HUGO BOSS

ANNUAL REPORT 2014

U1 Target Achievement and Outlook

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TARGET ACHIEVEMENT AND OUTLOOK

GROUP SALES [1]

TARGETS 2014
High single-digit increase

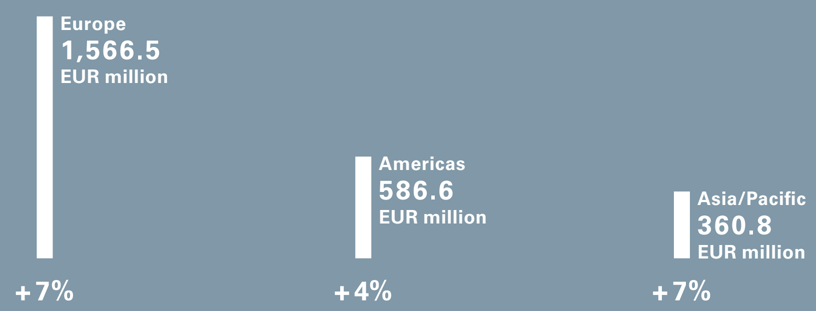
RESULTS 2014

OUTLOOK 2015
Solid increase

SALES BY REGION [1]

TARGETS 2014
Growth in all regions

RESULTS 2014

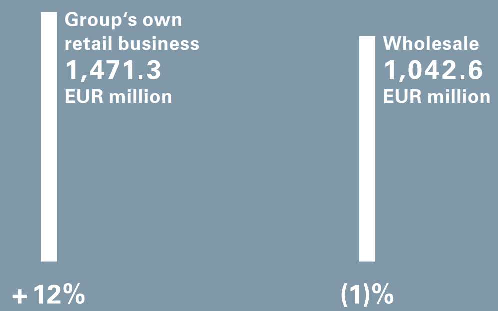


OUTLOOK 2015
Solid growth in all regions

SALES BY DISTRIBUTION CHANNEL [1]

TARGETS 2014
Double-digit growth in own retail, roughly stable development in wholesale

RESULTS 2014



OUTLOOK 2015
Above-average development relative to overall Group in own retail and below-average development relative to overall Group in wholesale

[1] On a currency-adjusted basis.

EBITDA BEFORE SPECIAL ITEMS

TARGETS 2014
High single-digit increase

RESULTS 2014
590.8
EUR million
+5%

OUTLOOK 2015
Solid increase

NET FINANCIAL LIABILITIES

TARGETS 2014
Attainment of a positive net financial position

RESULTS 2014
35.7
EUR million
(37)%

OUTLOOK 2015
Attainment of positive net financial position at year-end

GROUP'S OWN RETAIL STORES

TARGETS 2014
Opening of about 50 new stores

RESULTS 2014
Stores
1,041
+31
(86 openings and takeovers, 55 closings)

OUTLOOK 2015
Continued expansion

HUGO BOSS

ANNUAL REPORT 2014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HUGO BOSS MEETS CONTRASTS

Uniqueness is often spawned by the union of two opposites. And opposites have also shaped HUGO BOSS from its very inception. They define the Group's DNA: its international success, the glamorous presentations – all emanating from a base located in the tranquil Southern German town of Metzingen. Today traditional craftsmanship, visionary concepts and hi-tech solutions are fused here, while classic masculine elegance is melded with delicate feminine details and soft silhouettes. Genuine luxury is engendered when restrained style dovetails with first-class service.

Contrasts like these inspire the Group and its employees. They are a wellspring of passion and creativity. And they culminate in unique products, made by HUGO BOSS.


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NATURE

ARCHITECTURE MEETS NATURE

Modern structures couched in lush greenery: this describes the HUGO BOSS headquarters in Metzingen. It is a juxtaposition that BOSS Womenswear designer Jason Wu captured in his first two collections. The staging of the Spring/Summer 2014 Fashion Show in New York skillfully showcased the antithesis.

BOSS Womenswear Fashion Show, Spring/Summer 2015, New York

LOCAL

LOCAL MEETS GLOBAL

Deep regional roots that flourish in a global outlook: that is HUGO BOSS today. A contrast that inspires both fashion designers and HUGO BOSS employees worldwide.

GLOBAL

The sustainably designed administration building on the HUGO BOSS campus in Metzingen

TAILORING

TAILORING MEETS TECHNOLOGY

A gift for choosing the ideal materials and precision workmanship have laid the foundations for the longstanding expertise of HUGO BOSS. Sartorial mastery and state-of-the-art production processes intertwine here.

TECHNOLOGY

BOSS Made to Measure suit with the embroidered signature of the customer

MASCULINE

MASCULINE MEETS FEMININE

Consummate tailoring and clean silhouettes have long been hallmarks of BOSS Menswear. Now traditional couture and classic suit fabrics are being reinterpreted and infused with an additional feminine note in BOSS Womenswear. The result is a very special look, and an evocative counterpoint between masculine and feminine.

FEMININE

The actress Kate Bosworth wearing BOSS with her husband Michael Polish in BOSS Made to Measure, HUGO BOSS PRIZE 2014, New York

LUXURY

LUXURY MEETS UNDERSTATEMENT

Understatement is the essence of true luxury. After all, it is the small but significant details that render things special. The exceptional menswear line BOSS Made to Measure perfectly embodies the interplay of these contrasts.

UNDERSTATEMENT

BOSS Store Osaka, Shinsaibashi


GLAMOUR

PRECISION

GLAMOUR MEETS PRECISION

The red carpet and the frenzy of flashing cameras – that too is part of the world of HUGO BOSS. Never before have as many international stars worn our products as during this past year. Substantial work on the collections is required to bring this about. And here is where the HUGO BOSS team's many years of experience pay off, as they devote their energy and expertise to the brand's global image – without ever losing sight of the company's roots.

The actress Diane Kruger in BOSS, Met Gala 2014, New York

Artistic Director Jason Wu in his Metzingen studio

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TO OUR SHAREHOLDERS

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LETTER TO SHAREHOLDERS

Dear Shareholders,
Dear Readers,

Last year, HUGO BOSS again demonstrated the strength and balance of its business model. In a challenging market environment, the Group increased its currency-adjusted sales by six percent and operating profit by five percent. However, we were not able to entirely shake off the effects of the muted industry momentum. Political tension and macroeconomic uncertainty placed a damper on consumer confidence in some regions around the world. Given these difficult market conditions, the Group's strong performance in 2014 once again marks a considerable success.

Since 2009, we have increased consolidated sales by one billion euros, accompanied by three-fold growth in profit. The key to this success story has particularly been our corporate strategy, which aims to strengthen the Group's own retail business. We are not only implementing this strategy systematically but also enhancing it on a targeted basis.

Consequently, the Group's own retail business was once again our growth driver last year. It is very encouraging for us to see that our growth is not only due to the addition of new selling space but that simultaneously the sales generated by our existing stores and shop-in-shops have also risen. The heightened productivity and profitable network expansion impressively demonstrates the retailing skills that we have amassed over the last few years. In addition, business with our strategic wholesale partners, particularly the traditional premium department stores, performed very well. The slight decline in wholesale sales is primarily due to the takeover of selling space previously operated by business partners.

We have continued to reinforce our strong global market position. Last year, the Company grew in all regions, albeit at differing rates. The above-average growth in Europe is particularly gratifying and was materially underpinned by the Group's own retail business. Although consumer confidence cooled noticeably in the second half of the year, the region remained on its growth trajectory even towards the end of the year. Sales in the Americas were also up. However, the promotional market environment in the United States posed particular challenges for us. In the Asia-Pacific region, contraction of the Chinese luxury goods market exerted a drag. Nonetheless, HUGO BOSS asserted itself relatively well in this environment thanks to its strong brand and is able to look back on a further year of growth in this market. In fact, HUGO BOSS was named the most popular luxury menswear label in China for the first time. This clearly demonstrates that we have been able to establish ourselves as a highly attractive and prestigious brand in the Asia-Pacific region.

The global success of the BOSS brand vindicates our decision to continue enhancing our core brand. One key step in this process is the focus on distribution via the Group's own retail business. We are able to present our collections in a particularly luxurious setting and provide intensive advice together with first-class service in our own stores. In this way, we are creating a unique brand experience with BOSS. And experience suggests that our discriminating customers greatly appreciate this.

BOSS Womenswear also made great strides in 2014. The international response to the first collection designed by Jason Wu was excellent. The appeal and prestige of our Womenswear are also reflected in the double-digit growth in sales. Impressive shows during the New York Fashion Week improved perception of the brand significantly. With perfectly harmonized collections, we are seeking to additionally enhance BOSS Womenswear and to establish it as a firm fixture in the premium women's clothing segment. This year, we will be continuing this success story with an even stronger focus on shoes and accessories.

We have also made great progress in strengthening the efficiency of our operations. Located south of Stuttgart, our new distribution center went into operation free of any delays. With this ultra-modern logistics facility we are confident of being able to harness considerable efficiency gains in supplying the Group's own retail stores as well as our wholesale partners, particularly as a result of swifter processes. This year, we will be additionally working as hard as we can to establish the basis for integrating our brick-and-mortar stores seamlessly with our online activities. This kind of omnichannel approach is increasingly forming an integral part of a modern shopping experience and we want to lead the way here as well.

We are convinced that with the further development of our corporate strategy we are well positioned for the future. With our continued substantial growth potential, we will be able to add many more chapters to the HUGO BOSS success story. For this reason, we will again be working passionately this year on fulfilling our customers' wishes day for day. Despite the persistently difficult market conditions, we expect to be able to report a further increase in sales and profit in 2015.

Yet, none of this would be possible without the commitment and contribution of our employees. I would therefore like to take this opportunity to sincerely thank the many people who with their work make HUGO BOSS tangible all around the world and excite customers. Together with our customers, business partners and shareholders, we will work towards making 2015 another successful year in our Company's history.

Sincerely yours,

Claus-Dietrich Lahrs
CEO and Chairman of the Managing Board

MANAGING BOARD

CLAUS-DIETRICH LAHRS
Stuttgart, Germany

Chairman of the Managing Board

Responsible for

Sales,
Own Retail,
Communications,
Licenses

MARK LANGER
Stuttgart, Germany

Responsible for

Finance & Controlling,
Investor Relations,
Legal, Compliance and
Risk Management,
IT,
Logistics,
Human Resources
Director of Labor Relations

CHRISTOPH AUHAGEN
Stuttgart, Germany

Responsible for

Creative Management,
Brand Management,
Sourcing and Production

REPORT OF THE SUPERVISORY BOARD

Dear readers,

In an economic environment where developments are complex and often difficult to predict, the Supervisory Board's control and advisory functions arising from law, the Articles of Association of the Company and the Bylaws take on special importance. In light of this, the Supervisory Board once again fulfilled its duties in fiscal year 2014 with utmost diligence.

The Supervisory Board supported the work of the Managing Board in an advisory function and monitored the Managing Board in its management of the business over the fiscal year on the basis of extensive written and verbal reports by the Managing Board, issued promptly and in the necessary detail. This ensured that the Supervisory Board was kept informed at all times of material developments with regard to both HUGO BOSS AG and the Group's subsidiaries comprising mainly the intended business policy and other fundamental issues of corporate planning, particularly finance, investment and personnel planning. This also applies to the further strategic development, the course of business and the position of the Company, on which the Supervisory Board was able to obtain detailed information from the reports by the Managing Board on the current and future economic situation. The relevant key performance indicators were at the special focus of monitoring and control duties in this context. Developments leading to any deviations of 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. In addition, there were regular talks between the CEO and the chairman of the Supervisory Board on important developments and decisions to be taken. The Managing Board and the Supervisory Board coordinated the strategic objectives of the Company together.

If decisions or measures taken by the Managing Board required approval on the basis of law, the Articles of Association or the Bylaws, the proposed resolutions – prepared by the committees in some cases – were discussed, reviewed and resolved by the Supervisory Board at its meetings. 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 OF THE SUPERVISORY BOARD MEETINGS IN 2014

In the 2014 reporting year, a total of four Supervisory Board meetings were held in March, May, September and December. The meeting in September was a two-day meeting. The Supervisory Board was in full attendance at most of the meetings. Two members missed one meeting and sent their apologies.

The meeting of the Supervisory Board in March 2014 focused on the annual financial statements of HUGO BOSS AG and of the HUGO BOSS Group as of December 31, 2013, the audit report prepared by the auditors and the dependent company report. At this meeting, the annual financial statements of HUGO BOSS AG as of December 31, 2013 were approved and ratified, and the consolidated financial statements of the HUGO BOSS Group were also approved. Furthermore, the Supervisory Board's report to the Annual Shareholders' Meeting was discussed and adopted, as were – after reviewing the independence of the newly proposed auditor for fiscal year 2014 – the proposals for the adoption of resolutions at the Annual Shareholders' Meeting of HUGO BOSS AG on May 13, 2014.

The two-day meeting of the Supervisory Board in September 2014 included an extensive discussion of corporate strategy up to the year 2020, a detailed presentation of the Group's organizational structure and the development of its activities in the area of sustainability. Resolutions were also passed on the formation of subsidiaries.

The Supervisory Board meeting in December 2014 performed the review of the efficiency of the Supervisory Board, discussed and approved the declaration of compliance with the German Corporate Governance Code for 2014 and discussed and resolved both the budget and the internal audit planning for 2015.

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 in particular with the further internationalization of business, i.e., the expansion of retail activities and forthcoming investments, compliance issues and the Corporate Governance Code.

COMMITTEES OF THE SUPERVISORY BOARD AND THEIR WORK IN 2014

In order to improve the efficiency of its work, the Supervisory Board has set up a total of five committees: an Audit Committee, a Working Committee, a Personnel Committee, a Nomination Committee and a Mediation Committee as required by law. To the extent permitted by law, the Supervisory Board's decision-making authority was transferred to the Committees. The committees addressed in-depth the respective issues assigned to them and the chairs of the committees always reported in detail to the Supervisory Board on the meetings and their results.

