9%**	**2.5–3.7%**

The recoverable amount of the respective group of CGUs is derived from the value in use determined using forecast cash flow based on medium-term financial budgets approved by Management. Restructuring measures which the Group has not yet committed to and investments to enhance the earnings power of the group of CGUs tested that is not allocable to current business operations are not taken into account. After the detailed planning phase, country-specific sales growth rates derived from normal retail growth are used.

For all goodwill there were impairment losses of EUR 286 thousand in the fiscal year 2017 (2016: EUR 0 thousand). This is justified for the sales unit in New Zealand due to a change in its business model from own retail to a wholesale model.

The recoverable amount of brand rights with an indefinite life is determined on the basis of their fair value less costs to sell and classified at level 3 of the fair value hierarchy pursuant to IFRS 13. This is based on a sales forecast for the respective market approved by management as part of the budget process. Country-specific sales growth rates are also used. After the five-year detailed planning phase, planned sales are extrapolated using a long-term nominal retail growth rate for each of the respective markets.

No impairment losses were recognized on the brand rights with indefinite useful lives in fiscal years 2017 and 2016.

Key assumptions used to calculate the value in use and fair value less costs to sell

The following key assumptions, estimation uncertainties and judgments by Management underlie the calculation of the value in use and fair value less costs to sell off the aforementioned assets:

- Sustainable nominal retail growth
- Gross profit margin
- Fixed cost development
- Discount rates
- Expected useful life of DOS

Management assumes that the underlying assumptions and estimates are appropriate. However, changes in the economic environment and the industry-specific growth assumptions can have consequences for impairment testing resulting in the need to recognize additional impairment losses or to reverse impairment losses in the future.

Estimation of growth rates – Growth rates are generally derived from published industry-related market research that is based on country-specific nominal retail growth. These growth rates were mainly factored in after the detailed planning phase and in the terminal value used to calculate the value in use. Based on past developments and the Management's expectations with regard to market trends, growth rates were applied that differ from the country-specific nominal retail growth.

Estimation of gross profit margin – The planned gross profit margin factors in both efficiency improvements and margin shifts due to differences in the sales mix of the distribution channels. A constant gross profit margin is assumed after the detailed planning phase.

Fixed cost trends – The fixed cost trends are derived from growth of real gross domestic product in each country and the inflation rate in each country.

Discount rates – The discount rates reflect current market assessments of the risks specific to each CGU. This takes into account the interest effect and the risks specific to the assets.

Useful life of DOS – The forecast period is based on the average remaining terms of the lease agreements, which are determined and reviewed on an annual basis. Renewal options are also taken into account when determining the average remaining terms.

Sensitivity to changes in assumptions

As of December 31, 2017, scenarios for critical measurement parameters such as the discount rates used and the growth rates underlying forecast cash flows were determined to verify the values in use. The Management of the HUGO BOSS Group considers it possible for the discount rate to increase by 10.0% on average in relative terms. In addition, for the groups of CGUs under review to which goodwill is allocated, an annual relative divergence in growth rates of 15.0% during the detailed planning phase is deemed possible. Furthermore, for the groups of CGUs to which goodwill is allocated, a 15.0% decrease in the relative sales growth rates underlying the extrapolation of forecast cash flows after the detailed planning phase is deemed possible.

In the case of a 10.0% increase in the discount rate, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

In the event of a 15.0% reduction in the annual growth rates during the detailed planning phase, the values in use of all items of goodwill would, as in the prior year, exceed their carrying amounts.

In the event of a 15.0% reduction in the growth rate of sales used to extrapolate the forecast cash flow after the detailed planning period, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

11 | Financial and other assets

(in EUR thousand)

	2017			2016		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	56,322	38,834	17,488	49,331	28,339	20,992
Tax refund claims and prepayments	14,069	14,057	12	14,474	14,418	56
Other assets	96,328	95,170	1,158	86,117	81,884	4,233
Other financial assets	813	0	813	35	0	35
Total	**167,532**	**148,061**	**19,471**	**149,957**	**124,641**	**25,316**

Financial assets include positive market values of currency hedges amounting to EUR 949 thousand (2016: EUR 2,047 thousand) as well as rent deposits for the Group’s own retail stores of EUR 9,393 thousand (2016: EUR 10,052 thousand). Financial assets also include receivables from credit card companies amounting to EUR 31,549 thousand (2016: EUR 21,563 thousand).

The tax refund claims and tax prepayments are mostly VAT receivables.

Other assets contain refund claims from returns in the amount of EUR 22,765 thousand (2016: EUR 16,098 thousand), bonus receivables from supplier arrangements and prepayments for service agreements and leases. In the fiscal year 2017 no impairments were recognized on other assets (2016: EUR 246 thousand).

Also included in other financial assets are interests in entities under joint control accounted for using the equity method. The carrying amount of shares in the property companies whose activities consist of the leasing of buildings and associated properties remains unchanged at EUR 35 thousand. The maximum default risk is equal to this capital contribution. Moreover, as of December 31, 2017 the carrying amount of the shares of HUGO BOSS AL FUTTAIM UAE TRADING L.L.C. stood at EUR 773 thousand. Other financial assets in the fiscal year 2017 also included the investments measured at amortized cost in subsidiaries which have been established but are not consolidated due to their immateriality.

The following is a summary of financial information for entities under joint control accounted for using the equity method. The information contained therein relates to 100% of the jointly controlled entities and not to the Group's share of those associates:

(in EUR thousand)

	Dec. 31, 2017 [1]	Dec. 31, 2016
Non-current assets	104,745	108,899
Current assets	10,731	823
Liabilities	125,945	121,471
Sales	28,811	10,929
Depreciation and amortisation	(9,197)	(9,655)
Other interest and similar income	1	0
Interest and similar expenses	(3,948)	(4,102)
Net loss	(1,154)	(3,064)

[1] The financial information is based on the statements under local law and on the provisional, unaudited annual financial statement as of December 31, 2017.

12 | Inventories

(in EUR thousand)

	2017	2016
Finished goods and merchandise	480,824	523,067
Raw materials and supplies	50,534	39,572
Work in progress	5,485	5,332
Total	**536,843**	**567,971**

The carrying amount of inventories recognized at net realizable value amount to EUR 68,222 thousand (2016: EUR 74,863 thousand). In the fiscal year 2017, impairment losses of EUR 11,028 thousand (2016: EUR 22,327 thousand) were recognized particularly on finished goods and raw material. The decrease in impairment losses is primarily attributable to the improved age structure of the stock and thus to stricter inventory management. This was counterbalanced by reversals of impairment losses of EUR 17,034 thousand

(2016: EUR 20,041 thousand), following the sale of finished goods and raw materials on which impairment losses had previously been recognized. Impairment losses on inventories and the reversal of impairment losses previously charged resulted in net income of EUR 6,006 thousand (2016: net expense of EUR 2,231 thousand). This is included in the cost of sales.

Significant estimates were made for inventories as described below: Write-downs provide for inventory risks from slow-moving goods and the resulting reduction in marketability. Write-downs are recognized on raw materials based on analyses of range of coverage and movement rate. Unfinished goods, finished goods and merchandise are measured based on the net realizable value still to be recovered through the Group's own sales channels. Merchandise and finished goods are tested for impairment on the basis of analyses of movement rate, range of coverage and net realizable value.

13 | Trade receivables

(in EUR thousand)

	2017	2016
Trade receivables, gross	221,523	243,102
Accumulated allowance	(13,897)	(14,926)
Trade receivables, net	**207,626**	**228,176**

As at December 31, the ageing analysis of trade receivables is as follows:

(in EUR thousand)

	2017	2016
Trade receivables, net	**207,626**	**228,176**
Thereof neither overdue, nor impaired	**153,464**	**182,511**
Thereof overdue, but not impaired	**48,676**	**39,075**
≤ 30 days	20,084	23,013
30 to 60 days	24,721	9,785
60 to 90 days	3,871	6,277
90 to 120 days	0	0
120 to 180 days	0	0
180 to 360 days	0	0
> 360 days	0	0
Thereof: overdue and impaired	**5,486**	**6,590**

Trade receivables are non-interest-bearing and are generally due between 30 and 90 days. Valuation allowances on doubtful debts developed as follows:

(in EUR thousand)

	2017	2016
Allowances for doubtful accounts as of January 1	**14,926**	**15,284**
Additions	6,464	8,660
Use	(3,306)	(5,644)
Release	(3,765)	(3,667)
Currency differences	(422)	293
Allowances for doubtful accounts as of December 31	**13,897**	**14,926**

Any expenses and income from allowances on trade receivables are reported under selling and distribution expenses.

Pursuant to the general terms and conditions for sales, ownership of the goods supplied is transferred to wholesale partners upon complete payment of all receivables. No collateral has been provided in the Group for individual receivables.