The Audit Committee met four times in fiscal year 2014. The main subjects of its meetings were 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 separate and consolidated financial statements, the risk monitoring system and the risk management system, the internal control systems and compliance issues. The Personnel Committee held six meetings, at which it focused on target agreements for the Managing Board and reviewed achievement of the targets. It also dealt with the extension of contracts for Managing Board members. The Working Committee held three meetings in the fiscal year at which it discussed the development of sales and of womenswear activities, the agreement on securing the location and preparations for the Annual Shareholders' Meeting. The Nomination Committee held discussions at two meetings in fiscal year 2014. The Mediation Committee set up in accordance with Sec. 27 (3) MitbestG [“Mitbestimmungsgesetz”: German Co-determination Act] did not need to meet in the past fiscal year.

01|01 ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD AND BOARD COMMITTEES IN 2014

	Number of members	Number of meetings	Attendance rate
Working Committee	6	3	83%
Nomination Committee	2	2	100%
Personnel Committee	4	6	100%
Audit Committee	4	4	100%
Mediation Committee	4	0	n/a
Full Supervisory Board	12	4	96%
TOTAL			**95%**

CORPORATE GOVERNANCE

The Supervisory Board also discussed the further development of the corporate governance regulations at the Company in the past fiscal year. In December 2014, the Managing Board and the Supervisory Board issued a new Declaration of Compliance pursuant to Sec. 161 (1) Sentence 1 AktG [“Aktiengesetz”: German Stock Corporation Act] on compliance with the recommendations of the Corporate Governance Code at HUGO BOSS AG. The combined report on corporate governance at the Company in accordance with No. 3.10 of the German Corporate Governance Code can be found on page 17. As in previous years, a review of the efficiency of the Supervisory Board’s activities, as recommended by the German Corporate Governance Code, was performed using a standardized, comprehensive questionnaire. The outcome was discussed and analyzed in detail at the Supervisory Board meeting on December 11, 2014, where the Supervisory Board came to a positive conclusion.

No conflicts of interest relating to Managing Board or Supervisory Board members arose in 2014 that had to be disclosed to the Supervisory Board immediately and about which the Annual Shareholders’ Meeting had to be informed in accordance with the German Corporate Governance Code.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of HUGO BOSS AG and the consolidated financial statements for fiscal year 2014 and the combined management report for HUGO BOSS AG and the Group for fiscal year 2014 prepared by the Managing Board were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, together with the accounting records. 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 Tuesday, May 13, 2014. This included an agreement with the auditors to inform the chair of the Audit Committee without delay during the audit of any grounds for disqualification or partiality that could not be immediately rectified. The external auditors are also obliged to report on any findings or events arising during the performance of the audit which are of importance to the duties of the Supervisory Board. The auditors were furthermore required to inform the Supervisory Board or note in the audit report if any facts were ascertained during the audit that would result in the declaration submitted by the Managing Board and the Supervisory Board in accordance with Sec. 161 (1) Sentence 1 AktG. not being correct. There was, however, no cause for any such report by the auditors. 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 consolidated financial statements of HUGO BOSS AG were prepared in accordance with Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] on the basis of the International Financial Reporting Standards (IFRSs) as adopted by the EU. The auditors rendered an unqualified audit opinion on both the separate and consolidated financial statements including the combined management report for HUGO BOSS AG and the Group.

The dependent company report prepared by the Managing Board was also audited by the auditors. The auditors rendered the following audit opinion on this report:

"Based on our audit and assessment in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the payments made by the company in connection with transactions detailed in the report were not unreasonably high,
3. there are no circumstances that would require a materially different assessment of the measures listed in the report than that of the Managing Board."

The Supervisory Board had at its disposal the audit records and the Managing Board's proposal for the appropriation of profit as well as the two audit reports from the external auditors, including the dependent company report in accordance with Sec. 312 AktG and the auditors' audit report on the dependent company report. These were first discussed and reviewed in detail by the Audit Committee and then by the entire Supervisory Board in the presence of the auditors, who reported on the findings of their audit. The auditors commented in detail on the net assets, financial position and results of operations of the Company and the Group. The auditors further stated that there were no material weaknesses in the internal control system and risk management system with regard to the accounting process. They also reported that there were no circumstances that gave occasion for concern about any partiality on their part. Finally, they reported on services that they provided in addition to their audit work. Answers were given to the questions posed by the Supervisory Board and its committees on that occasion and the documents relating to the financial statements were examined in detail with the auditors and discussed and reviewed by the Supervisory Board and the Audit Committee. The audit reports were discussed with the auditors and the related questions were answered by the auditors. The auditors' findings were subsequently approved. After its final review, the Supervisory Board does not raise any objections.

At its financial review meeting on March 11, 2015, the Supervisory Board therefore approved the separate financial statements, the consolidated financial statements and the combined management report for HUGO BOSS AG and the Group for fiscal year 2014. The financial statements of HUGO BOSS AG for fiscal year 2014 have therefore been ratified in accordance with Sec. 172 AktG.

The dependent company report reviewed by the Audit Committee and the Supervisory Board and the audit report prepared by the auditors on this report were approved by the Supervisory Board. After its final review, no objections were raised on the Managing Board's statement at the end of the dependent company report.

Finally, at its meeting on March 11, 2015, the Supervisory Board approved the Managing Board's proposal for the appropriation of profit. In this context the Supervisory Board held intense 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.

The Supervisory Board would like to thank all the employees for their high level of personal dedication and the work they performed that was vital to HUGO BOSS AG's success in fiscal year 2014.

Metzingen, March 11, 2015

The Supervisory Board

Dr. Hellmut Albrecht
Chairman

SUPERVISORY BOARD

DR. HELLMUT ALBRECHT Munich, Germany	Management Consultant Chairman of the Supervisory Board
ANTONIO SIMINA Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chairman of the Supervisory Board Employee representative
GERT BAUER Reutlingen, Germany	First Authorized Representative of the German Metalworkers´ Union (IG Metall), Reutlingen/Tübingen, Germany Employee representative
HELMUT BRUST Bad Urach, Germany	Senior Head of Corporate Culture, Health and Safety HUGO BOSS AG, Metzingen, Germany Employee representative
DAMON MARCUS BUFFINI Surrey, Great Britain	Managing Director Permira Advisers LLP, London, Great Britain
MONIKA LERSMACHER Kornwestheim, Germany	Secretary of the German Metalworkers´Union IG Metall Area Headquaters Baden-Württemberg, Stuttgart, Germany Employee representative
DR. KLAUS MAIER Stuttgart, Germany	Management Consultant
GAETANO MARZOTTO Milan, Italy	Chairman of the Supervisory Board Gruppo Santa Margherita S.p.A., Fossalta di Portogruaro, Italy
LUCA MARZOTTO Venice, Italy	Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy
SINAN PISKIN Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
BERND SIMBECK Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative
DR. MARTIN WECKWERTH Frankfurt/Main, Germany	Partner Permira Beteiligungsberatung GmbH, Frankfurt/Main, Germany

SUPERVISORY BOARD COMMITTEES

Working Committee	**Dr. Hellmut Albrecht (Chairman)** Helmut Brust Luca Marzotto Sinan Piskin Antonio Simina Dr. Martin Weckwerth
Nomination Committee	**Damon Buffini** Dr. Martin Weckwerth
Personnel Committee	**Dr. Hellmut Albrecht (Chairman)** Helmut Brust Antonio Simina Dr. Martin Weckwerth
Audit Committee	**Dr. Klaus Maier (Chairman)** Dr. Hellmut Albrecht Gert Bauer Antonio Simina
Mediation Committee	**Dr. Hellmut Albrecht (Chairman)** Monika Lersmacher Antonio Simina Dr. Martin Weckwerth

CORPORATE GOVERNANCE REPORT

PURSUANT TO SECTION 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE

HUGO BOSS is convinced that good and transparent corporate governance which adheres to German and international standards is a key factor in the Group's long-term success. 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 Group's continuation as a going concern and sustainable value added through responsible corporate governance that is geared to the long term. HUGO BOSS wants to justify the trust placed in it by investors, financial markets, business partners, employees and the public, and continue to enhance the Group's corporate governance.

In fiscal year 2014, the Managing Board and Supervisory Board closely examined compliance with the requirements of the German Corporate Governance Code (GCGC). As a consequence, it was possible to issue the declaration of compliance dated December 2014, which is included at the end of this report and published on the website of HUGO BOSS AG together with past declarations of compliance. Apart from the exceptions discussed below, HUGO BOSS AG complies with the recommendations of the Code as amended May 13, 2013 and, since its entering into effect, as amended June 24, 2014, published in the Bundesanzeiger [German Federal Gazette] on September 30, 2014. Details are contained in the following report by the Managing Board and Supervisory Board.

COOPERATION, COMPOSITION AND ACTIVITIES OF THE MANAGING BOARD AND SUPERVISORY BOARD

The Managing Board and Supervisory Board cooperate closely for the benefit of the Group. Their shared objective is to increase the enterprise value in the long term. The Managing Board regularly informs the Supervisory Board in a timely manner and in detail on issues of importance for the Group concerning strategy, planning, business development, the risk position, risk management 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 also discussed and coordinated with the Supervisory Board.

In accordance with the German Corporate Governance Code, HUGO BOSS attaches a high level of importance to the independence of 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. None of the current members of the Supervisory Board 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.

In accordance with the recommendation of the German Corporate Governance Code, the Supervisory Board has also set specific targets for its composition and for the composition of the Managing Board. These targets were outlined in the Corporate Governance Report for 2011 and have not changed: the Supervisory Board should have at least two non-German members, none of the members are permitted to have potential conflicts of interest and none of the Supervisory Board members may be older than 69 years of age when they are elected (one deviation in the past from this rule was justified upon election). As regards diversity, the aim is still to have at least two women on the Supervisory Board after the scheduled elections in the year 2015 (there is currently one woman on the Board). In addition, the Supervisory Board has set itself a specific target as regards the number of "independent" members of the Supervisory Board within the meaning of the German Corporate Governance Code. Accordingly, of the twelve members of the Supervisory Board, at least eight members, including the six employee representatives, will have to be independent in future. The Supervisory Board considered two independent shareholder representatives to be sufficient in view of the shareholder structure, which is dominated by a majority shareholder.

The German Corporate Governance Code also prescribes that the Managing Board must be committed to 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 the adequate representation of women and will continue to do so in future.

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 Supervisory Board had any conflicts of interest in fiscal year 2014. 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 abroad are listed in the notes under "Supervisory and Managing Board" (Page 242). 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 management boards of other listed companies. Related party disclosures are provided in the notes to the consolidated financial statements on page 232 et seq.

RISK MANAGEMENT AND RISK CONTROLLING

Responsible handling of risks by the Group constitutes a key element of good corporate governance. The systematic risk management anchored in 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 appropriate risk management and controlling in the Group is a key task. The Audit Committee set up by the Supervisory Board regularly monitors the financial reporting process, the effectiveness of the systems of internal control, risk management and internal audit, and the audit of the financial statements. The external auditor is also involved in the audit. The systems in place are continually enhanced and adapted to changing circumstances. By their nature, however, they cannot provide complete protection from losses resulting from business transactions or fraud. More information on systems of internal control, risk management and audit are provided in the "Risk report" section on page 112.

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Since fiscal year 2001, the financial reporting of HUGO BOSS AG has been prepared in accordance with International Financial Reporting Standards (IFRS). The Audit Committee set up 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 Ms. Lea Biller since December 31, 2014. It was agreed with the auditors 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 agreed for the reporting year with the external auditor that the chairman of the Audit Committee must be informed without delay of any grounds for disqualification or factors affecting impartiality that arise during the audit, unless they are remedied immediately. 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, it was agreed that the external auditor must inform the Supervisory Board and indicate in its 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 ["Aktiengesetz":German Stock Corporation Act]. The Supervisory Board also obtained a declaration of independence from the external auditor in accordance with No. 7.2.1 of the German Corporate Governance Code and verified the independence of the external auditor; the declaration also encompassed the engagement of the external auditor for non-audit services.

CORPORATE COMPLIANCE

HUGO BOSS AG and the companies of the Group operate in different countries and regions, and, accordingly, different legal systems. At HUGO BOSS, corporate compliance comprises measures designed to ensure compliance with laws and regulations issued by public authorities, internal corporate guidelines and codes of conduct that the Group is committed to observing. Corporate compliance and its observance by the Group companies is a key task of the Managing Board at HUGO BOSS. This includes antitrust and anti-corruption regulations as well as the provisions of legislation on the capital markets. HUGO BOSS AG expects legally unobjectionable conduct from all employees in their daily work.

A compliance department that reports directly to the Chief Financial Officer as Chief Compliance Officer supports the Managing Board's monitoring of effective compliance management. The central compliance office and compliance officers in the Group companies ensure that the compliance program is implemented throughout the Group and that it has been continually enhanced since its introduction. The Audit Committee is regularly informed about the compliance office's activities.

To ensure the legally unobjectionable conduct of employees and establish a basis for this, HUGO BOSS has summarized principles of conduct applicable throughout the Group in a code of conduct and more in-depth corporate guidelines. The code of conduct and the corporate guidelines mainly focus on rules on conduct in competition, on avoiding conflicts of interest, on the appropriate handling of company information, on ensuring fair and respectful working conditions and on anti-corruption. HUGO BOSS does not tolerate willful misconduct and persistent infringements of the code of conduct.

Employees are continually familiarized with the rules of the code of conduct and the corporate guidelines and made aware of the importance of observing compliance rules. To this end, HUGO BOSS holds classroom training and has also set up a worldwide e-learning program that the employees concerned have to complete regularly. The e-learning program is also being rolled out in all subsidiaries of HUGO BOSS.

Employees can obtain support and advice on issues concerning legally correct conduct from their supervisors and the Compliance Officer. As a supplementary reporting channel, HUGO BOSS has also established a global ombudsman system Employees and third parties (suppliers, customers) can confidentially notify an ombudsman, whose contact details are given on the Group's website, if there are indications of white-collar crimes, infringements of antitrust law or breaches of compliance guidelines. It is also possible to remain anonymous if desired.

CAPITAL MARKET COMMUNICATION

HUGO BOSS reports regularly and in a timely manner on the Group's business development and on key strategic and operational initiatives, in order to ensure the utmost transparency and strengthen the confidence of shareholders, investors and the interested public. As part of investor relations activities, a regular exchange takes place with institutional investors, financial analysts and private shareholders. Apart from the annual press briefing and an analysts' conference on the annual results, conference calls are held with financial analysts and investors when the reports for the first quarter, first half year and nine months are published. At an annual Investor Day, the Group's strategy and relevant developments are discussed in detail. In addition to special information events at which the Group presents itself to private investors, the Annual Shareholders' Meeting offers the opportunity to obtain comprehensive information on the development of the Group quickly, comprehensively and effectively, either by attending the meeting or online.

All key information and publications can be accessed on the Group's website at www.group.hugoboss.com. Also posted on the website is the financial calendar, which provides an overview of the most important dates. This is always kept up to date and is also included in the annual and quarterly reports. Information on current developments and all capital market news is also published on the website. Interested parties can also subscribe to an electronic newsletter to receive up-to-date information on news within the Group.

PUBLICATIONS WITHIN THE MEANING OF SEC. 15A WPHG

Transactions conducted by parties with shares of HUGO BOSS AG within the meaning of Sec. 15a WpHG ["Wertpapierhandelsgesetz": Securities Trading Act] are also published on the Group's website.

As of December 31, 2014, the combined number of HUGO BOSS AG shares held by all members of the Managing Board and Supervisory Board accounted for less than 1% of the shares issued by the Group.

COMPENSATION OF THE MANAGING BOARD AND SUPERVISORY BOARD

The compensation report summarizes the principles underlying the total 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 of the Supervisory Board members. The compensation report is part of the management report.
→ **Compensation report**

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement (in accordance with Sec. 289a HGB ["Handelsgesetzbuch": German Commercial Code]) 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 be accessed at **www.group.hugoboss.com/Investor Relations/Corporate Governance**.

DECLARATION OF COMPLIANCE

In accordance with Sec. 161 (1) Sentence 1 AktG the Managing Board and Supervisory Board of HUGO BOSS AG have to issue an annual declaration of compliance stating whether the recommendations of the government commission for the German Corporate Governance Code as published in the Bundesanzeiger [German Federal Gazette] were complied with and whether they will be complied with in the future. The recommendations that were not complied or will not be complied with in the future also have to be indicated stating the reason for non-compliance. The German Corporate Governance Code as most recently revised on June 24, 2014 was published in the Bundesanzeiger on September 30, 2014. Accordingly, the Managing Board and Supervisory Board issued the following declaration of compliance in December 2014:

"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 2013 the recommendations of the Government Commission "German Corporate Governance Code" initially as amended on May 13, 2013 – officially published in the Federal Gazette on June 10, 2013 – and since its effectiveness in the version as amended on June 24, 2014 – officially published in the Federal Gazette on September 30, 2014 – have been and are complied with except for:

- Deviating from the recommendation in section 3.8 sentence 5 GCGC, the D&O- (Directors' & Officers'-)insurance for members of the Supervisory Board does not contain a deductible. HUGO BOSS AG covers the D&O-risk via an appropriate liability insurance in which also members of the Supervisory Board are included. The members of the Supervisory Board hold their offices responsibly and in the interest of the Group. HUGO BOSS AG is of the opinion that a deductible is no appropriate means for further improving the sense of responsibility. Further, the introduction of a deductible would not lead to a significant reduction of premium payments.

- 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 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 Group 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 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 section 5.4.6 sentence 7 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 2014”

HUGO BOSS – KEY SHARE DATA

01|02 HUGO BOSS – KEY SHARE DATA

	2014	2013
Number of shares	**70,400,000**	**70,400,000**
Thereof outstanding shares	69,016,167	69,016,167
Thereof own shares	1,383,833	1,383,833
Share price in EUR[1]		
Last (December 31)	101.70	103.50
High	113.55	103.50
Low	90.79	81.24
Market capitalization in EUR million (December 31)	**7,160**	**7,286**
Earnings per share in EUR	**4.83**	**4.77**
Price-earnings ratio[2]	**21.1**	**21.7**
Dividend per share in EUR	**3.62[3]**	**3.34**
Dividend yield in %[2]	**3.6[3]**	**3.2**
Amount distributed in EUR million	**249.8[3]**	**230.5**
Payout ratio in %[4]	**75[3]**	**70**

[1] Xetra.
[2] Based on closing price (December 31).
[3] 2014: Dividend proposal.
[4] Based on net income attributable to shareholders.

01|03 ISIN, WKN AND TICKER SYMBOL HUGO BOSS SHARE

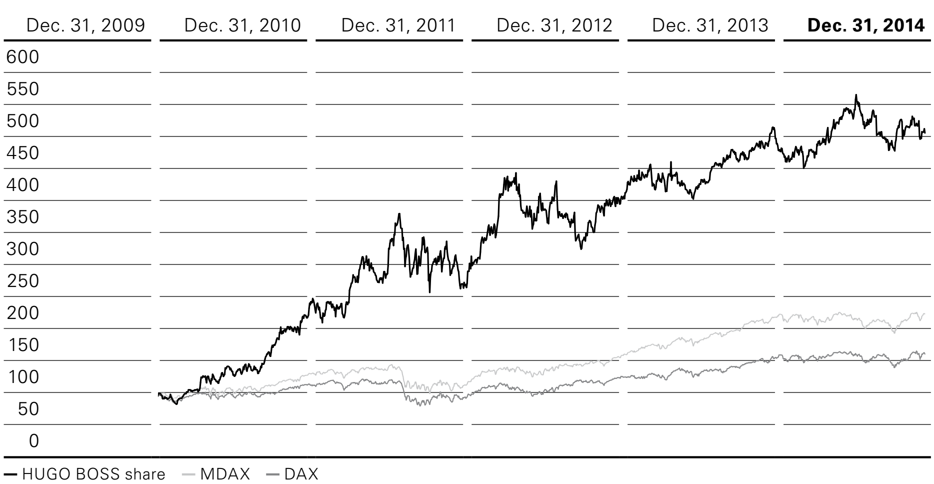
ISIN	DE000A1PHFF7
WKN	A1PHFF
Ticker symbol	BOSS

Stock exchanges: Xetra, Frankfurt/Main, Stuttgart, Duesseldorf, Hamburg, Munich, Hanover, Berlin/Bremen

HUGO BOSS ON THE CAPITAL MARKET

The 2014 trading year was generally characterized by heavy volatility in the German equity markets. Uncertainty surrounding the outlook for the global economy together with geopolitical crises repeatedly triggered sharp corrections in the market as a whole. In spite of this, the DAX and the MDAX closed the year with small gains due to the prospects of further monetary easing. The HUGO BOSS share came under pressure in the second half of the year in particular. Unable to benefit from the end-of-year rally to the same extent as the German benchmark indices, it closed slightly down on the previous year.

01|04 SHARE PRICE PERFORMANCE (Index: December 31, 2009 = 100)



Economic concerns and geopolitical crises determining the performance of the German equity market

The German equity markets entered 2014 with a volatile sideways development. The currency turbulence, particularly in the emerging markets, in the wake of the U.S. Fed's announcement of a change in its monetary policy, the sustained economic slowdown in China and geopolitical uncertainties due to the conflict between Russia and Ukraine temporarily exerted considerable pressure on the markets in the first quarter. In the second quarter, equity markets were supported by the ECB's continued expansionary monetary policy, improved economic indicators in the United States and brisk M&A activity. As a result, the DAX exceeded the 10,000 mark for the first time. However, the sustained crisis in Ukraine, unrest in Iraq and Syria as well as muted economic data from the Eurozone led to significant price corrections in the third quarter. In the course of the quarter, German equities were buoyed by robust economic conditions in the United States and a further easing of the ECB's monetary policy. Towards the end of the third quarter, prices were dragged down by weak economic data from China and a worsening of the Ukraine conflict. In the fourth quarter, fears of a recession in the Eurozone, currency turbulence in Russia and declining oil prices caused a sharp correction. The surprising cut in interest rates in China and speculation of asset-purchasing by the ECB unleashed a considerable recovery in equity prices at the end of December, propelling the **DAX** and the **MDAX** to new historical highs. All in all, the DAX closed 2014 3% higher and the MDAX 2% higher compared with the end of 2013.

HUGO BOSS share influenced by volatile general market conditions in 2014

At the beginning of the year, the **HUGO BOSS share** came under pressure as the earnings published in the premium and luxury goods industry were perceived as disappointing and because of the macroeconomic uncertainties in many emerging markets that are of above-average importance for the sector. However, following the publication of the Group's results for 2013 and the positive outlook for the year 2014, the HUGO BOSS share recovered significantly from mid-March onward, receiving further support after the figures for the first quarter of 2014 were published at the beginning of May. After the distribution of the dividend for 2013 in mid-May triggered only a temporary price correction, the share climbed to a new record high of EUR 113.55 in mid-July. Disappointing earnings in the sector in tandem with a significant deterioration in sentiment in the equity markets then triggered a price correction, which the share was able to partially reverse by the end of August however. Thereafter, the placement of just under eight million shares by majority shareholder Permira at the beginning of September and the more cautious outlook for the premium and luxury goods industry triggered further price corrections. In the fourth quarter, the HUGO BOSS share initially benefited from the general recovery in the equity markets but then corrected in response to the adjustment of the Group's financial guidance for 2014 published in November as well as the placement of a further five million shares by majority shareholder Permira in December. At the end of the reporting period, the HUGO BOSS share was trading at EUR 101.70, 2% down on its 2013 closing price of EUR 103.50.

HUGO BOSS share outperforms industry index

The **MSCI World Textiles, Apparel & Luxury Goods Index**, which tracks the share price performance of companies operating in these sectors, retreated by 4% in 2014. This means the HUGO BOSS share outperformed the sector average but slightly underperformed the German benchmark indices MDAX and DAX.

01|05 HUGO BOSS SHARE IN COMPARISON (Change in %)

	1 year	3 years	5 years	10 years
HUGO BOSS share	(2)	84	403	334
DAX	3	66	65	130
MDAX	2	90	126	215
MSCI World Textiles, Apparel & Luxury Goods	(4)	51	108	177

Several notifications of shareholdings received

In accordance with Sec. 21 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act], shareholders are obligated to report their share of voting rights if they exceed or fall short of particular reporting thresholds. The reporting thresholds are set at 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

In the period from January 1 through December 31, 2014, the Group received several such notifications, the wording of which has been published under "Financial Releases" in the Investor Relations section of the Group's website at group.hugoboss.com.

Reportable securities transactions pursuant to Sec. 15a WpHG

According to Sec. 15a WpHG, members of the Managing Board and the Supervisory Board and persons who carry out managerial functions as defined by the WpHG are obliged to disclose any transactions to purchase or sell HUGO BOSS AG securities.

One such notification was given to the Group by the Managing Board and Supervisory Board in the period from January 1 to December 31, 2014. In total, Members of the Managing Board and Supervisory Board hold less than 1% of the shares issued by HUGO BOSS AG.
→ **Corporate Governance Report**

Reportable securities transactions are published under "Financial Releases" in the Investor Relations section of the Group's website at group.hugoboss.com.

Number of own shares unchanged

The Annual Shareholders' Meeting on June 21, 2010 authorized the Managing Board of HUGO BOSS AG to continue the share buyback program already in place at that time. Accordingly, the Managing Board is authorized until June 20, 2015 to buy shares in the Group representing no more than 10% of the share capital outstanding. No use of the authorization was made in the past fiscal year.

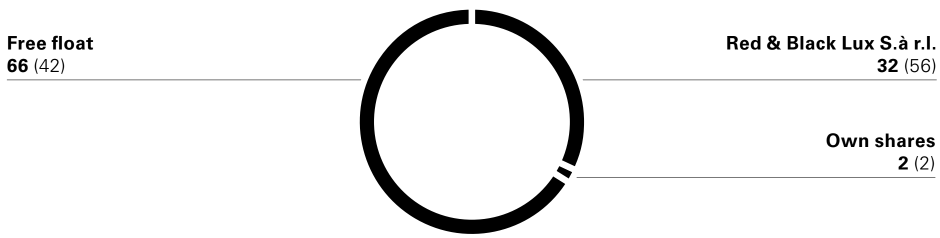
This means that the number of own shares held by HUGO BOSS AG remains unchanged at 1,383,833. This corresponds to a share of 1.97% or EUR 1,383,833 of the share capital.
→ **Legal disclosures**

Free float increases

In the course of the year, Red & Black Lux S.à r.l., in which private equity company Permira holds a majority interest, sold just under 17 million HUGO BOSS shares. As a result, Permira's share in HUGO BOSS dropped from 56% at the end of 2013 to 32% at the end of 2014. Consequently, the free float widened to 66% (December 31, 2013: 42%). HUGO BOSS AG continues to hold own shares amounting to 2% of the share capital (December 31, 2013: 2%).

01|06 SHAREHOLDER STRUCTURE AS OF DECEMBER 31 (in % of share capital)

2014 (2013)

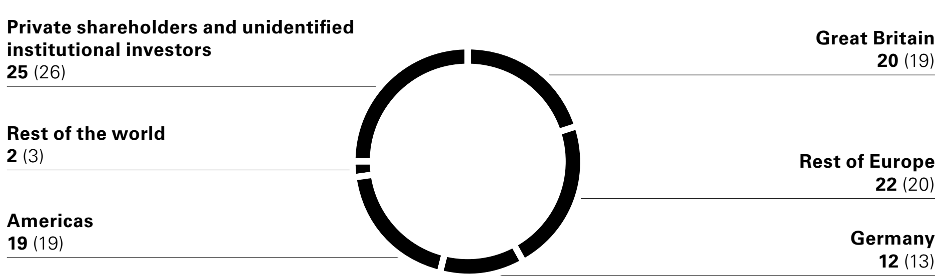


Internationally balanced shareholder structure

The ownership structure of the shares in free float was analyzed in 2014 with a view to addressing the institutional investors investing in HUGO BOSS in a more targeted manner. The result shows that HUGO BOSS' investor base has become even more international. Indeed, the portion of shares held by institutional investors in Great Britain increased to 20% (2013: 19%). In addition, the weighting of other European countries in the shareholder structure rose to 22% (2013: 20%). However, the portion of shares held by German investors decreased slightly to 12% (2013: 13%). The portion held by American investors remained stable at 19% (2013: 19%). Private shareholders enlisted in the share register and institutional investors on which the Group does not have any further details make up 25% of the free float (2013: 26%).