The recoverability of trade receivables is assessed based on the estimated likelihood of default. Accordingly, receivables from wholesale customers on whose assets insolvency proceedings have been initiated are written off in full (to the extent that any collateral provided is not recoverable) by recognizing individual bad debt allowances. Individual bad debt allowances ranging between 1% and 100% are recognized on overdue receivables. All subsidiaries of the HUGO BOSS Group have to prepare an analysis of the aging structure of their trade receivables. This permits the recognition of risk-adjusted valuation allowances. External appraisals on the value of collateral were also obtained in the course of assessing the recoverability of receivables.

In the event of the deterioration of the financial position of wholesale customers and concession partners, the amounts actually derecognized can exceed the bad debt allowances already recognized, which can have an adverse impact on the results of operations.

14 | Cash and cash equivalents

(in EUR thousand)

	2017	2016
Balances with banks and other cash items	102,165	70,525
Checks/ec cash	1,174	1,032
Cash in hand	12,361	11,933
Total	**115,700**	**83,490**

15 | Equity

Equity is made up of subscribed capital, own shares, capital reserve, retained earnings and accumulated other comprehensive income. Retained earnings contain profits that were generated in the past by the entities included in the consolidated financial statements and effects from the revaluation of pension provisions. Accumulated other comprehensive income contains the differences arising from translation outside profit and loss of the foreign currencies used for the financial statements of foreign subsidiaries as well as the effects of the measurement outside profit and loss of cash flow hedges after tax.

Subscribed capital

Capital Management

The fully paid in share capital of HUGO BOSS AG is unchanged and amounts to EUR 70,400 thousand as of December 31, 2017. It is made up of 70,400,000 no-par value ordinary shares. The shares have an imputed nominal value of EUR 1 each.

The Management Board of HUGO BOSS AG may with the Supervisory Board's consent increase the share capital by up to EUR 35,200 thousand until May 12, 2019 by issuing 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (authorized capital). In general, shareholders have a subscription right.

The primary objective of the HUGO BOSS Group's capital management is to secure the financial headroom to make value-enhancing investments for further business growth and, in turn, to increase the enterprise value in a sustainable manner.

The Group focuses on maximizing free cash flow over the long term in order to increase its enterprise value. Consistently positive free cash flow safeguards the Group's independence and solvency at all times. Increasing sales and operating earnings, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items are the main levers for improving free cash flow. In addition, strict management of trade net working capital and value-oriented investment activities support the development of free cash flow. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares.

No changes were made to the objectives, policies and methods as of December 31, 2017, and December 31, 2016.

In addition, efficient use of capital and the capital structure are regularly monitored based on the leverage ratio, i.e. the ratio of net financial liabilities to EBITDA before special items:

(in EUR thousand)

	2017	2016
Liabilities due to banks	122,329	196,674
Cash and cash equivalents	(115,700)	(83,490)
Net financial liabilities	**6,629**	**113,184**
Operating profit	**491,391**	**493,085**
Total leverage	**0.0**	**0.2**

On the reporting date this ratio was thus substantially lower than the maximum permissible value pursuant to the covenant agreed as part of the syndicated loan agreement.

Own Shares

The number of own shares amounts to 1,383,833 (2016: 1,383,833). The overall percentage amounts to 2.0% of subscribed capital (2016: 2.0%).

At the Annual Shareholder's Meeting of May 12, 2015, a resolution was passed authorizing the Managing Board to acquire at the Company's own shares up to a total of 10% of the current share capital until May 11, 2020.

16|Dividend

Pursuant to the AktG ["Aktiengesetz": German Stock Corporation Act], the dividend that can be distributed to the shareholders is measured based on the net retained profit reported in the financial statements of HUGO BOSS AG amounting to EUR 186,560 thousand. The net retained profit of HUGO BOSS AG for 2017 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 182,893 thousand. This corresponds to EUR 2.65 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 3,667 thousand be carried forward to the new account.

In 2017, a dividend of EUR 179,442 thousand was paid out for shares outstanding for the fiscal year 2016 (in 2016 for 2015: EUR 249,839 thousand). This corresponds to EUR 2.60 per share for 2016 (2015: EUR 3.62 per share).

17|Provisions

(in EUR thousand)

	2017	2016
Provisions for pensions	39,953	46,495
Other non-current provisions	29,843	32,059
Non-current provisions	**69,796**	**78,554**
Current provisions	**107,468**	**148,614**
Total	**177,264**	**227,168**

Other provisions of EUR 137,311 thousand (2016: EUR 180,673 thousand) comprise current provisions of EUR 107,468 thousand (2016: EUR 148,614 thousand) and other non-current provisions of EUR 29,843 thousand (2016: EUR 32,059 thousand). The risk-free interest rates used to discount other non-current provisions range between 1.0% and 4.5% (2016: between 0.1% and 4.5%) depending on the term and currency zone in question. In fiscal year 2017, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2017	Changes in currency and the consolidated group	Com-pounding	Addition	Use	Release	Balance on Dec. 31, 2017
Provisions for personnel expenses	60,194	(1,545)	78	50,168	(36,401)	(12,204)	60,290
Provisions for goods returned	30,363	(781)	0	30,925	(28,202)	(1,508)	30,797
Provisions for rebuild obligations	15,365	(1,089)	92	2,890	(933)	(621)	15,704
Costs of litigation, pending legal disputes	4,372	(75)	0	2,842	(2,165)	(1,583)	3,391
Provisions for store closings	36,883	(77)	0	121	(21,279)	(14,530)	1,118
Miscellaneous provisions	33,496	(722)	0	16,601	(16,407)	(6,957)	26,011
Total	**180,673**	**(4,289)**	**170**	**103,547**	**(105,387)**	**(37,403)**	**137,311**

Provisions for personnel expenses

The provisions for personnel expenses mainly concern the provisions for short and medium-term profit sharing and bonuses, severance payment claims, phased retirement arrangements and overtime. It is expected that EUR 9,145 thousand (2016: EUR 15,435 thousand) will be paid out after more than twelve months.

The long-term incentive (LTI) program initiated at the beginning of the fiscal year 2016 serves as a long-term share-based compensation component for members of the Managing Board and eligible management staff of the HUGO BOSS Group. There are two tranches of the program at present: The first LTI bonus plan 2016–2018 was issued on January 1, 2016 and the second plan 2017–2019 on January 1, 2017. Each plan has a total duration of four years, split into a performance term of three years and a qualifying period of one year.

At the beginning of the performance term, all participants in the plan receive an individual number of virtual shares, so-called "performance shares", which are valued by dividing the individual LTI budget (in EUR) by the average HUGO BOSS share price over the last three months before the beginning of the performance term. The number of shares issued as of December 31, 2017 was 164,429 for the LTI plan 2016–2018 and 199,362 for the 2017–2019 plan. The final entitlement of the participants in the plan depends on the individual number of performance shares, the extent to which the preset targets have been achieved (components) – relative total shareholder return, return on capital employed, degree of employee satisfaction, DJSI (score in the Dow Jones Sustainability Index) over the performance term as well as the average HUGO BOSS share price over the last three months of the qualifying period. The final entitlement is paid out in cash no later than six weeks after the resolution has been passed by the Management of HUGO BOSS regarding the confirmation of the annual financial statement for the corresponding fiscal year 2019 and 2020 respectively.

The long-term incentive program is to be classified as share-based, cash-settled compensation and is therefore accounted for pursuant to the standards of IFRS 2. For the liability, a provision is recognized pro rata over the term to satisfy the payment, which is recalculated on each reporting date. The measurement is conducted using a Monte Carlo simulation, taking into account the degree to which the individual target components are expected to be achieved. The fair values per share option were as of December 31, 2017 for the LTI plan 2016–2018 between EUR 39.64 and EUR 68.37 and for the LTI plan 2017–2019 between EUR 34.20 and EUR 65.73. As of December 31, 2016, the fair values of the LTI plan 2016–2018 ranged between EUR 30.99 and EUR 45.56.

The fair value measurement for the respective plans is based on the following parameters:

	2017	2016
HUGO BOSS share price at reporting date in EUR	70.94	58.13
Expected dividend return in %	4.00	4.00
Expected volatility in %	30.00	30.00
Risk free interest rate in % (LTI Plan 2016)	(0.64)	(0.76)
Risk free interest rate in % (LTI Plan 2017)	(0.50)	/

The provisions recognized in this regard for both plans were valued at a total of EUR 5,346 thousand as of December 31, 2017 (2016: EUR 1,455 thousand). The remaining terms of the respective plans for 2016 – 2018 is two years and for 2017 – 2019 three years. In the fiscal year 2017, total expenses for share-based compensation pursuant to IFRS 2 of EUR 3,891 thousand (2016: EUR 1,455 thousand) were recorded in personnel expenses.

Provisions for goods returned

Provisions for goods returned, which are largely expected to be completed within 12 months, are determined based on historical rates of goods returned.

Provisions for rebuild obligations

Non-current provisions for rebuild obligations relate to Group-operated retail stores, warehouses and office space used by the Group companies. They are recognized on the basis of the expected settlement amounts and the rental period agreed upon. Estimates are made in terms of the cost as well as the actual timing of the utilization.

Provisions for costs of litigation and pending legal disputes

The provisions for costs of litigation and pending legal disputes include various, individually immaterial ongoing litigations as well as litigation costs for the protection of brand rights. These provisions are classified as current.

Provisions for store closures

The provisions for store closures recognized in the prior year were largely utilized or reversed in the fiscal year 2017. The residual amount remaining as of the reporting date particularly relates to the expected compensation payments to lessors, primarily in Europe. The amount of the provisions for the planned store closures carried out in fiscal year 2016 was based on judgments made by Management. The main judgments and estimates concern the type of closure (termination of lease in return for payment of compensation or the continued fulfilment of the lease by subletting the premises below the rental price) and the amount of the expected payments. The provisions recognized are based on the best possible estimate of the compensation payments and subletting proceeds. It is always possible for the actual compensation payable or the actual subletting proceeds received to differ from these assumptions. Any deviations between the original estimates and the actual outcome can impact the Group’s net assets, financial position and results of operations in the given period.

Miscellaneous other provisions
Miscellaneous other provisions are recognized for the potential ramifications of legal issues. Furthermore, an analysis of pending losses incurred from lease agreements has shown that recognition of provisions for pending losses is dispensable due to a low level of risk.

Based on reasonable estimates, provisions are recognized for the potential ramifications of legal issues. Such assessment also takes into account the estimation of local, external experts such as lawyers and tax advisors. Any deviations between the original estimates and the actual outcome can impact the Group's net assets, financial position and results of operations in the given period.

18|Provisions for pensions and similar obligations

Provisions for pensions are recognized for obligations from future and current post-employment benefits to eligible current and former employees of the HUGO BOSS Group. The benefits agreed under the pension plans depend for the most part on the length of service of the eligible employee. In general, company pension plans are classified into two types of plans: defined contribution plans and defined benefit plans. In the HUGO BOSS Group most of the plans are defined benefit plans. In the past year, the main defined benefit plans were granted in Germany and Switzerland. The characteristics of these plans are described in the following.

Defined benefit plans

Germany
Since the fiscal year 2014, there have only been direct pension obligations in Germany. A distinction is also made between general and individually agreed benefits. Under the general benefits granted, each employee who joined the Company prior to July 1, 2012, is entitled to benefits from Company pension plans. Employees who first receive benefits under the plan upon reaching the age of 50 or who have temporary employment agreements are excluded. Benefits comprise a post-employment benefit in the form of an old-age pension, an early-retirement benefit, a disability benefit or a surviving dependents' benefit in the form of a dependent child benefit.

Individually agreed benefits are only granted to active and former members of the Managing Board. Benefits can take the form of a post-employment benefit as an old-age pension or disability annuity and take the form of a surviving dependents' benefit as a surviving spouse or dependent child benefit. All active members of the Managing Board have received pension commitments which are regulated in individual contracts and the amounts of which are measured as a percentage of the contractually agreed pensionable income depending on their duration of membership of the Managing Board. The basis for determining the pensionable income is defined as the basic salary under the service agreement. For Mark Langer, the Chairman of the Managing Board, this is done in the form of a benefit-based commitment (defined benefit). The Managing Board appointed in the fiscal year 2017 was granted a pension commitment. The Group pays an annual pension contribution into an employer's pension liability insurance scheme taken out on the life of the Managing Board member. The contribution corresponds to 40% of the pensionable income, which is determined based on the basic salary under the service agreement. This form of pension commitment also applies to any future appointments to the Managing Board.

In addition, the HUGO BOSS Group offers the Managing Board and management staff the option of acquiring additional pension benefits under deferred compensation agreements. This supplementary pension plan can take the form of retirement benefits or, alternatively, the form of occupational incapacity benefits and/or surviving dependents' benefits and/or the form of a lump-sum death grant. The pension benefits take the form of monthly payments, while surviving dependents' benefits can also be granted in the form of a lump-sum capital payment.

In Germany, the company pension plan for individually agreed benefits and deferred compensation agreements is funded by plan assets for which there is an employer's pension liability insurance, which is a qualifying insurance policy within the meaning of IAS 19.8 in conjunction with IAS 19.113 et seq. The assets concerned can be classified as non-marketable assets. Employer's pension liability insurance has not been taken out for general benefits granted.

Switzerland

In Switzerland, employee pension plans must be allocated to a pension fund that is separate from the employer. The BVG ["Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge": Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans] imposes minimum benefits. HUGO BOSS uses a collective foundation to provide for its employees against the economic consequences of old age, disability and death. Under this model, the foundation assets are the plan assets. The board of trustees of the collective foundation is responsible for the investment policy; at present the majority of plan assets are invested in fixed interest securities such as sovereign bonds. The supreme governing body of the collective foundation comprises an equal number of employer and employee representatives. The plans are financed by employer and employee contributions, which are defined as a percentage of the insured wage. The old-age pension is calculated as the retirement assets accumulated upon reaching a pensionable age multiplied by the conversion rates specified in the fund regulations. Employees can opt to receive their pension benefits as a lump-sum payment from the retirement assets. The benefit payments under the Swiss plans encompass old-age pensions, disability benefits and surviving dependents' benefits. The collective foundation can change its financing system (contributions and future benefits) at any time. In addition, the collective foundation can terminate the affiliation agreement with HUGO BOSS; in such an event, the latter would have to join another welfare fund. Depending on the conditions of the affiliation agreement and the current partial liquidation rules, a deficit and the risks of increasing life expectancy (current pensions) can be transferred.

The pension obligations of the HUGO BOSS Group break down as follows:

(in EUR thousand)

	Present Value of the Defined Benefit Obligation		**Fair Value of Plan Assets**		**Net Defined Benefit Liability**	
	2017	2016	**2017**	2016	**2017**	2016
Germany	97,458	100,219	81,896	79,926	15,562	20,293
Switzerland	43,624	46,877	28,985	30,030	14,639	16,847
Others[1]	9,752	9,355	0	0	9,752	9,355
Total	**150,834**	**156,451**	**110,881**	**109,956**	**39,953**	**46,495**

[1] Additional defined benefit plans are in place in Turkey, Italy, France, Mexico and Austria.

The amount of the pension obligations was determined using actuarial methods in accordance with IAS 19 "Employee Benefits".

In the fiscal year 2017, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2017	2016
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	156,451	138,407
Currency differences	(4,929)	(517)
Service cost	5,642	7,701
Interest expense	2,647	3,083
Payments from settlements	(9)	(702)
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	(5,397)	13,003
Actuarial gains/losses due to changes in demographic assumptions	0	(2,204)
Experience adjustments	(988)	(1,186)
Benefits paid	(4,702)	(4,366)
Contribution by participants of the plan	2,847	3,696
Past service cost	(728)	(279)
Other changes in benefit obligation	0	(185)
Present value of benefit obligation on December 31	**150,834**	**156,451**
Changes in plan assets		
Fair value of plan assets on January 1	109,957	99,084
Currency differences	(2,473)	274
Offsetting with plan assets	0	0
Expected return on plan assets	1,660	2,092
Expected return on plan assets (without interest income)	(1,471)	4,961
Benefits paid	(3,271)	(3,576)
Contribution by the employer	3,632	3,481
Contribution by participants of the plan	2,847	3,696
Asset ceiling pursuant to IAS 19.58	0	0
Other changes in benefit obligation	0	(55)
Fair value of plan assets on December 31	**110,881**	**109,957**
Funding status of the benefits funded by plan assets	**39,953**	**46,494**

As of December 31, 2017 EUR 95,189 thousand (2016: EUR 97,827 thousand) of the present value of the defined benefit obligations was funded through employer's pension liability insurance and EUR 43,624 thousand (2016: EUR 46,877 thousand) through foundation assets, while the remaining EUR 12,021 thousand (2016: EUR 11,747 thousand) was unfunded.

Actuarial assumptions underlying the calculation of the present value of the pension obligations as of December 31, 2017

Discretion is exercised to the extent that the expense from benefit-based plans is determined based on actuarial calculations. This involves making assumptions about discount rates, future wage and salary increases, mortality rates and future pension increases. The discount rates used are based on the market yields of high-quality, fixed-interest corporate bonds.

The following premises were defined:

Actuarial assumptions	2017	2016
Discount rate		
Germany	2.10%	1.80%
Switzerland	0.70%	0.70%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	3.00%	3.00%

Pension benefits in Germany are determined on the basis of biometric principles in accordance with the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. The BVG 2010 mortality tables are used to measure the obligations of Swiss companies.