01|07 REGIONAL SPLIT OF INVESTOR BASE AS OF DECEMBER 31 (in % of free float)

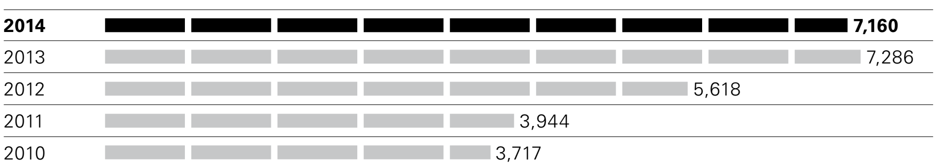
2014 (2013)



Weighting of HUGO BOSS in the MDAX increases

At the end of December 2014, the HUGO BOSS share, which is listed in the MDAX, took 8th place in Deutsche Börse's ranking calculated on the basis of market capitalization adjusted for free float (December 31, 2014: 14th place). It ranked 4th by trading volume (December 31, 2014: 7th place). This means that the weighting of the HUGO BOSS share in the MDAX at the end of December came to 3.6% (December 31, 2014: 2.6%). On average, 153,578 shares per day were traded on Xetra in 2014 (2013: 139,786).

01|08 MARKET CAPITALIZATION AS OF DECEMBER 31 (in EUR million)



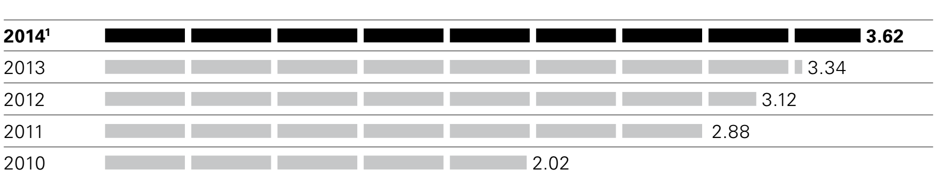
No corporate bonds issued

Neither HUGO BOSS AG nor any of its subsidiaries issued corporate bonds in 2014 and no bonds were outstanding as of year-end 2014. The Group is also not rated by any external rating agency.

Dividend per share on the rise

HUGO BOSS pursues a profit-based distribution policy that allows the shareholders to participate appropriately in the Group's earnings development. The policy is to distribute to shareholders between 60% and 80% of consolidated net income on a regular basis. On account of the rise in profits in the past fiscal year, the Group's strong financial position and its financial outlook for 2015, the Managing Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting to be held on May 12, 2015 a dividend of EUR 3.62 per share for fiscal year 2014 (2013: EUR 3.34). The proposal is equivalent to a payout ratio of 75% of the consolidated net income attributable to the shareholders of the parent company in 2014 (2013: 70%). Assuming that the shareholders approve the proposal, the dividend will be paid out on the day after the Annual Shareholders' Meeting, Wednesday, May 13, 2015. On the basis of the number of shares outstanding at year-end, the amount distributed will come to EUR 250 million (2013: EUR 231 million).

01|09 DIVIDEND PER SHARE (in EUR)



[1] 2014: Dividend proposal.

Transparent and open communication as a goal of Investor Relations work

For HUGO BOSS, good capital market and corporate communication means communicating current developments within the Group promptly and in a transparent manner, which strengthens the confidence placed in the Group by capital market participants and the general public. Once again in 2014, the Managing Board and the Investor Relations department took part in an ongoing individual dialog with national and international institutional and private shareholders. One valuable instrument used in keeping institutional investors, private shareholders and the interested public informed about the development of the Group is the Internet. HUGO BOSS AG's Investor Relations website not only contains general information and key figures on the Group but also current financial reporting, company presentations, press releases as well as the financial calendar and the contact details of the Investor Relations department. Reflecting the importance of this medium, the Group's Investor Relations website was overhauled last year and now offers visitors new functions, improved navigation and an even more appealing visual design. **:// group.hugoboss.com/Investor Relations**

2

COMBINED MANAGEMENT REPORT GROUP PROFILE

COMBINED MANAGEMENT REPORT GROUP PROFILE

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66 **Sustainability**

BUSINESS ACTIVITIES AND GROUP STRUCTURE

HUGO BOSS strives to strengthen and grow its position as one of the market leaders in the premium and luxury segment of the global apparel market. Headquartered in Metzingen, Germany, and with just under 13,000 employees, the Group generated sales of EUR 2.6 billion in fiscal year 2014 and is one of the most profitable listed apparel manufacturers in the world.

Positioned in the premium and luxury segment of the apparel market

The HUGO BOSS Group is one of the market leaders in the premium and luxury segment of the global apparel market. It focuses on developing and marketing premium fashion and accessories for men and women. With its core brand BOSS, HUGO and its other brand lines BOSS Green and BOSS Orange, HUGO BOSS caters for different and clearly defined target groups. The brands cover a comprehensive product range encompassing classic-modern apparel, elegant evening wear and sportswear, shoes, leather accessories as well as licensed fragrances, eyewear, watches, children's fashion, home textiles and mobile accessories.

Targeted brand communication

HUGO BOSS leverages targeted marketing measures to raise the appeal of its brands. Apart from traditional marketing instruments such as print and out-of-home media, it increasingly reaches the relevant target groups using digital channels. In light of the expansion of the Group's own retail business, the importance of retail marketing is also mounting. Sports sponsorship activities focus on premium sports such as Formula 1, golf or sailing that are an ideal way to convey brand values such as dynamism, perfection and precision. In its art sponsorship activities, the Group underscores the common ground that art and fashion share with respect to design, aesthetics and creativity. The Group emphasizes these attributes further with high-profile fashion events in the world's fashion capitals that raise the desirability and acceptance of the Group's brands among key target groups, while adding emotional appeal to the HUGO BOSS brand world.

Global sourcing and distribution activities

HUGO BOSS sources roughly 20% of its procurement volume internally. In addition, products are manufactured by independent suppliers that are mainly located in Eastern Europe and Asia. The Group sells its collections in 130 countries around the world. The Group's sales regions are Europe (61% of sales), the Americas (23% of sales) and Asia/Pacific (14% of sales). In addition, 2% of sales are generated from licenses. **→ Sourcing and Production → Sales and Profit Development of the Business Segments**

Group's own retail business the most important sales channel

Over the last few years, HUGO BOSS has expanded its own retail business significantly. In fiscal year 2014, 57% of Group sales were generated in this sales channel. The number of points of sale owned by the Group rose by a net 31 to 1,041. These include freestanding stores operated by the Group in prime locations, shop-in-shops operated by the Group on multibrand retail space, particularly that of department store partners, and factory outlets. At the same time, online sales are also gaining in importance. At present, the Group operates eleven online stores in Germany, Great Britain, France, Spain, Italy, the Netherlands, Belgium, Austria, Switzerland, the USA and China. Wholesale business contributed 41% to Group sales in fiscal year 2014. Wholesale partners include department stores, specialist retailers, which are frequently family-run, franchise partners and, to a lesser extent, specialist online retailers. Department stores and specialist retailers sell HUGO BOSS products either in separate shop-in-shops or in a multibrand setting. Franchise partners operate freestanding HUGO BOSS stores in accordance with the Group's specifications and particularly operate in small markets not addressed by the Group's own retail business. In total, HUGO BOSS products can be bought at around 7,600 wholesale points of sale. → **Group Strategy** → **General Economic Situation and Industry Development**

02|01 HUGO BOSS DISTRIBUTION CHANNELS

Group's own retail business	Wholesale
Freestanding stores: Freestanding stores operated by the Group in prime locations	**Shop-in-shops:** HUGO BOSS shops operated by wholesale partners
Shop-in-shops: Shops operated by the Group on retail space of partners	**Multi-brand points of sale:** Category business on selling space with only limited own branding
Factory outlets: Sale of prior season's merchandise in specialist stores in high-traffic peripheral zones	**Franchise business:** Freestanding HUGO BOSS stores operated by partners
E-commerce: HUGO BOSS online stores in a number of different countries around the globe	**Online:** Online distribution through specialist online stores

Legal structure of the Group reflects dual management and control structure

The HUGO BOSS Group is managed by the parent company HUGO BOSS AG, based in Metzingen, Germany, where all of the Group management functions are bundled. 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 its management. The Supervisory Board advises the Managing Board and oversees its management activities. Apart from HUGO BOSS AG, the Group comprises 55 consolidated subsidiaries that are responsible for local business activities. Of these, 35 are organized as distribution companies. With few exceptions, HUGO BOSS AG has complete control over all subsidiaries. All subsidiaries are operated as independent profit centers and are responsible for their results of operations.

Regional alignment of organizational structure

The HUGO BOSS Group has aligned its structure regionally and bundles its local business activities into three regional organizational units: Europe including the Middle East and Africa, the Americas and Asia/Pacific. These three regions together with the license business make up the Group's four operating segments. Responsibility for the central functions is allocated to the individual members of the Managing Board and bundled at the Group's headquarters.

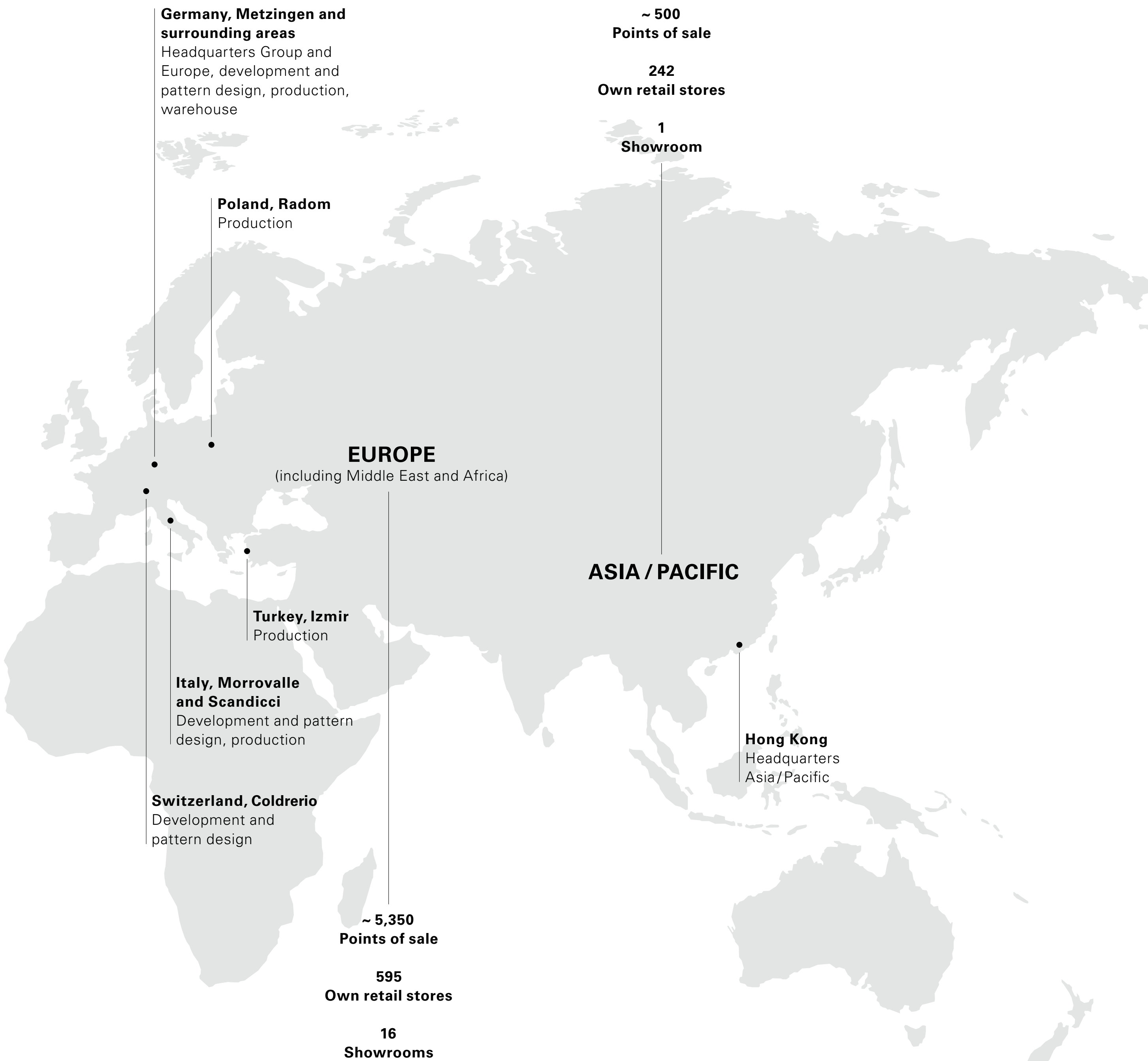
02|02 HUGO BOSS GROUP STRUCTURE

MANAGING BOARD	
CENTRAL FUNCTIONS	**OPERATIVE SEGMENTS**
Brand Management	**EUROPE** incl. Middle East and Africa
Communication	
Creative Management	
Finance and Controlling	**AMERICAS**
Human Resources	
Investor Relations	
IT	**ASIA/PACIFIC**
Legal, Compliance and Risk Management	
Licenses	
Logistics	**LICENSES**
Own Retail	
Sales	
Sourcing and Production	

Regional organizational units implement the Group's strategy

In each of the three regional organizational units, the regional director is responsible for implementing the Group's strategy in the applicable market. The directors are charged with securing cooperation with those responsible at country level within their respective regions, particularly as regards the regional adaptation of the distribution strategy in retail and wholesale as well as the development of sales and earnings. This regional emphasis in the distribution structures brings the Group closer to customers, improves responsiveness to market trends and allows adjustment to individual market characteristics. It also enables the fast exchange of knowledge through the close integration of local companies.