Sensitivity analysis of key actuarial assumptions

The HUGO BOSS Group is exposed to special risks in connection with the aforementioned defined benefit plans. The funding status of pension obligations is influenced by both changes in the present value of the defined benefit obligations and changes in the fair value of plan assets. These are determined using actuarial methods that make assumptions concerning discount rates, future pension increases, future wage and salary increases and mortality rates. Future deviations between actual conditions and the underlying assumptions can lead to an increase or a decrease in the present value of the defined benefit obligations or the fair value of plan assets.

In addition, future amendments to the accounting standards governing the accounting treatment of pension obligations can affect the pertinent items of net assets, financial position and results of operations of the HUGO BOSS Group.

A change in the key actuarial parameters according to the scenarios presented below has the effects presented in the table below on the present value of the pension obligations as of December 31, 2017.

When conducting the sensitivity analysis, each parameter was altered ceteris paribus and not in combination with changes in other assumptions, thus excluding interdependencies between parameters. In addition, only ranges of values deemed to be reasonably plausible up to the date of preparing the HUGO BOSS Group's next set of consolidated financial statements were selected.

(in EUR thousand)

Change in present value of the pension obligations	**2017**	2016
Discount rate		
December 31,		
Increase of 75 basis points	(16,844)	(18,469)
Decline of 75 basis points	20,766	22,537
Future pension increases		
December 31,		
Increase of 25 basis points	4,826	5,138
Decline of 25 basis points	(3,267)	(3,400)
Future salary increases		
December 31,		
Increase of 50 basis points	1,415	1,587
Decline of 50 basis points	(1,364)	(1,535)
Life expectancy		
December 31,		
Increase of 10 percent	4,212	4,773
Decline of 10 percent	(4,224)	(4,769)

Breakdown of the pension expenses in the period

The pension expenses of the period is composed of the following items:

(in EUR thousand)

	2017	2016
Current service costs	5,642	7,701
Past service costs	(728)	(279)
Net interest costs	987	990
Recognized pension expenses in the comprehensive statement of income	**5,901**	**8,412**
Expense from plan assets (without interest effects)	1,471	(4,961)
Recognized actuarial (gains)/losses	(6,385)	9,613
Asset ceiling (without interest effects of asset ceiling)	0	0
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**(4,914)**	**4,652**

The net interest expense is calculated by multiplying the net pension obligation by the discount rate underlying the measurement of the defined benefit obligation (DBO).

In the case of deferred compensation commitments, current service cost is only incurred in the year of deferral. An increase in the service rendered does not increase the benefits granted.

For fiscal year 2018, the Group expects employer contributions to plan assets of EUR 3,671 thousand (2017: EUR 3,500 thousand).

Duration

The duration of the benefit-based plans of the HUGO BOSS Group on December 31 stood at 18 years for Germany (2016: 18 years) and 15 years for Switzerland (2016: 16 years).

Defined contribution plans

Employer contributions to contribution-based plans totaled EUR 18,474 thousand in the past fiscal year (2016: EUR 17,852 thousand) and are reported under personnel expenses. The HUGO BOSS Group's main contribution-based plans are in Germany and the United States. They receive the contributions to statutory pension insurance and the employer's contribution to employer-funded direct insurance in Germany.

19 | Financial liabilities

All interest-bearing and non-interest-bearing obligations as of the respective reporting date are reported under financial liabilities. They break down as follows:

(in EUR thousand)

	2017	**With remaining term up to 1 year**	2016	With remaining term up to 1 year
Financial liabilities due to banks	122,328	67,603	196,674	73,191
Other financial liabilities	9,465	3,215	14,514	5,877
Total	**131,793**	**70,818**	**211,188**	**79,068**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 3,672 thousand (2016: EUR 6,577 thousand) and liabilities under finance leases of EUR 5,793 thousand (2016: EUR 7,936 thousand).

The following tables show the terms and conditions of financial liabilities:

	2017		2016	
Remaining term	**Weighted average interest rate**	**Carrying amount in EUR thous.**	Weighted average interest rate	Carrying amount in EUR thous.
Liabilities due to banks				
Up to 1 year	0.28%	67,603	0.28%	73,191
1 to 5 years	1.29%	43,149	0.71%	107,868
More than 5 years	4.35%	11,576	4.00%	15,615
Other financial liabilities				
Up to 1 year	2.07%	3,215	1.41%	5,877
1 to 5 years	4.22%	6,059	4.12%	8,182
More than 5 years	5.73%	191	5.72%	455

Interest-bearing financial liabilities have been reduced due to a lower utilisation of the syndicated loan and the repayment of other loans. In comparison to the prior year, the share of non-interest-bearing financial liabilities has declined. As of the reporting date, they contain currency derivatives with negative market values.

The table below shows the contractually agreed undiscounted cash flows for non-derivative financial liabilities and for derivative financial instruments with a negative fair value.

(in EUR thousand)

2017			**Expected cash flows**		
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1–5 years**	**> 5 years**
Financial liabilities due to banks	122,328	127,945	78,899	36,812	12,234
Liabilities from finance leases	5,793	6,098	1,343	4,755	0
Derivative financial liabilities					
Undesignated derivatives	2,511	2,511	946	1,374	191
Derivatives subject to hedge accounting	1,161	1,161	1,161	0	0
Other financial liabilities	0	0	0	0	0
Total	**131,793**	**137,715**	**82,349**	**42,941**	**12,425**
2016					
Non-derivative financial liabilities					
Financial liabilities due to banks	196,674	204,804	70,839	116,976	16,989
Liabilities from finance leases	7,936	8,286	1,476	6,810	0
Derivative financial liabilities					
Undesignated derivatives	4,519	4,519	2,399	1,666	454
Derivatives subject to hedge accounting	2,058	2,058	2,058	0	0
Other financial liabilities	0	0	0	0	0
Total	**211,188**	**219,667**	**76,772**	**125,452**	**17,443**

20 | Other liabilities

(in EUR thousand)

	2017			2016		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	167,610	112,478	55,132	164,452	115,099	49,353
From accruals of rental obligations for the Group's own retail business	76,198	21,158	55,040	80,071	32,848	47,223
From taxes	43,708	43,708	0	40,516	40,516	0
From social security, accrued vacation, wages and salaries	25,761	25,761	0	22,931	22,931	0

21 | Additional disclosures on financial instruments

Carrying amounts and fair values by category of financial instruments

(in EUR thousand)

		2017		2016	
Assets	**IAS 39 category**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	LaR	115,700	115,700	83,490	83,490
Trade receivables	LaR	207,626	207,626	228,176	228,176
Other financial assets		56,322	56,322	49,331	49,331
Thereof:					
Available-for-sale investments	AfS	0	0	0	0
Undesignated derivatives	FAHfT	949	949	2,047	2,047
Derivatives subject to hedge accounting	n. a.	0	0	0	0
Other financial assets	LaR	55,373	55,373	47,284	47,284
Liabilities					
Financial liabilities due to banks	FLAC	122,328	124,541	196,674	199,403
Trade payables	FLAC	285,778	285,778	271,731	271,731
Other financial liabilities		9,465	9,465	14,514	14,514
Thereof:					
Undesignated derivatives	FLHfT	2,511	2,511	4,519	4,519
Derivatives subject to hedge accounting	n. a.	1,161	1,161	2,058	2,058
Liabilities from finance leases	n. a.	5,793	5,793	7,937	7,937
Other financial liabilities	FLAC	0	0	0	0

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, other financial assets, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of loans from banks and other financial liabilities, obligations under finance leases and other non-current financial liabilities is calculated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

As of December 31, 2017, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The credit risk of the counterparty did not lead to any significant effects.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value and are not based on observable market data.

As of December 31, 2017, as in the prior year, all financial instruments measured at fair value in the categories FAHfT, FLHfT and derivatives designated to a hedge relationship were assigned to level 2. During fiscal year 2017, there were no transfers between level 1 and level 2 or from level 3. The financial instruments measured at fair value comprised forward exchange contracts, currency swaps and interest derivatives. The assets amounted to EUR 949 thousand and liabilities to EUR 3,672 thousand. The fair value of financial instruments carried at amortized cost in the statement of financial position was likewise determined using a level 2 method.

Interest and currency risk hedges
To hedge against interest and currency risks, the HUGO BOSS Group enters into hedging transactions in some areas to mitigate risk. As of the reporting date, EUR 8,946 thousand (2016: EUR 9,627 thousand) in variable interest finance liabilities were hedged through interest rate swaps. Moreover, as of the reporting date, future cash flows in foreign currencies of EUR 20,174 thousand (2016: EUR 24,978 thousand) were hedged and fully designated as an effective hedging instrument. The change in unrealized gains/losses from marking hedges to market in other comprehensive income amounted to EUR 897 thousand (2016: EUR -2,252 thousand).

Net result by measurement category

(in EUR thousand)

	Interest income and expenses	Changes in fair value	Currency translation	Bad debt losses	Disposal of financial instruments	2017	2016
Derivatives (FAHfT and FLHfT)	0	920	0	0	9,645	10,565	(12,698)
Loans and Receivables (LaR)	1,607	0	(14,904)	(3,785)	0	(17,082)	2,663
Financial liabilities measured at amortized cost (FLAC)	(2,098)	0	(1,854)	0	0	(3,952)	(15)

Interest on financial instruments is reported in the interest result (cf. notes to the consolidated income statement, Note 5).

The bad debt allowances recognized on trade receivables allocable to the loans and receivables measurement category are reported under selling and distribution expenses.

Exchange gains and losses from the translation of foreign currency receivables and liabilities as well as fair value changes and effects of disposals of exchange rate hedges are reported in the other financial result.

Changes in liabilities from financial activity

(in EUR thousand)

	Gross Value Jan 1, 2017	Cash flows	Currency translation effects	Gross Value Dec 31, 2017
Short-term liabilities arising from financing activities				
Financial liabilities due to banks	73,191	(5,692)	104	67,603
Liabilities from finance leases	1,420	(104)	(81)	1,235
Long-term liabilities arising from financing activities				
Financial liabilities due to banks	123,483	(67,573)	(1,185)	54,725
Liabilities from finance leases	6,516	(1,280)	(678)	4,558
Total	**204,610**	**(74,649)**	**(1,840)**	**128,121**

In the fiscal year 2017, there were no changes from the acquisition or sale of subsidiaries, fair value changes or other categories.

Offsetting of financial instruments

(in EUR thousand)

	Gross amounts recognized assets	Gross amounts offset liabilities	Net asset amounts disclosed in statement of fin. pos.	Liabilities not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2017						
Trade receivables	220,101	(12,475)	207,626	0	0	207,626
Other financial assets	56,322	0	56,322	(171)	0	56,151
Thereof derivatives	949	0	949	(171)	0	778
Total	**276,423**	**(12,475)**	**263,948**	**(171)**	**0**	**263,777**
2016						
Trade receivables	245,579	(17,403)	228,176	0	0	228,176
Other financial assets	49,331	0	49,331	(1,187)	0	48,144
Thereof derivatives	2,047	0	2,047	(1,187)	0	860
Total	**294,910**	**(17,403)**	**277,507**	**(1,187)**	**0**	**276,320**

(in EUR thousand)

	Gross amounts recognized liabilities	Gross amounts offset assets	Net liabilities amounts disclosed in statement of fin. pos.	Assets not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2017						
Trade payables	296,595	(10,817)	285,778	0	0	285,778
Other financial liabilities	9,465	0	9,465	(171)	0	9,294
Thereof derivatives	3,672	0	3,672	(171)	0	3,501
Total	**306,060**	**(10,817)**	**295,243**	**(171)**	**0**	**295,072**
2016						
Trade payables	277,882	(6,151)	271,731	0	0	271,731
Other financial liabilities	14,514	0	14,514	(1,187)	0	13,327
Thereof derivatives	6,577	0	6,577	(1,187)	0	5,390
Total	**292,396**	**(6,151)**	**286,245**	**(1,187)**	**0**	**285,058**

The liabilities of EUR 12,475 thousand (2016: EUR 17,403 thousand) offset against trade receivables as of the reporting date are outstanding credit notes to customers. The assets offset against trade payables are receivables in the form of supplier credit notes of the HUGO BOSS Group. These amounted to EUR 10,817 thousand (2016: EUR 6,151 thousand).

Standard master agreements for financial future contracts are in place between the HUGO BOSS Group and its counterparties governing the offsetting of derivatives. These prescribe that derivative assets and derivative liabilities with the same counterparty can be combined into a single offsetting receivable.

Hedging policy and financial derivatives

The following presentation shows the nominal amounts and the fair value of derivative financial instruments:

(in EUR thousand)

	2017		2016	
	Nominal values	**Fair values**	Nominal values	Fair values
Assets				
Currency hedging contracts	133,997	949	135,549	2,047
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracts	(96,240)	(1,602)	(159,002)	(3,917)
Interest hedging contracts	(8,946)	(2,070)	(9,627)	(2,661)
Total	**28,811**	**(2,723)**	**(33,080)**	**(4,531)**

The nominal values are the amount hedged by the corresponding hedge. The fair values of derivative financial instruments are recognized as other financial assets or as other financial liabilities. They do not necessarily correspond to the amounts that will be generated in the future under normal market conditions.

Of the reported fair value from derivative financial instruments, an amount of EUR -1,562 thousand (2016: EUR -2,472 thousand) stems from financial assets and liabilities that were classified as held for trading.

The negative effects from the fair value measurement of currency hedges of EUR -1,161 thousand were recognized in other comprehensive income as of December 31, 2017 (2016: EUR -2,058 thousand). Of the amount recognized in other comprehensive income, losses of EUR -3,068 thousand on securities falling due were recycled into operating earnings in the fiscal year 2017 (2016: EUR 194 thousand).

Other Notes

22|Contingent liabilities

Contingent liabilities arising from the provision of collateral for third-party liabilities are valued at EUR 8,547 thousand as of December 31, 2017 (2016: EUR 8,547 thousand) and relate to the consolidated structured entities BIL Leasing Verwaltungs-GmbH & Co. 869 KG, ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG and ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG.

Under terms of the sale of the production site in Cleveland, Ohio, in the second quarter of 2015 and the transfer of production staff to the purchaser, HUGO BOSS Cleveland Inc. accepted subsidiary liability in connection with the termination of its participation in the existing multi-employer pension fund. If the purchaser terminates its participation in the pension plan before the expiry of five years and is unable to pay a settlement amount in favor of the pension fund, HUGO BOSS Cleveland Inc. in its capacity as the seller is liable under the Employee Retirement Income Security Act for an amount equaling the present value of the obligations calculated using actuarial methods, which is capped at about USD 7.3 million. Management considers the case of liability occurring as not likely. Hence no provisions have been set aside as of the reporting date.

23|Other financial obligations

Operating leases
The Group has entered into a substantial number of leases for retail stores, office spaces and warehouses. Some of the agreements include purchase and renewal options. These leases are classified as operating leases on the basis of the customary limits for determining the proportion of the useful life of the assets and the present value of the minimum lease payments. In this connection, it has been determined that the opportunities and risks related to ownership of these properties remain with the corresponding property companies and lessors.

Rental expenses under operating leases of EUR 407,625 thousand were recognized in the fiscal year 2017 (2016: EUR 405,475 thousand). This includes contingent sales-based rental expenses of EUR 181,669 thousand (2016: EUR 135,353 thousand).

The following nominal minimum lease payments under operating leases fall due in subsequent periods:

(in EUR thousand)

	31. Dec. 2017	31. Dec. 2016
Due within one year	260,131	278,186
Due between one and five years	702,192	782,080
Due after five years	426,921	372,789
Total	**1,389,244**	**1,433,055**

In the fiscal year 2017, the Group earned income of EUR 658 thousand from subleases (2016: EUR 163 thousand). In view of the expiring subleases, no future minimum lease payments under subleases are expected (2016: EUR 161 thousand).

Finance leases

An analysis of leases for a warehouse and the land on which it is located in Midway, Georgia, U.S., and for IT servers at the headquarters in Metzingen showed that the material opportunities and risks arising from ownership are transferred to the lessee. Accordingly, they are classified as finance leases.

The assets had a net carrying amount of EUR 7,069 thousand as of December 31, 2017 (2016: EUR 8,632 thousand), which is reported within property, plant and equipment. This figure includes IT servers in the amount of EUR 814 thousand (2016: EUR 1,140 thousand) and a warehouse and the land on which it is located in the amount of EUR 6,255 thousand (2016: EUR 7,493 thousand). Interest expenses and depreciation for fiscal year 2017 came to EUR 688 thousand (2016: EUR 737 thousand).

(in EUR thousand)

2017	**Due 2018**	**Due 2019–2022**	**Due after 2022**	**Total**
Minimum lease payments	1,258	4,596	0	**5,854**
Estimated amount representing interest	23	38	0	**61**
Present value of minimum lease payments	**1,235**	**4,558**	**0**	**5,793**

2016	Due 2017	Due 2018–2021	Due after 2021	**Total**
Minimum lease payments	1,452	6,586	0	**8,037**
Estimated amount representing interest	32	69	0	**101**
Present value of minimum lease payments	**1,420**	**6,516**	**0**	**7,936**

24 | Notes to the statement of cash flows

The statement of cash flows of the HUGO BOSS Group shows the change in cash and cash equivalents over the reporting period using cash transactions. In accordance with IAS 7, the sources and applications of cash flows are categorized according to whether they relate to operating, investing or financing activities. The cash inflows and outflows from operating activities are calculated indirectly on the basis of the Group's net profit for the period. By contrast, cash flows from investing and financing activities are directly derived from the cash inflows and outflows. The changes in the items of the statement of financial position presented in the statement of cash flows cannot be derived directly from the statement of financial position on account of exchange rate translations.