02|03 KEY LOCATIONS/GLOBAL MARKET PRESENCE


Germany, Metzingen and surrounding areas
Headquarters Group and Europe, development and pattern design, production, warehouse
Poland, Radom
Production
EUROPE
(including Middle East and Africa)
Turkey, Izmir
Production
Italy, Morrovalle and Scandicci
Development and pattern design, production
Switzerland, Coldrerio
Development and pattern design
~ 5,350
Points of sale
595
Own retail stores
16
Showrooms
~ 500
Points of sale
242
Own retail stores
1
Showroom
ASIA / PACIFIC
Hong Kong
Headquarters Asia / Pacific

GROUP MANAGEMENT

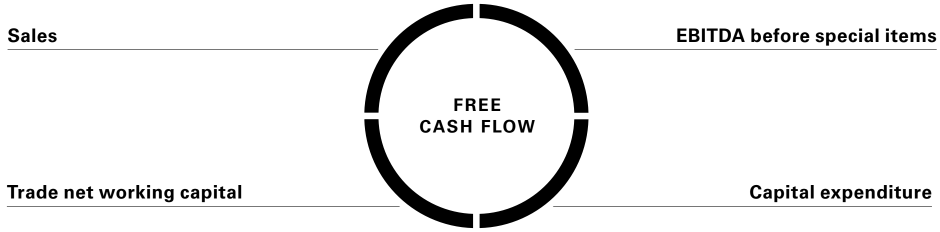
Management at HUGO BOSS aims to sustainably increase the enterprise value. The Company's internal management system helps the Managing Board and leadership at the level of individual business units focus all business processes on this objective.

GROUP MANAGEMENT FOCUSES ON PROFITABLE GROWTH

The HUGO BOSS Group is helmed by the Managing Board, which sets the Group's strategic direction in particular. Operational implementation of the Group strategy takes place in close cooperation with the regional and brand directors and the heads of the central functions. The organizational and management structure clearly allocates areas of authority and responsibility and defines reporting lines, so that all corporate resources are focused on sustainably increasing the enterprise value.

KEY PERFORMANCE INDICATORS

02|04 KEY PERFORMANCE INDICATORS OF THE HUGO BOSS GROUP



Focus on increasing free cash flow in the long-term

To increase the enterprise value, the Group focuses on maximizing free cash flow over the long term. Maintaining positive free cash flow on a lasting basis secures the Group's financial independence and its solvency at all times. Increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items, are the main levers for improving free cash flow. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow.

02|05 DEFINITION FREE CASH FLOW

	Cash flow from operating activities
+	Cash flow from investing activities
=	**FREE CASH FLOW**

The Group's most important performance indicators are sales and EBITDA before special items

As a growth-oriented company, HUGO BOSS attaches particular importance to profitably increasing its sales. All activities to raise sales are gauged by their potential to generate an increase in adjusted EBITDA and the adjusted EBITDA margin (ratio of earnings to sales) before special items in the long term. EBITDA was chosen as the most important performance indicator as it is a key driver of free cash flow. Productivity increases in the Group's own retail business are seen as the main lever for increasing the EBITDA margin. In addition, the Group enhances the efficiency of its sourcing and production activities and optimizes its operating expenses to ensure that they do not outpace sales growth.

Management of the Group companies is directly responsible for obtaining profitable business growth. Consequently, part of the total remuneration of management of the independent distribution companies is variable and tied to the realization of targets for sales and EBITDA before special items as well as other indicators of relevance for cash flow.

Managing efficient use of capital through trade net working capital

Owing to the low-capital-intensive nature of HUGO BOSS' business model, trade net working capital is the most important performance indicator for managing efficient use of capital.

02|06 DEFINITION TRADE NET WORKING CAPITAL

	Inventories
+	Trade receivables
−	Trade payables
=	**TRADE NET WORKING CAPITAL**

Management of inventories as well as trade receivables is the responsibility of the central operating functions and distribution units. Moreover the central operating functions are responsible for the management of trade payables. These three components are managed using the indicators days inventories outstanding, days sales outstanding and days payables outstanding, which are partially factored into the variable remuneration of management of the central functions and distribution units. Furthermore, the ratio of trade net working capital to sales is set as one of the Managing Board's targets and is reported as part of the planning process and monthly reporting.

Capex focuses on the Group's own retail business

The potential value added of proposed investment projects is assessed taking into account the relevant cost of capital. Expanding the Group's own retail business is currently the focus of the Group's investment activity. With this in mind, a specific approval process was established for projects in this area. Apart from a qualitative analysis of potential locations, this also includes an analysis of each project's present value.

02|07 DEVELOPMENT OF KEY PERFORMANCE INDICATORS (in EUR million)

	2014	2013	Change in %
Sales	2,571.6	2,432.1	6
EBITDA before special items	590.8	564.7	5
Trade net working capital	503.0	431.8	16
Capital expenditure	134.7	185.3	(27)
Free cash flow	268.4	230.0	17

Free cash flow is primarily used to finance the dividend distribution

The free cash flow generated by the Group is primarily used to finance the dividend distribution. The Group's dividend policy provides for 60 - 80% of the Group's net income to be distributed to the shareholders. Any liquidity available over and above this is used to further reduce 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 liabilities, this analysis also takes account of future rental obligations.

Three core elements of the Group's internal management system

The Group's planning, management and monitoring activities focus on optimizing the central performance indicators described above. The core elements of the Group's internal management system are:

- Group planning
- Group-wide, IT-enabled financial reporting
- Investment controlling

Regular update of Group planning

Group planning takes the form of rolling planning over a three-year horizon. It is prepared each year as part of the Group-wide budget process taking into account the current business situation.

Based on the Managing Board's targets, the distribution 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 centrally tested for plausibility and aggregated into overall corporate planning.

Annual planning is updated at regular intervals to factor in the actual development of business and the existing opportunities and risks in order to allow a forecast of the consolidated earnings that can be expected in the current year. Based on the expected development of cash flow, the Group's Treasury department prepares a monthly liquidity forecast. This permits early recognition of financial risks and the adoption of measures concerning financing and investment requirements. In addition, liquidity planning differentiated by currency is used as a basis for currency hedging, among other things. → **Report on Risks and Opportunities, Financial Risks**

Group-wide reporting focuses on analysis of early indicators

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 reporting system is supplemented by ad hoc analyses as necessary. Actual data compiled by the Group-wide reporting system are compared against budget data each month. Deviations from target must be explained and planned countermeasures presented. Developments with a material impact on the Group's earnings have to be immediately reported to the Managing Board. In addition, particular attention is paid to the analysis of early indicators deemed suitable for obtaining an indication of the future development of business. In this context, order intake, the performance of the replenishment business and retail comp store sales are analyzed at least on a weekly basis. In addition, benchmarking against relevant competitors is performed at regular intervals.

Investment controlling secures Group's profitability targets

Investment controlling appraises planned and realized 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 deviations from the profitability targets originally set.

GROUP STRATEGY

HUGO BOSS has set itself the goal of growing strongly and improving its profitability. The basis for this is the Group's core competence – the development and marketing of high-quality apparel as well as shoes and accessories in the premium and luxury segment. Thanks to its industrial scale and strength, HUGO BOSS offers its customers an attractive range of products characterized by consistently advantageous value for money compared with the competition. In 2014, the Group enhanced its proven strategy, defining new focal points. The Group's strategy aims at elevating the core BOSS brand, expanding its market position in womenswear, developing the Group's own retail business, achieving global growth and maximizing operational strength.

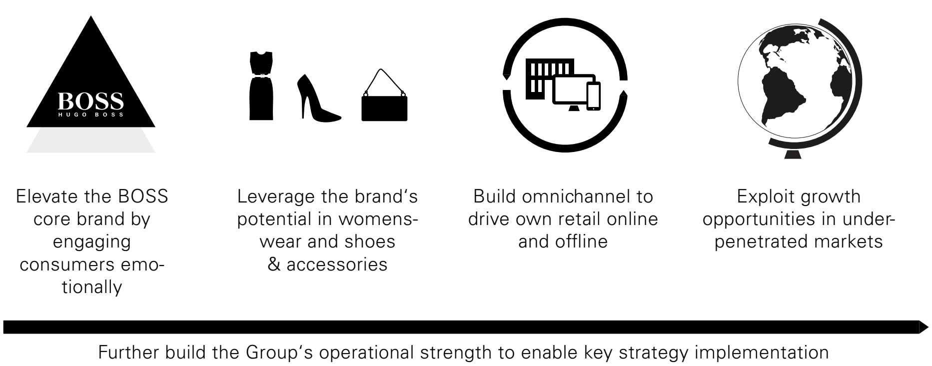
HUGO BOSS aiming for continued profitable growth

The Group's successful business performance over the past few years underscores the strength of HUGO BOSS' business model. On this basis, the Group is striving for average sales growth in the high single digits until 2020. The operating margin is to be increased to 25% over the same period. The planned increase in earnings, together with the strict management of trade net working capital as well as disciplined capital spending, will form the basis for the planned maximization of free cash flow. In this way, the Group's enterprise value will continue to grow. In addition, shareholders participate in the Group's success via the earnings-oriented dividend policy. ➔ **Group Management**

Growth strategy based on five pillars

HUGO BOSS has identified five levers for ensuring profitable growth. The BOSS core brand is to be enhanced by means of product, distribution and communication measures. The brand strength, which has its roots in menswear, is to be leveraged to a greater extent than before in womenswear, including shoes and accessories. The expansion of omnichannel offerings will spur continued growth in the Group's own retail business in both the online and offline segment. Finally, the Group is seeking a stronger regional balance than before and plans to generate a greater volume of sales outside its European home market in the medium term. Building on the Group's operational strengths, particularly supply chain management, the product development process and the IT and logistics infrastructure, will provide substantial support to the implementation of the various growth initiatives.

02|08 HUGO BOSS GROWTH STRATEGY 2020

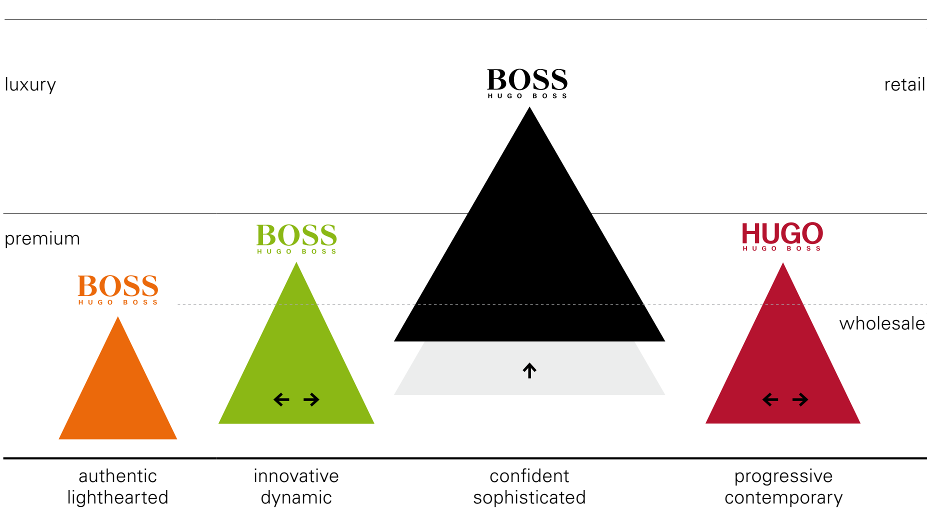


ELEVATION OF THE BOSS CORE BRAND

Nuanced brand portfolio addresses different customer requirements

The Group reaches out to consumers with BOSS, by far its largest single brand, as well as HUGO. Whereas the BOSS core brand epitomizes authentic, understated luxury, HUGO is the fashion spearhead, featuring progressive looks and a modern, urban attitude. The BOSS core brand is flanked by the brand lines BOSS Orange and BOSS Green. BOSS Orange is synonymous with urban casualwear, reflecting a laid-back approach to life. BOSS Green is the active HUGO BOSS sportswear line, transcending the border between fashionable leisurewear and performance golf apparel. With its brand portfolio, HUGO BOSS is able to respond to the diverse requirements of different target groups, creating offerings for different occasions to wear.

02|09 HUGO BOSS BRAND POSITIONING



Elevation of the BOSS core brand supports the growing verticalization of the brand portfolio

HUGO BOSS sees significant growth potential in the expansion of its luxury offering, which complements the strong positioning in the premium segment it has obtained over the years. With this in mind, it is working on enhancements to its BOSS core brand, particularly in markets in which the brand has historically been perceived predominantly in a multibrand setting and via its entry-price products. Consequently, HUGO BOSS offers its customers a globally consistent brand image and a comprehensive range extending up into the high-end segment in terms of both style and price. The Group assumes that BOSS brand sales in the luxury segment will more or less double to around 20% by 2020. At the same time, BOSS is gradually withdrawing from the entry-price segment, which will in future be addressed by HUGO and BOSS Green in particular.

Reinforcement of the BOSS luxury offerings

BOSS is reinforcing its luxury offerings across the full breadth of its product portfolio. Under BOSS Tailored, BOSS offers unique cuts, fabrics of the highest quality and exquisite designs. The expansion of the range of Made to Measure suits and shirts underscores the Group's competence in high-quality tailoring. In the sportswear segment, which will be harmonized even more closely with the tailoring segment in future, BOSS is also increasingly positioned at the leading edge of fashion.

Selective distribution of the core brand BOSS

The enhancement of the BOSS brand is also reflected in the Group's distribution activities. Looking forward, the core brand will be given even more space at the Group's own stores compared with the other brand concepts. Building on the exclusive setting and the quality of advice and service provided, a growing number of the Group's own stores will in future offer the BOSS brand exclusively. In wholesale as well, the Group is intensifying its control of the brand by requiring its partners to distribute the BOSS core brand solely in a mono-brand setting, i.e. in shop-in-shops, in future. These shop-in-shops will be operated either by the partner or by the Group itself in the form of a concession model. In category business, retail partners will in future be offered HUGO in the tailoring segment and BOSS Green in the sportswear segment.