A more detailed description of cash flows reported in the consolidated statement of cash flows is available in the chapter “Cash and cash equivalents”.

Non-cash expenses and income concern in particular unrealized exchange rate gains and losses, fair value changes of derivative financial instruments recognized in profit or loss and non-cash changes in financial liabilities.

25 | Segment reporting

The Managing Board of HUGO BOSS AG manages the company by geographic areas. The HUGO BOSS national companies are responsible for the sale of all HUGO BOSS products that are not sold as licensed products by third parties in their respective sales territories. The managing directors of the national companies report to the regional directors in charge in each case, who in turn report to the Managing Board of HUGO BOSS AG. This organizational structure enables the direct implementation of Group objectives while taking into account specific market conditions.

Accordingly, the operating segments are organized into the three regions Europe including Middle East and Africa, Americas and Asia/Pacific, in addition to the license division. The regions are allocated to the corresponding distribution companies of the HUGO BOSS Group, while the complete licenses business of HUGO BOSS with third parties is allocated to the license division.

The Managing Board of HUGO BOSS AG is the chief operating decision maker of the HUGO BOSS Group.

Management of the regional business units is aligned to the value added contribution at Group level.

The most important performance indicator used by the Managing Board to make decisions about resources to be allocated to segments is EBITDA before special items. The segment result is thus defined as EBITDA before special items of the sales units plus the gross profit margin of the sourcing units and intercompany license sales.

Group financing (including interest income and expenses) and income taxes are managed on a Group-wide basis and are not allocated to operating segments.

Management of the operating figures inventories and trade receivables is assigned to the sales territories. These items are regularly reported to the Managing Board. Consequently, segment assets only contain trade receivables and inventories.

Liabilities are not part of internal management reporting. The segment liabilities are therefore not disclosed.

The accounting rules applied in the segment information are in line with the accounting rules of the HUGO BOSS Group as described in the accounting policies.

The Managing Board regularly reviews certain effects recognized in the statement of comprehensive income, including in particular amortization, depreciation and impairment losses.

Capital expenditure is also regularly reported to the Managing Board as part of internal reporting, making it a component of segment reporting.

All expenses and assets that cannot be directly allocated to the sales territories or the license segment are reported in the reconciliations below under corporate units/consolidation. All Group-wide central functions are pooled in the corporate units. The remaining expenses of the procurement, production and R&D units make up an operating cost center. No operating income is allocated to the corporate units.

(in EUR thousand)

	Europe[1]	Americas	Asia/Pacific	Licenses	Total operating segments
2017					
Sales	**1,680,725**	**577,359**	**395,434**	**79,055**	**2,732,573**
Segment profit	**520,031**	**119,040**	**90,933**	**67,653**	**797,657**
In % of sales	30.9	20.6	23.0	85.6	29.2
Segment assets	232,389	157,008	74,020	23,977	487,394
Capital expenditure	40,108	19,970	16,094	0	76,172
Impairments	(14,285)	(7,600)	(3,603)	0	(25,488)
Thereof property, plant and equipment	(10,431)	(7,599)	(3,240)	0	(21,270)
Thereof intangible assets	(3,854)	(1)	(363)	0	(4,218)
Depreciation/amortization	(49,932)	(23,067)	(20,950)	0	(93,949)
2016					
Sales	**1,660,006**	**581,862**	**381,492**	**69,486**	**2,692,846**
Segment profit	**518,628**	**133,192**	**79,528**	**59,162**	**790,510**
In % of sales	31.2	22.9	20.8	85.1	29.4
Segment assets	245,669	202,729	86,980	23,700	559,078
Capital expenditure	58,352	31,206	19,157	0	108,715
Impairments	(10,005)	(14,649)	(5,720)	0	(30,374)
Thereof property, plant and equipment	(7,769)	(14,461)	(5,310)	0	(27,540)
Thereof intangible assets	(2,236)	(188)	(410)	0	(2,834)
Depreciation/amortization	(50,257)	(26,879)	(25,401)	0	(102,537)

[1] Including Middle East/Africa.

Reconciliation

The reconciliation of segment figures to Group figures is presented below.

Sales

(in EUR thousand)

	2017	2016
Sales – operating segments	**2,732,573**	**2,692,846**
Corporate units	0	0
Consolidation	0	0
Total	**2,732,573**	**2,692,846**

Operating income

(in EUR thousand)

	2017	2016
Segment profit – operating segments	**797,657**	**790,510**
Depreciation/amortization – operating segments	(93,949)	(102,537)
Impairments – operating segments	(25,488)	(30,374)
Other operating expense/income – operating segments	12,029	(53,029)
Operating income (EBIT) – operating segments	**690,249**	**604,570**
Corporate units	(349,338)	(337,340)
Consolidation	143	(3,727)
Operating income (EBIT) HUGO BOSS Group	**341,054**	**263,503**
Net interest income/expenses	(2,703)	(2,162)
Other financial items	(7,059)	(5,705)
Earnings before taxes HUGO BOSS Group	**331,292**	**255,636**

Segment assets

(in EUR thousand)

	2017	2016
Segment assets – operating segments	**487,394**	**559,078**
Corporate units	257,075	237,069
Consolidation	0	0
Current tax receivables	49,337	42,617
Current financial assets	38,834	28,339
Other current assets	109,227	96,302
Cash and cash equivalents	115,700	83,490
Non-current assets held for sale	0	0
Current assets HUGO BOSS Group	**1,057,567**	**1,046,895**
Non-current assets	662,480	751,727
Total assets HUGO BOSS Group	**1,720,047**	**1,798,622**

Capital expenditures

(in EUR thousand)

	2017	2016
Capital expenditure – operating segments	**76,172**	**108,715**
Corporate units	51,936	48,041
Consolidation	0	0
Total	**128,108**	**156,756**

Impairments

(in EUR thousand)

	2017	2016
Impairment – operating segments	**25,488**	**30,374**
Corporate units	(288)	(15)
Consolidation	0	0
Total	**25,200**	**30,359**

Depreciation/amortization

(in EUR thousand)

	2017	2016
Depreciation/amortization – operating segments	**93,949**	**102,537**
Corporate units	39,675	36,283
Consolidation	0	0
Total	**133,624**	**138,820**

Geographic information

(in EUR thousand)

	Third party sales		Non-current assets	
	2017	2016	2017	2016
Germany	447,905	448,375	212,080	211,825
Other European markets	1,232,843	1,211,631	189,187	210,414
U.S.A.	423,428	439,925	43,868	64,763
Other North, Central and South American markets	153,931	141,934	17,119	15,701
China	221,001	211,466	30,548	31,984
Other Asian markets	174,435	170,029	42,778	56,362
Licenses	79,030	69,486	14,993	15,001
Total	**2,732,573**	**2,692,846**	**550,573**	**606,050**

26 | Related party disclosures

In the reporting period from January 1 to December 31, 2017, the following transactions requiring disclosure were conducted with related parties:

Non-consolidated subsidiaries

As in the fiscal year 2016, no transactions were conducted with non-consolidated subsidiaries in the fiscal year 2017.

Entities under joint control

Within the scope of existing real estate lease agreements, rents in the amount of EUR 11,696 thousand were paid to companies under joint control in the fiscal year 2017 (2016: EUR 11,693 thousand). There were no open receivables or liabilities relating to these business transactions as of December 31, 2017. The lease agreements also include purchase options for the respective property at expected marked value. In addition, the agreement with Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG contains a renewal option to market conditions. The remaining term of the non-cancellable lease agreements is ten years at GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG and eight years at Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

A construction support services agreement is also in place between Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG and HUGO BOSS AG. Prior to the commencement of operations at the flat-packed goods distribution center, this encompassed the preparation, execution and supervision of construction projects, including preparation of building applications, validation of invoicing and the conclusion of agreements on behalf and for the account of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. This amount was due for payment upon the distribution center going into operation. The construction services contract was extended after the distribution center went into operation to ensure that structural and technical modifications could be made in the period from 2015 until 2024. In the fiscal year 2017, HUGO BOSS AG received EUR 10 thousand in consideration of the further construction support services (2016: EUR 10 thousand).

In the fiscal year, 2017, HUGO BOSS together with HUGO BOSS AL FUTTAIM UAE TRADING L.L.C., Dubai, U.A.E., which was established together with the AL FUTTAIM Group in Dubai and in which HUGO BOSS Middle East FZ-LLC, Dubai, U.A.E., holds 49% of the shares, generated sales revenue of EUR 18,457 thousand and receivables amounting to EUR 246 thousand.

Related parties

Related parties comprise members of the Managing Board and Supervisory Board. Members of the Supervisory Board and Managing Board are reported on pages 205 to 206.

Compensation for the Managing Board

The expense for short-term employee benefits totaled EUR 4,231 thousand in 2017 (2016: EUR 2,387 thousand). In 2017, a service cost of EUR 1,344 thousand was incurred for company pension plans (2016: EUR 1,360 thousand). For share-based compensation, the expense in 2017 was EUR 904 thousand (2016: EUR 193 thousand).

Total compensation of the members of the Managing Board within the meaning of Sec. 314 (1) No. 6 a) Clauses 1 to 4 HGB came to EUR 6,327 thousand in the fiscal year 2017 (2016: EUR 3,613 thousand). Of this amount, EUR 2,227 thousand was attributable to the basic compensation including fringe benefits (2016: EUR 2,261 thousand). In the fiscal year 2017 there was granted a special remuneration of EUR 340 thousand (2016: EUR 13 thousand). An amount of EUR 1,664 thousand (2016: EUR 113 thousand) is accounted for by the Short Term Incentive (STI) agreed for the fiscal year 2017. The multiple-year bonus for the period from 2015 until 2017 accounts for a total of EUR 46 thousand (2016: EUR 167 thousand). The LTI for 2017 – 2019 relates to an amount of EUR 2,050 thousand, which results in 37,771 subscription rights in 2017. The STI for 2017 and the multiple-year bonus for 2014 to 2017 will be paid in the fiscal year 2018 within a week of the Supervisory Board approving the consolidated financial statements for 2017 for payment.

As of December 31,2017, a down payment in the amount of EUR 540 thousand is still to be made and will be offset against the 2017 bonus payment.

In 2017, former members of the Managing Board and their surviving dependents received total compensation of EUR 297 thousand (2016: EUR 12,051 thousand). In 2017 no compensation was paid due to termination of employment.

There are pension obligations of EUR 47,779 thousand for former members of the Managing Board and their surviving dependents (2016: EUR 47,355 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 35,205 thousand (2016: EUR 34,459 thousand).

Compensation of the Supervisory Board

The Supervisory Board received compensation for its activities in 2016 amounting to EUR 1,561 thousand. For fiscal year 2017, total compensation is expected to come to EUR 1,493 thousand. This figure includes a variable component of EUR 738 thousand (2016: EUR 785 thousand), which is calculated on the basis of expected earnings per share in the consolidated financial statements.

Other related party disclosures

In total, the members of the Managing Board and Supervisory Board hold less than 1% (2016: less than 1%) of the shares issued by HUGO BOSS AG.

Members of the Managing Board and Supervisory Board purchase HUGO BOSS products at reduced prices as part of the compensation in kind granted to them supplementary to their salary and for their personal use. Besides this, no significant transactions were concluded between companies of the HUGO BOSS Group and key management personnel and their close family members.

27 | Subsequent events

Between the end of fiscal year 2017 and the release for publication of this report on February 20, 2018 there were no notable macroeconomic, socio-political, industry-related or company-specific changes which could have a material impact on the Company's results of operations, net assets and financial position according to the expectations of management.

28 | German Corporate Governance Code

In December 2017, the Managing Board and Supervisory Board of HUGO BOSS AG issued the declaration of compliance prescribed by Sec. 161 AktG. It is available for shareholders on the Company's website.

29 | Group auditor fees

(in EUR thousand)

	2017	2016
Audit services	1,715	1,873
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	474	485
Other assurance services	152	177
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	109	114
Tax advisory services	122	480
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	10	92
Other services	53	5
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	0	1
Total	**2,042**	**2,535**

Services provided by group auditors, beyond those related to the financial statement audit, mainly include sales examination, sustainability report confirmation, tax advisory and transfer pricing.

Managing Board

Member of the Managing Board	Responsibility
Mark Langer (Stuttgart, Germany) Chairman of the Managing Board from January 15, 2010 Member of the Managing Board, from May 19, 2016 Chairman of the Managing Board	Corporate Strategy and Communication, Legal/Compliance, Human Resources, Global Sourcing and Production, Supply Chain Management
Bernd Hake (Eningen, Germany) from March 1, 2016 Member of the Managing Board	Own Retail, Wholesale, Global Merchandising
Yves Müller (Hamburg, Germany) from December 1, 2017 Member of the Managing Board	Controlling, Finance & Tax, Investor Relations, Internal Audit, IT, Central Services
Ingo Wilts (Amsterdam, Netherlands) from August 15, 2016 Member of the Managing Board	Creative Management, Brand Management, License Management, PR Fashion, Global Advertising

Supervisory Board

Shareholder representatives

Michel Perraudin
(Hergiswil, Switzerland)

Management Consultant
Chairman of the Supervisory Board

Member since/until 2015/2020

Kirsten Kistermann-Christophe
(Oberursel, Germany)

Managing Director Société Générale S.A.,
Frankfurt/Main, Germany

Member since/until 2015/2020

Gaetano Marzotto
(Milan, Italy)

Chairman of the Supervisory Board
Gruppo Santa Margherita S.p.A.,
Fossalta di Portogruaro, Italy

Member since/until 2010/2020

Luca Marzotto
(Venice, Italy)

Chief Executive Officer Zignago Holding S.p.A.,
Fossalta di Portogruaro, Italy

Member since/until 2010/2020

Axel Salzmann
(Großhansdorf, Germany)

Chief Financial Officer Hensoldt Holding GmbH,
Taufkirchen, Germany

Member since/until 2015/2020

Hermann Waldemer
(Blitzingen, Switzerland)

Consultant

Member since/until 2015/2020

Employee representatives

Antonio Simina
(Metzingen, Germany)

Tailor/Chairman of the Works Council HUGO BOSS AG,
Metzingen, Germany
Deputy Chairman of the Supervisory Board

Member since/until 1985/2020

Tanja Silvana Grzesch
(Sonnenbühl, Germany)

Chairperson and Treasurer of the German Metalworkers´
Union (IG Metall) Reutlingen-Tuebingen,
Reutlingen, Germany

Member since/until 2015/2020

Anita Kessel
(Metzingen, Germany)

Administrative Employee HUGO BOSS AG,
Metzingen, Germany

Member since/until 2015/2020

Fridolin Klumpp
(Caslano, Switzerland)

Senior Vice President Global Human Resources
HUGO BOSS AG,
Metzingen, Germany

Member since/until 2015/2020

Sinan Piskin
(Metzingen, Germany)

Administrative Employee HUGO BOSS AG,
Metzingen, Germany

Member since/until 2008/2020

Martin Sambeth
(Tiefenbronn, Germany)

Secretary of the German Metalworkers´ Union
Baden-Wuerttemberg,
Stuttgart, Germany

Member since/until 2016/2020

Additional disclosures on the members of the Supervisory Board and the Managing Board

The members of the Company's Supervisory Board are also members of a supervisor board at the following companies:[1]

Michel Perraudin	ODLO Sports Holding AG[2]	Huenenberg, Switzerland
Kirsten Kistermann-Christophe	GSW Immobilien AG[3]	Berlin, Germany
Gaetano Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Alpitour S.p.A.	Turin, Italy
	Clouditalia Telecommunicazioni S.p.A.	Rome, Italy
	Tipo S.p.A.	Milan, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Gama Investments S.r.l.	Vicenza, Italy
	Style Capital SGR S.p.A.[2]	Milan, Italy
Luca Marzotto	Santa Margherita S.p.A.	Fossalta di Portogruaro, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Lumar S.r.l.	Vicenza, Italy
	Centervue S.p.A.[2]	Padua, Italy

[1] The members not named have no seats on executive or supervisory boards at other companies.
[2] Member holds position of Chairman.
[3] Listed company.

The members of the Company's Managing Board do not have any mandates in executive or supervisory bodies of other companies.

Publication

The annual and consolidated financial statements of HUGO BOSS AG are published in the German Federal Gazette and on the website of HUGO BOSS.

Metzingen, February 20, 2018

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Yves Müller
Ingo Wilts

RESPONSIBILITY STATEMENT

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 management report, which is combined with the management report of HUGO BOSS AG, includes a fair review of the development and performance of the business and the position of the HUGO BOSS Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Metzingen, February 20, 2018

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Yves Müller
Ingo Wilts

INDEPENDANT AUDITOR´S REPORT

To HUGO BOSS AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of HUGO BOSS AG, Metzingen, and its subsidiaries (the Group), which comprise the consolidated income statement for the fiscal year from 1 January to 31 December 2017, the statement of comprehensive income for the fiscal year from 1 January to 31 December 2017, the consolidated statement of financial position as of 1 December 2017, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2017, 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 HUGO BOSS AG, which has been combined with the management report, for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance contained in the group management report, which has been combined with the management report of the company, pursuant to Sec. 289f HGB [“Handelsgesetzbuch”: German Commercial Code].