Brand communications focusing on the core brand BOSS

The reputation of the BOSS core brand shapes the overall perception of the brand portfolio as a whole. For this reason, the Group is focusing brand communications even more intensively on its core brand than in the past. In communicating its brand message of inspiring people to success, the Group is primarily using its historical strength in tailoring. In this way HUGO BOSS is honing the way in which it is perceived by end consumers and generating strong brand recognition. In addition to traditional print advertising (in which creative input has been raised to a new level in the case of womenswear in particular), retail marketing activities centering on the now larger flagship store portfolio, fashion shows and sponsoring, digital communication formats are now also playing an increasingly important role. Using attractive content, HUGO BOSS is progressively strengthening customer ties at an emotional level and broadening its reach through the use of digital networks.

LEVERAGE OF BRAND POTENTIAL IN WOMENSWEAR

Womenswear market structurally attractive

The Group has identified good opportunities to expand its position in the womenswear market and repeat the success it has achieved with menswear. HUGO BOSS assumes that it will be able to increase the share of sales contributed by womenswear to at least 15% by 2020 (2014: 11%). The market relevant to HUGO BOSS is even larger in the womenswear segment than it is in menswear. At the same time, the Group holds a significantly smaller share of the womenswear market despite the solid growth of the last few years. However, substantial fragmentation and customers' greater willingness to change to other brands offer HUGO BOSS attractive new possibilities for reaching new groups of buyers. Despite the intensive competition, especially for shoes and accessories, the Group therefore considers itself to be ideally positioned to play a more prominent role in womenswear in the future, particularly in the apparel segment.

Womenswear business very successful in 2014

HUGO BOSS achieved significant success in womenswear in 2014. This was underpinned by the establishment of a separate organizational structure and the appointment of Jason Wu, one of the world's greatest design talents in premium womenswear, to the position of Artistic Director BOSS Woman. The two collections presented by Jason Wu last year had an unmistakable design signature, which will continue to define BOSS womenswear in the future. The impressive fashion shows during New York Fashion Week and the resulting media response ensured a significant improvement in terms of brand awareness and perception, which was reflected in double-digit sales growth in 2014.

Upgraded fashion status increasing emotional appeal

BOSS is seeking to further enhance its range of products. By raising the fashion level and offering sophisticated products, BOSS aims to heighten the brand's emotionality and relevance as a means of boosting its desirability. In this respect, the strengthening of the shoe and accessory range plays an important role in efforts to sharpen the brand core and forge closer links between the individual collections.

Enhanced presentation in the Group's own retail business

At the same time, the Group is reinforcing the visibility of womenswear in its own retail business. In particular, it is being given a more prominent position in the new stores, which tend to be larger, and often occupies around one-third of the floorspace. With the introduction of global look concepts, great importance is being attached to standardized presentation worldwide. In addition, intensive training for sales personnel reflects the exceptional importance that quality of service has in this segment in particular. The development of a special store concept also aims to optimally address female customers' needs.

Communication activities make BOSS a prime destination for fashion-conscious consumers

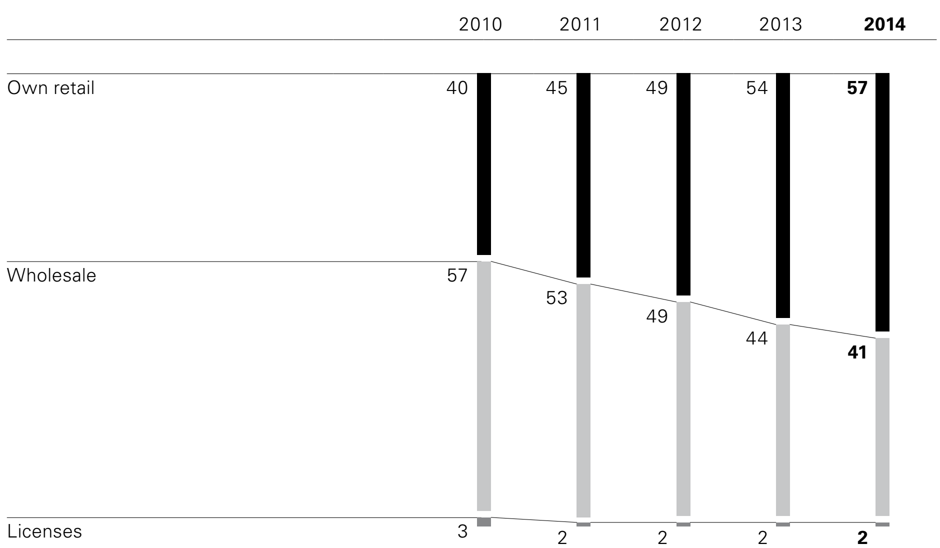
Finally, HUGO BOSS is intensifying its communication activities to make BOSS Woman more attractive to fashion-conscious consumers. In this context, a strong focus is being placed on celebrity outfitting. Fashion shows held during New York Fashion Week, campaigns and PR activities also serve to communicate the unmistakable brand core and establish BOSS as a fashion authority.

GROWTH OF THE GROUP'S OWN RETAIL BUSINESS ONLINE AND OFFLINE VIA OMNICHANNEL OFFERINGS

Extension of the Group's own retail business through omni-channel offerings

Over the past few years, HUGO BOSS has comprehensively realigned its business model with the requirements of the Group's own retail business. By enlarging this distribution channel, the Group is able to present and sell its brands and collections to optimum effect without relinquishing its established wholesale business. HUGO BOSS is responding to growing customer expectations of seamless cross-channel shopping and brand experiences by stepping up its omnichannel activities. In light of new openings, productivity gains and takeovers, the Group anticipates that the share of sales contributed by its own retail business will climb to at least 75% by 2020 (2014: 57%).

02|10 SALES BY DISTRIBUTION CHANNEL (in %)



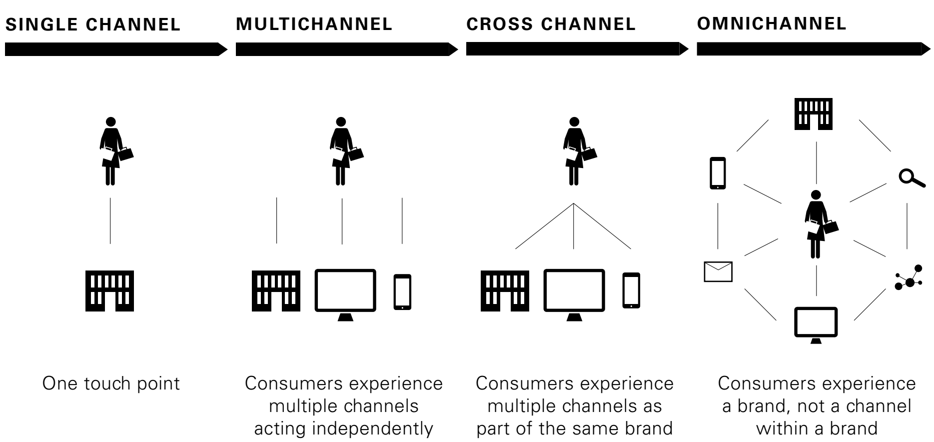
Further expansion of store network

The Group sees good opportunities to increase its global market penetration by opening new stores and shop-in-shops. In this connection, the main focus will be on expanding the portfolio in metropolitan regions, which account for the bulk of the global luxury goods business. Although the rate of expansion will gradually slow compared with earlier years, the Group now sees the possibility of profitably operating larger stores than in the past due to the breadth and quality of its offerings. In addition, it is increasingly making use of opportunities to renovate and/or expand successful stores to further improve their economic performance.

Takeovers remain an important growth driver

In addition to opening new stores, the Group is also considering the takeover of stores that are currently operated by franchise partners, depending on the attractiveness and growth prospects of the relevant market. Independent management of shop-in-shops currently run by wholesale partners is another means of enhancing the attractiveness of the brand presentation and tapping additional sales and earnings potential. The Group believes it can significantly increase the sales productivity of the stores it takes over by autonomously selecting the product range, using its own specially trained sales personnel and assuming responsibility for replenishment.

02|11 OMNICHANNEL APPROACH



Expansion of omnichannel offerings driving online and offline sales growth

Over the last few years, HUGO BOSS has boosted its sales significantly in both physical retail and online business. Moving forward, it will create closer links between these two channels to offer consumers a seamless, integrated brand and shopping experience. In a first step, HUGO BOSS acquired the online store front end from its former fulfillment partner at the beginning of 2014. Following on from this, it completely overhauled the hugoboss.com website and integrated the online store and brand world in the same year. In 2015, new features will be gradually introduced to further improve the online experience and user-friendliness of the store, so that a digital flagship store is created. In addition, the Group is investing in cross-channel customer relationship management in order to address consumers personally and on a targeted basis. Finally, the acquisition of crucial elements of the e-commerce value chain, particularly in the IT and logistics areas, at the beginning of 2016 will make it possible to offer omnichannel services such as “Click & Collect”.

Wholesale still an important distribution channel despite declining proportion of sales

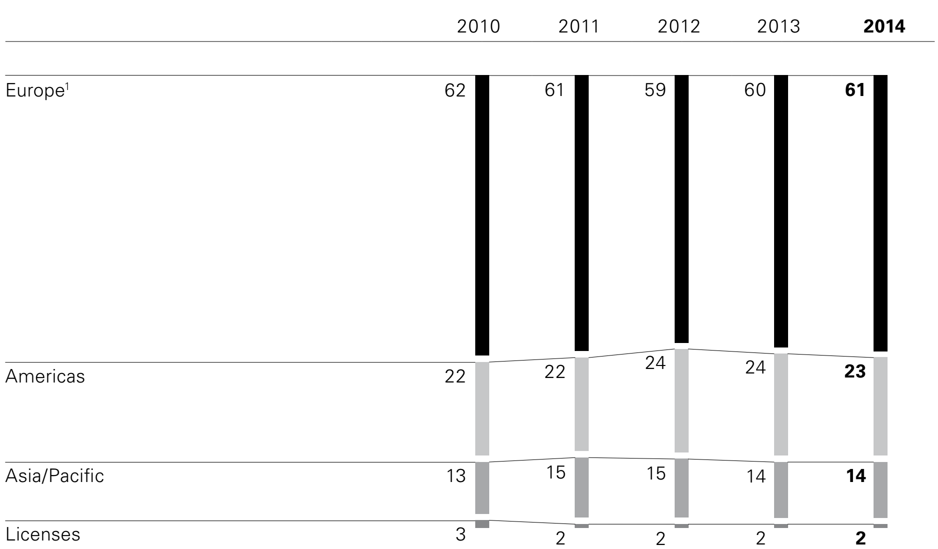
Based on its customer relationships in the premium and luxury apparel segment, which it has built over decades, and its brand attractiveness, the Group is confident it can continue to offer its department store partners a convincing product range, best-in-class service and a high level of supplier reliability, and increase its market share in the process. In addition, the Group is expanding its business with specialist online retailers committed to high-quality brand presentation to leverage penetration advantages and to obtain access to new consumer groups. However, takeovers will exert pressure on wholesale sales. Moreover, HUGO BOSS assumes that business with specialist stores, which are frequently owner-run, will contract. In sum, it therefore expects a decline in the proportion of Group sales contributed by wholesale.

LEVERAGING GLOBAL GROWTH POTENTIAL

Global brand awareness offers growth opportunities

HUGO BOSS is very well known around the world thanks to the appeal of its brands and its early entry into international markets, particularly through franchise partners. The Group sees substantial opportunities for commercially exploiting this brand perception in the coming years more than in the past and for gaining a firmer footing in markets in which the Group's presence is still relatively weak, particularly fast growing markets. To this end, the Group will continue to expand its own retail business in particular. Overall, the proportion of non-European sales is expected to widen in the medium term.

02|12 SALES BY REGION (in %)



[1] Including Middle East and Africa.

Transformation of the business model the key to continued growth in Europe

However, Europe will remain the Group's largest sales market. To this end, the Group is advancing the process-related, organizational and cultural transformation of its business model aimed at strengthening own retail. By expanding its own retail business, it is strengthening the homogeneity and perceived value of its global brand image and raising its appeal for local consumers as well as the growing number of non-European customers who visit the region as tourists. In addition, HUGO BOSS is increasingly managing wholesale space itself. Comprehensive process changes particularly in the areas of merchandise management, retail operations and customer service are additionally strengthening the organization's retail competence. This has allowed the Group to generate growth that outstrips the sector average in many markets. Apart from expanding its market position in traditional core markets such as Germany, Great Britain, France and the Benelux countries, the Group sees attractive growth opportunities in Eastern Europe including Russia and in the Middle East.

Strong brand perception forms foundation for success in the Americas

HUGO BOSS enjoys a sturdy market position in the Americas. It is primarily anchored in a favorable perception shaped by associations with the European lifestyle. In addition to a modern design characterized by slim cuts, HUGO BOSS is seen as possessing a high degree of reliability with respect to fit and quality as well as an attractive value proposition. HUGO BOSS wants to increasingly also take advantage of these strengths in the parts of its portfolio that have previously had a less profiled presence, such as the luxury segment or womenswear. Womenswear should benefit in particular from the huge reputation that the new Artistic Director, Jason Wu, has in the region. In the Group's own retail business, the focus is on selective new openings, process optimization and improvements to the shopping experience. In its wholesale business the Group is concentrating on strengthening the partnerships with retailers in the premium market segment to optimize its brand presentation and reduce discounting. The introduction of shop-in-shop formats, some of which are run directly by the Group, is an important tool in this respect.

Continued strong opportunities for growth in Asia

As the middle class steadily grows and premium and luxury goods become more affordable due to the accompanying increase in purchasing power, HUGO BOSS is seeing substantial sales potential opening up in Asia, and particularly in China. Notwithstanding the challenging market situation currently prevailing in China, the Group is investing in the quality of its retail presence and brand perception. The exclusivity of the brand presence is being augmented by opening flagship stores in cosmopolitan cities like Shanghai and Hong Kong, but also by renovating existing stores. Process improvements, the expansion of training activities and the implementation of structured IT-based customer relationship management also serve to improve the shopping experience. The full takeover of the previous "joint venture" activities in 2014 is also aiding the consistency of the brand presence. In its communication activities, HUGO BOSS stresses the brand's heritage in menswear clothing, which accounts for a substantially lower proportion of sales in Asia than it does in other regions. Thus, a mobile exhibition, which is displayed in various luxury shopping malls, showcases the brand's competence in high-quality menswear. In addition, further potential has been identified in luxury sportswear and womenswear, which is targeted at the fast-growing group of fashion-conscious professional women.