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report, which has been combined with the management report of the company, does not cover the content of the statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 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 [Institute of Public Auditors in Germany] (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 group management report” section of our auditor’s report. 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 Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1) Impairment of the non-current assets assigned to the Group's own retail operations (DOS)

Reasons why the matter was determined to be a key audit matter:
A significant portion of the HUGO BOSS Group's business is conducted via the Group's own retail operations (DOS - directly operated stores). DOS make up the bulk of non-current assets of the HUGO BOSS Group and account for approx. 7% of total assets. For the purpose of the impairment test, the DOS are defined as independent cash-generating units (CGUs).

In light of the high capital expenditure in DOS in the past as well as the varying development of regional and local sales markets, the valuation model applied, the calculation of indicators for the impairment testing of individual DOS (particularly the development of sales and profitability indicators), the calculation of the discount rate as well as the calculation of expected future cash inflows necessitate to a great extent estimates and assumptions particularly with regard to specific growth rates used to roll forward the budget of the Company.

Auditor's response:
We discussed with the Company and assessed the method applied for the calculation of impairments. With the support of internal valuation experts, we examined the discounted cash flow valuation model, particularly its mathematical accuracy, the derivation of the carrying amounts of the assets assigned as well as the discount rates used. We verified the Company's inclusion of individual DOS in the impairment testing based on defined indicators by comparing the actual data and the planning data of profitability indicators of each of the DOS. We verified the individual components used to determine the discount rate with the support of our internal valuation experts by analyzing the peer group, comparing market data with external evidence and examining the mathematical accuracy of the calculation.

For a deliberately selected sample of DOS, we verified the mathematical accuracy of the valuation model used as well as the derivation of the carrying amounts of the assets assigned. We checked on a test basis that the planning assumptions used in the detailed forecasts of each of the DOS are in line with the business plan of the Company approved by the Managing Board and Supervisory Board. We also verified the retail growth rates applied for the remaining useful lives of the DOS and the development of fixed costs used to roll forward the budget by comparing internal and external data. We also analyzed the forecasts of individual DOS with regard to adherence to the budget in the past, discussed this with the Company and obtained evidence substantiating the individual assumptions of the forecasts in individual cases.

In cases where impairment testing was not based on the value in use but rather on the net realizable value, we compared the calculation of the net realizable value with the valuations of the expert opinion available to the Company and the internal calculations made by the Company.

We also examined the completeness of the disclosures in the notes to the consolidated financial statements.

Our audit procedures regarding the assessment of the impairment of the non-current assets assigned to the Group's own retail operations (DOS) by the Company did not lead to any reservations.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the impairment of the non-current assets assigned to the Group's own retail operations (DOS) can be found in the notes to the consolidated financial statements on pages 155 f. as well as 173 ff.

2) Measurement of inventories

Reasons why the matter was determined to be a key audit matter:
HUGO BOSS is active in the high-end segment of the fashion and apparel industry and is therefore confronted with continuously changing customer demand. A rapidly changing market leads to increased inventory risks and uncertainty in the measurement of inventories.

In particular, the calculation of the write-down rates using the Company's IT-supported write-down procedure as well as the calculation of additional manual write-downs, where necessary, which are not taken into account in this write-down procedure, are subject to the estimates made by the executive directors of the Company.

Auditor's response:
In our audit, we first examined the procedures and controls for determining impairments recognized associated with slow-moving goods and marketability.

We verified the suitability of the IT-supported write-down procedure for the assessment of inventory risks for movement rate, range of coverage and net realizable value. We assessed the system-based implementation of the write-down procedure in IT with the assistance of internal IT experts. If there were any changes in the write-down procedure in the current year, we examined these changes. We compared the computational logic of the model with the accounting and measurement policies used by the Company and arithmetically verified it on a test basis. We further assessed the write-down rates used by the Company based on past experience through analytical comparisons with the write-downs applied for each country in prior years.

The results of the IT-supported write-down procedure are in line with our expectations.

We discussed additional, manual write-downs with the Company, obtained evidence and performed further audit procedures in particular cases, which did not lead to any objections with regard to the valuation of manual write-downs.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the measurement of inventories can be found in the notes to the consolidated financial statements on pages 156 as well as 178 f.

3) Recognition and assessment of deferred tax assets and other tax receivables

Reasons why the matter was determined to be a key audit matter:
Tax issues are highly complex due to country-specific tax regulations and are subject to the exercise of judgment with regard to the enforceability of tax receivables as well as the existence of future taxable income. The recoverability of deferred tax assets from temporary differences and unused tax losses is based on the assessment of usability in the future through future taxable income. The recognition and recoverability of other tax receivables mainly depends on the Company's assessment with respect to the enforceability of the underlying issues.

Auditor's response:
Due to the complexity of the tax calculations taking into account the local tax regulations and legislation, we consulted internal tax experts for the assessment of deferred tax assets and other tax receivables. These internal tax experts supported us in the assessment of the underlying regulations and enforceability of tax claims.

To assess the recoverability of deferred tax assets resulting from temporary differences as well as from unused tax losses, we examined whether the existing tax forecasts were suitably derived from the business plan of the Company approved by the Managing Board and Supervisory Board. For this purpose, we discussed with the Company the significant assumptions of the tax forecasts for the entities in the USA, Germany and China, in particular on the future taxable earnings of the individual group entities, and assessed the reconciliation items for the business plan of the Company. Furthermore, we confirmed the assumptions of the tax planning of the individual entities based on the taxable income generated in the past.

This did not result in any reservations concerning the recognition and assessment of deferred tax assets and other tax receivables.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the recognition and assessment of deferred tax assets and other tax receivables can be found in the notes to the consolidated financial statements on pages 154 as well as 164 ff.

4) Treatment of rental and lease agreements

Reasons why the matter was determined to be a key audit matter:
The Group uses rental and lease agreements to a considerable extent for the rental and leasing of retail stores, office and warehouse space and properties. Finance leases as well as future operating lease commitments are recognized in the consolidated financial statements.

Significant estimates and assessments with regard to the classification of existing rental and lease agreements as finance leases or operating leases in the consolidated financial statements mainly relate to the assessment of significant opportunities and risks with respect to leased and rented assets, in particular the estimation of the useful life and the advantage of contractually guaranteed purchase and prolongation options.

Significant estimates and assessments with regard to the inclusion of leasing entities in the consolidated financial statements are the assessment of the ability to direct relevant activities, consisting of the utilization of the properties at the end of the rental/lease term, and thus the variable returns, such as the assessment of economic advantage of contractually guaranteed purchase options through company shares.

Auditor's response:
With respect to rental and lease agreements, we verified on a test basis newly concluded agreements of the subsidiaries as to their classification as finance or operating leases. We verified existing purchase or prolongation options, in particular, in addition to the contractual rental/lease term in relation to useful life. We verified on a test basis the Company's assessment, in particular of the extent to which purchase and prolongation options are to be considered advantageous in light of current market expectations. In doing so, we examined the assessments made by the Company and their external experts.

For leasing entities, we examined the Company's ability to direct relevant activities, in particular with regard to the influence over the disposal of the rented/leased assets. In cases where there are purchase options for shares in leasing entities, we verified the assessment of the advantage of these purchase rights in light of current market expectations made by the Company with the support of external third parties engaged by the Company. We examined the mathematical accuracy of the valuation model used. We also examined the Company's assessments on significant valuation factors and compared these on a test basis against external sources and reviewed any changes in these assessments in comparison to the prior year.

Our audit did not lead to any reservations concerning the classification of existing rental and lease agreements or the recognition of leasing entities.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the treatment of rental and lease agreements can be found in the notes to the consolidated financial statements on pages 151, 156 as well as 197 f.

Other information
The Supervisory Board is responsible for the report of the Supervisory Board. In other respects, the executive directors are responsible for other information. The other information comprises the disclosures contained in section 1 and 5 of the annual report "To our shareholders" and "Other notes", respectively, as well as the statement on corporate governance pursuant to Sec. 289f HGB, which is referred to in the group management report and has been combined with the management report of the Company.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, 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 group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are 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 executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group 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 group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group 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 group 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 German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 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 group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group 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 opinions. 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 (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' 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 auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. 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 assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 opinion 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 auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as group auditor by the annual shareholder's meeting on 23 May 2017. We were engaged by the Supervisory Board on 23 August 2017. We have been the group auditor of HUGO BOSS AG without interruption since fiscal year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 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. Martin Matischiok.

Stuttgart, February 20, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Matischiok	Sturm
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]