FURTHER BUILDING OPERATIONAL STRENGTH

Operational strength is the foundation of commercial success

The fundamental principle followed by the Group is to keep control over all business-critical processes. High-performance operational processes allow the Group to develop, source, produce and deliver high-quality products in large numbers efficiently, fast and on an industrial scale. This affords HUGO BOSS the opportunity of gaining a competitive edge by swift reaction to market changes, an advantageous value-for-money proposition and high supply reliability. The Group is continuing to focus on optimizing operational processes in line with the requirements of its own retail business.

Integrated production processes ensure design and product excellence

HUGO BOSS has closely integrated the product design and development process with industrial manufacturing and sourcing. By using its own production facilities, the Group secures critical expertise while enabling development activities to be closely geared to subsequent industrial manufacturing. In addition, the insights won from maintaining its own production activities can be drawn upon to profitably manage an external supplier network that guarantees reliably high product quality on the basis of partnerships that have grown over many years of collaboration. → **Sourcing and Production**

IT innovations support retail management

A high-performance SAP-based IT infrastructure uniformly deployed worldwide supports the operational processes of all functions effectively and creates the transparency needed for making entrepreneurial decisions. Currently, the Group is particularly working on rolling out two new systems for improving retail management. The retail merchandise planning (RMP) system provides a fully integrated view of stock flows in the Group's own retail business, thus permitting system-based planning oriented to the demand of end consumers. The system is currently being rolled out. The retail assortment planning (RAP) system optimizes the range available in the Group's own retail business based on the capacity of individual stores, the characteristics of the location in question and the individual product life cycle. It will be used for the first time with the development of the 2016 Fall collection.

Start-up of a new flat-packed goods distribution center additionally reinforcing logistic infrastructure

A powerful logistics infrastructure ensures timely and accurate delivery to the Group's own points of sale as well as wholesale partners. In the past few years, the Group has taken great efforts to optimize its logistics processes in line with the transformation of its business model. The single most important measure in this context was the construction of a new flat-packed goods distribution center near the Group's headquarters in 2014. In this way, the Group is able to speed up the merchandise supply process and improve the efficiency of critical handling processes through extensive automation and the provision of additional services.

HUGO BOSS

BRANDWORLD

The BOSS core brand epitomizes authentic, understated luxury. The men's collection offers modern, refined business- and eveningwear along with sophisticated casual looks and premium sportswear for after work. The unique fits, high-quality materials and exquisite styles help to bring out a man's personality and give him the confidence that he is perfectly dressed for every occasion. Shoes and accessories round out the range, supplemented by watches, eyewear and fragrances produced under license.

BOSS

HUGO BOSS

The women's collection of the BOSS core brand stands for feminine styles with a strong focus on precision workmanship, fine fabrics and detailing. The rich array of modern business fashions, exclusive leisurewear and glamorous evening apparel fuses skillfully styled silhouettes with excellent design and timeless elegance. Coordinated shoes and accessories complete the looks, which are enhanced by licensed watches, eyewear and fragrances.

BOSS
HUGO BOSS

BOSS Kidswear offers a premium range of leisure- and sportswear for newborns, children and young adults. Featuring high-quality fabrics and beautiful details, the collections offer a full range, extending from fashionable leisure looks to elegant ensembles for formal occasions.

BOSS
HUGO BOSS

BOSS Green is the sports lifestyle line from HUGO BOSS that transcends the boundary between stylish leisurewear and performance golf apparel. Positioned in the premium segment, the collection links fashion, lifestyle and functionality – and presents distinctive, dynamic looks in impactful colors.


BOSS

BOSS
HUGO BOSS

As the urban casualwear collection from HUGO BOSS, BOSS Orange sends an easy-going message. The laid-back lifestyle fashions appeal to men and women who set stock in individuality and cultivate mobility and spontaneity as parts of their personal mindset. Shoes and accessories join licensed watches, eyewear and fragrances to perfect the uncomplicated, modern look.

As the fashion spearhead within the HUGO BOSS world, HUGO stands for progressive looks and an edgy, urban attitude. The brand offers contemporary design trends for both business and leisure. The women's and men's collections consistently set self-confident, stylish accents; shoes, accessories and licensed fragrances round out the ranges.

hugoboss.com

EMPLOYEES

The work of the almost 13,000 employees of the HUGO BOSS Group worldwide is the basis of the Group's success. The skills of the employees and their passion for fashion find their expression in unmistakable products. The central aim of personnel work in the HUGO BOSS Group is to foster team spirit and the motivation of employees in an international environment, while creating a culture of openness and creativity that allows each and every individual to realize their full potential. HUGO BOSS' corporate values of quality, passion, respect, cooperation and innovation provide the cornerstones of this work.

Corporate values shape culture of collaboration

The mission statement "HUGO BOSS inspires people towards success" is founded on the five corporate values of quality, passion, respect, cooperation and innovation. These values shape employees' daily work with each other and reflect the corporate culture of the HUGO BOSS Group. Human resources management at the Group aims to breathe life into the values underpinning the mission statement. Last year, for example, a communications platform was established to encourage an innovative mindset, allowing employees to share ideas and suggestions for improving their day-to-day routines. The best ideas received awards and were put into practice. In addition, employees at all management levels across the Group drew up principles of leadership that are based on the five corporate values and ensure that the mission statement is firmly anchored in the management culture. → **Sustainability**

Staff survey measures the success of the personnel strategy

The aim of personnel work at HUGO BOSS is to attract the right people to the Group, retain them over the long term and systematically support their development so that they can reach their full potential. A range of inspiring and challenging tasks helps ensure that each individual contributes as best they can, thereby fostering the long-term success of the Group. To ensure this, it is very important to the Group to find out how individual employees view their employer, their working conditions and the duties assigned to them. An anonymous survey was therefore carried out among the employees of HUGO BOSS AG last year for the first time. The participation rate of around 70% reflects the strong commitment of the workforce, and the overall satisfaction score of almost 80% confirms the appeal that HUGO BOSS has as an employer. The findings of the survey will be used in the coming fiscal year to implement measures aimed at further increasing satisfaction, and the success of these activities will be measured in annual staff surveys.

Branding campaign enhances Group's attractiveness as an employer

The employer branding campaign that HUGO BOSS launched in 2013 to position itself as an attractive employer in the market was continued and enhanced in the last fiscal year. This is reflected in the extensively overhauled careers website and the introduction of a new applicant management system. With its extended functionality, greater focus on internationality, intuitive structure and uniform visual and verbal language, HUGO BOSS' careers website offers job applicants a coherent and attractive first point of contact with the Group. → **jobs.hugoboss.com**

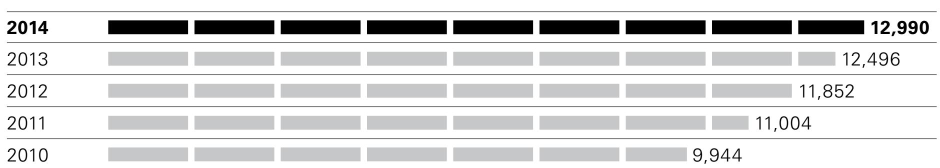
Personnel work focuses on own retail

Another focus of personnel work last year was on aligning human resources with the Group's strategic focus on its own retail business. A manual for personnel management at the Group's own stores was released at all subsidiaries to standardize staff recruitment, development and motivation processes. Last year, the Group also started implementing a system at its own stores for optimizing personnel resource planning on the basis of historical data. This makes it possible to ensure that the ideal number of employees with the necessary qualifications are available on the shop floor at all times and that the applicable requirements under labor law are also observed.

Workforce expansion in 2014

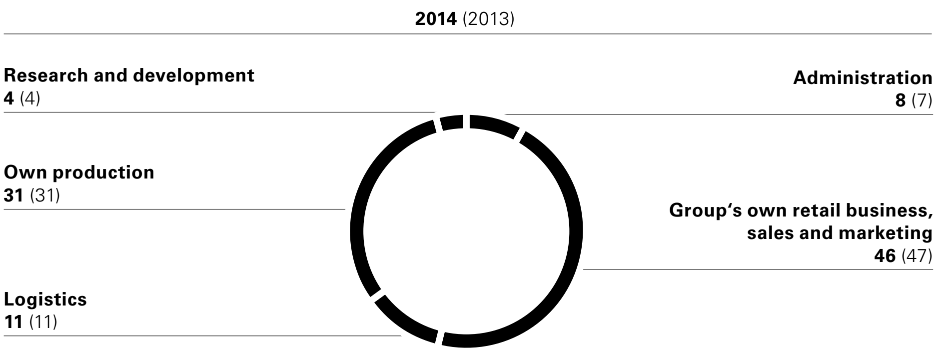
The number of employees in the HUGO BOSS Group increased again in 2014. At the end of fiscal year 2014, HUGO BOSS had 12,990 employees. This is an increase of 494 employees or 4% compared with the prior year (2013: 12,496 employees).

02|13 NUMBER OF EMPLOYEES AS OF DECEMBER 31



The rise is attributable to positive business performance and the associated increase in demand for staff, particularly in the Group's own retail business. The number of employees in the Group's own retail business rose to 4,965 last year (2013: 4,759). The majority of new employees in this segment were hired in Europe, where the expansion of the Group's own retail business was stepped up partly through the takeover of shop-in-shop units from wholesale partners. ➔ **Group Strategy**

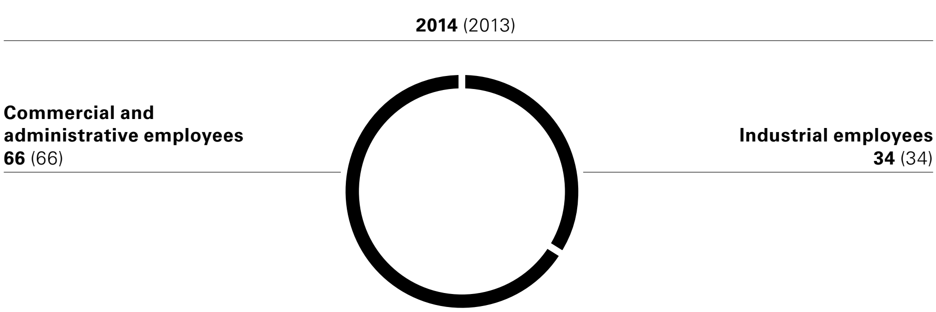
02|14 EMPLOYEES BY FUNCTIONAL AREA AS OF DECEMBER 31 (in %)



As a consequence, the relation between employees in commercial positions and employees in industrial functions remained unchanged. At year-end 2014, 8,562 employees or 66% of the workforce (2013: 8,262) were assigned to commercial and administrative positions and 4,428 employees or 34% of the total workforce (2013: 4,234) to industrial activities.

→ **Notes to the Consolidated Financial Statements, Note 10**

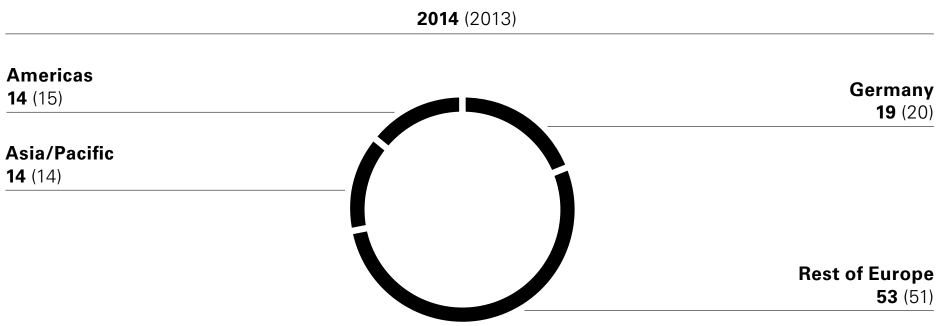
02|15 INDUSTRIAL, COMMERCIAL AND ADMINISTRATIVE EMPLOYEES AS OF DECEMBER 31 (in %)



Increasingly international workforce

Internationality, openness and diversity shape the corporate culture at HUGO BOSS. This is reflected in the regional distribution of the workforce. 81% of the Group's employees work outside Germany (2013: 80%).

02|16 EMPLOYEES BY REGION AS OF DECEMBER 31 (in %)



Continued high share of women in management

The share of women in the HUGO BOSS Group as a whole stands at 60% (2013: 60%). In management, i.e. across all management levels, 45% of all positions were held by women at the end of December 2014 (2013: 46%). As a result, the Group complies with the recommendation of the German Corporate Governance Code according to which the Managing Board should ensure there is an adequate number of women in management positions. → **Corporate Governance Report**

02|17 EMPLOYEE STATISTICS (in %)

	2014	2013
Proportion of men in total workforce	40	40
Proportion of women in total workforce	60	60
Proportion of men in management	55	54
Proportion of women in management	45	46
Average age in years	35	34

Professional education has a firm place in the Group

HUGO BOSS invests in the vocational training of young people in order to secure its need for skilled professionals in the long run. The Group offers a broad spectrum of industrial/technical and commercial apprenticeships as well as combined degree and vocational training courses in collaboration with Baden-Württemberg Cooperative State University (DHBW). During the apprenticeship period, the Group considers it very important that general and specialized training and development opportunities are provided, for example by offering Cooperative State University students international assignments to a subsidiary abroad.

The number of apprentices and Cooperative State University students passed the 100 mark again last year (2014: 101; 2013: 101). In 2014, 31 apprentices and Cooperative State University students successfully completed their apprenticeship or degree. At the same time, 34 new apprentices and students began their course.

HUGO BOSS reaches out to its talents early on

HUGO BOSS positions itself clearly in the market as an attractive employer for young people. In order to identify and attract talent at an early stage, the Group cooperates closely with universities in Germany and abroad.

HUGO BOSS stays in touch with high school and college students through numerous company presentations and workshops, tours of the headquarters in Metzingen and presentations by employees of various departments at universities. In 2014, the Group established a cooperation with Parsons The New School for Design in New York, for example. It also holds close contact with the Central Saint Martins College of Art and Design in London and Bocconi University in Milan. The Group often uses the contacts it establishes with these initiatives to recruit young talents. In 2014, the Group also established initial contact with young talents at 15 job fairs.

Internship as a career start

Over 400 interns were given the opportunity of gaining practical experience in nearly all the HUGO BOSS departments in 2014. During their period with the Group, interns have the opportunity to attend events organized especially for them where they can network and gain insights into other departments of the Group. Selected interns can follow up their internship by writing their final-year papers at the Group. In 2014, HUGO BOSS mentored almost 30 final-year papers.

HUGO BOSS increases its attractiveness to young talents

The success of the Group's employer branding activities and intern mentoring was reflected in a further improvement in its ranking in various lists of Germany's most popular employers last year. For example, the Group has been able to improve its ranking in the list of the 100 most attractive employers in Germany in the annual independent student survey Universum TOP 100.

Supporting work-life balance through family support policies, nutrition and sport

The Group considers it very important to help its employees find a healthy work-life balance. Staff are able to take part in numerous sports activities. A comprehensive support program is available for young families. Nutritionists, a balanced nutrition concept at the campus restaurant and the annual health day also contribute to personal well-being and help improve the performance of each individual employee. → **Sustainability**

Personal development enhances the organization's performance

Through the systematic training and development of personnel based on a transparent competence model, the Group aims to continuously improve its employees' knowledge and capabilities. This increases not only the performance of the organization as a whole but also the motivation and self-confidence of individual employees.

Via targeted further training, employees improve their performance in the workplace and grow their expertise beyond the requirements of their current job profile. In addition to a large number of classroom training courses, more and more web-based training courses are being offered in different languages, particularly in the Group's own retail business, which allow standardized training of employees worldwide. More than 46,000 web-based training courses were successfully completed throughout the Group in the past fiscal year (2013: 33,000). Last year, the Group's own stores were equipped with tablet PCs running training apps to allow store employees to gain access to training more easily and to permit flexible learning.

Apart from this, the personal development of individuals is supported on a case-by-case basis through transfers to other departments or functions both within the Group's headquarters and to subsidiaries abroad, by expanding the employee's area of competence or promoting them to a management position. The Group supports every manager on their career path by providing targeted advice and continuously fostering personal, methodological, specialist and leadership-related competencies.

In order to assess and clearly document the performance, competencies and development potential of each individual, all supervisors conduct annual feedback conversations with their employees. During the talks, tasks and personal objectives for the year ahead are set and training and development needs to meet these goals defined.

Specialist career path as a supplement to a management career

The specialist career path was introduced to supplement the management career path. It allows particularly capable and talented employees to broaden their knowledge over the transparent development stages of a specialist career path. Clearly defined job profiles and the use of external salary benchmarks ensure transparent and targeted monetary development. Employees who have embarked on the specialist career path are offered an excellence program aligned to the requirements of this career, providing them with the expertise and methodological skills they require and offering a platform for sharing what they have learned. Last year, three employees of HUGO BOSS AG were promoted to the highest level of the specialist career path for the first time.

Employee remuneration based on transparent system

The HUGO BOSS Group's remuneration system is designed to ensure the fair and transparent compensation of employees and promote a culture of performance and dedication. Clearly documented job descriptions and assessments are the basis for setting remuneration. Employees in Germany with collectively bargained wage agreements are remunerated on the basis of the collective agreement of the Südwestdeutsche Bekleidungsindustrie (Southwest German Textile Industry). Personnel assigned to retail activities 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 is tied to the achievement of service standards and guidelines defined uniformly throughout the Group. In addition, targets set for specific retail indicators create shared incentives for the employees of individual stores. Employees who do not have collectively bargained wage agreements receive a basic salary plus a bonus, half of which is linked to Group targets and the achievement of qualitative and quantitative personal objectives. The Group targets are based on trends in sales, operating profit, the operating margin and trade net working capital as a percentage of sales. In 2014, sustainability-related criteria were also included in employee bonus agreements for the first time. → **Sustainability**

HUGO BOSS has a comprehensive company pension plan. For instance, the Group takes out employer-funded direct insurance for all employees who have been with the Group for more than six months. Apart from the statutory subsidies, the employer-funded deferred compensation is supplemented by an additional employer subsidy. In this way, HUGO BOSS makes an important contribution to providing for its employees after retirement.

In addition to the contractually defined salary components, employee benefits include a traveling allowance and discounts on HUGO BOSS products. They can also take advantage of the art and cultural offerings in connection with sponsorship activities.

RESEARCH AND DEVELOPMENT

Season for season, HUGO BOSS has to prove itself on the global apparel market and create collections that meet the high design and quality expectations of customers. The research and development activities at the start of the value chain have a decisive influence on customers' perception of the Company's innovative strength and design competence. In addition, innovative development processes and manufacturing techniques make a crucial contribution to enhancing the efficiency and sustainability of the entire production process. Innovation therefore plays a central role in the Company's success and is firmly anchored in the Company's mission statement as one of its five values.

Research and development is a key element in the collection creation process

HUGO BOSS sees research and development (R&D) as an important element in the product development process as a means of transforming a creative idea into a marketable product. This process starts with the systematic identification of fashion trends, an analysis of market and sell-through data and the evaluation of consumer feedback in order to assess customer needs as effectively as possible. In the product development process in the narrow sense, innovation is primarily expressed in the use of new types of materials, fresh patterns and finishing techniques that enhance both quality and efficiency.

Innovation and continuity go hand in hand for HUGO BOSS

As one of the leaders in the premium and luxury segment of the global apparel market, the HUGO BOSS Group places great importance on presenting fashionable, innovative products to customers season after season, in order to create purchase incentives time and again. At the same time, the customer expects HUGO BOSS to deliver products in every collection with the accustomed high product quality, perfect fit and unmistakable signature design. As a result, the focus of development at HUGO BOSS is both on exacting standards for quality, fit and consistent brand management and on outstanding and innovative design.

02|18 PRODUCT DEVELOPMENT PROCESS AT HUGO BOSS

Because the research and development process stands at the start of the value chain, it plays a decisive role in the collection's later success.

Creative management designs new collections influenced by numerous factors

In the first step of the product development process, creative management defines the collection statement, plans the color, theme, shape and fabric concepts and sets the targeted price points. Insights from sell-through analysis of the reference season are factored into the design process for the new collection. In order to compile information on current trends in colors and materials as well as new kinds of processing techniques at an early stage, the design departments attend specialist trade shows several times a year. In their search for new ideas, the creative teams seek inspiration from a range of fields, including architecture, design and art, but also from new technologies and socioeconomic developments. In the Fall/Winter 2014 menswear collection, for example, inspiration was derived from the Scandinavian capitals such as the new Opera House in Oslo. The collection combined architectural forms with natural fabrics and clear colors. In this first step in the product development process, the design teams also draw on the expertise of external advisors such as trend scouts to a limited extent, in order to identify fashion trends even earlier.

Pattern design and technical product development work together to turn the designs into prototypes

In a second step, the creative department hands over its sketches to the pattern design department where the feasibility of the creative ideas is initially reviewed from a tailoring perspective. The technical development department then produces prototypes from the models. With its development center in Metzingen, which has a structure reflecting industrial production operations, HUGO BOSS is able to quickly turn creative designs into prototypes and to test their suitability for inclusion in the industrial production process at an early stage. In addition, new manufacturing techniques are constantly being developed. For example, an innovative welding system was used for the development of womenswear for the first time last year. By welding individual parts of the product, it is possible to apply additional elements and therefore add fashionable highlights.

Sampling the final stage of the development process

The prototype creation stage is followed by sampling, which involves the production of a sample collection for presentation and sale to international wholesale customers. The pieces ordered are subsequently produced and sold to end customers, either through the Group’s own retail stores or the wholesale channel.

Ongoing technological enhancements secure the Group’s competitive edge

Throughout all stages, seamless collaboration of all those involved, including external suppliers and technology partners, is essential to ensure high product quality and maximize the efficiency of the research and development process. In order to keep abreast of the latest technological advances, HUGO BOSS regularly visits textile machinery fairs and tests the equipment at its development center in Metzingen. For example, a modern cutting machine was installed at the Metzingen facility last year. By optically scanning the material properties, it is able to process the patterns of even striped and checked materials precisely, quickly and completely automatically.

Innovative virtualization technology simplifies the development process

To further simplify and accelerate technical product development, the Group is increasingly using computer-based virtualization technology for shirts, jerseys, knitwear, outerwear, trousers, bodywear, blouses, dresses, suits and shoes. Virtual product development entails making digital 2D patterns of the designers’ creative ideas and then converting these to 3D simulations of the finished product. With the help of these 3D prototypes it is possible to virtually visualize different color and material variations and the use of different processing techniques. Virtual prototypes can be discussed with in-house employees involved in the process directly on the computer terminal and adjusted flexibly. This close cooperation between the development teams makes it possible to develop products not only more quickly but also less expensively and on a more sustainable basis due to the reduced need for physical prototypes. In this way, the use of 3D technology makes it possible to optimize the development process significantly.

Use of virtualization technology planned along the entire value chain

The technology is to be rolled out to all product categories and also used in the early collaboration processes with suppliers in future. A further aim is to deploy the broad range of possibilities afforded by virtualization upstream in the creative design phase and downstream in the sale of products to business partners and end customers. For instance, the technology makes it possible to present collections in showrooms worldwide to demonstrate different fabric or color variations in virtual form rather than using physical samples, significantly optimizing the use of resources.

Organizational structure permits seamless development process

The HUGO BOSS Group's organizational structure is geared towards precisely synchronizing various steps of the product design, product development and sourcing processes. Brand and creative management is organized according to the product categories clothing, sportswear, womenswear, and shoes and accessories. One of the advantages of this organizational structure is that it allows direct links between the creative departments and the product divisions responsible for pattern design and technical product development as well as sourcing and production activities. This ensures more direct communication between all those responsible for product development, while creating efficiency gains measured in terms of quality, speed and cost.

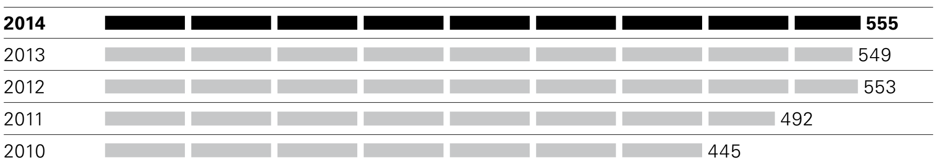
Development activities are spread across five locations

At HUGO BOSS, innovation and development work is organized across five development centers in Metzingen (Germany), New York City (USA), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). At its Group headquarters in Metzingen, the Company leverages its many years of experience in industrial textile manufacturing for trend-setting creative and technological product developments in the core business of classic tailoring as well as leisure and sportswear. Since the appointment of Jason Wu as Artistic Director, parts of the BOSS womenswear collections have been created at a design studio in New York. The Coldrerio competence center is responsible for the development of the textile product groups shirts, ties and knitwear, but also has overarching responsibility for shoes, leather accessories and bodywear. The Italian locations in Morrovalle and Scandicci focus on the development of shoes and leather accessories.

Slight increase in number of employees in R&D

The HUGO BOSS Group's creative and development departments are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers. In 2014, the headcount in research and development came to 555 employees (2013: 549). → **Employees**

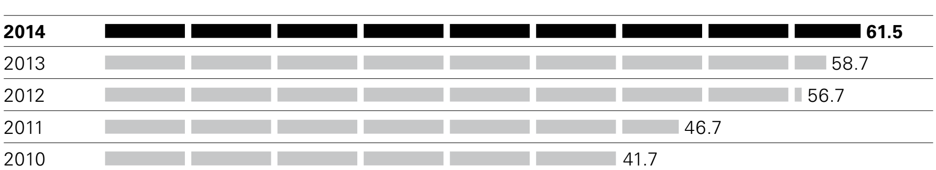
02|19 NUMBER OF EMPLOYEES IN R&D AS OF DECEMBER 31



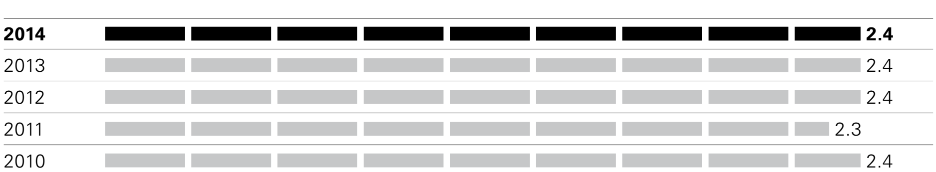
Moderate increase in R&D expenses

Research and development expenses largely comprise personnel expenses and other operating expenses. In 2014, as in the past several years, the majority of research and development expenses were expensed as incurred. In addition, production-related development expenses are included in the costs of conversion of inventories. No research and development expenses were capitalized as internally generated intangible assets. Total expenditure across the Group in connection with the creation of collections increased by 5% in the past fiscal year to EUR 62 million (2013: EUR 59 million). At 69%, personnel expenses made up the majority of research and development expenses (2013: 69%). The ratio of research and development expenses to consolidated sales remained unchanged at 2% in the past fiscal year (2013: 2%).

02|20 R&D EXPENSES (in EUR million)



02|21 R&D EXPENSES (in % of sales)



SOURCING AND PRODUCTION

The aim of sourcing and production activities at HUGO BOSS is to source products of the highest quality at competitive costs while observing strict social and environmental standards and deliver them on-schedule to retail partners and the Group's own stores. To achieve this, HUGO BOSS works consistently to ensure zero-error, efficient and sustainable sourcing and production processes by carefully selecting suppliers, establishing strategic supplier relationships and observing the most exacting production-related standards.

Majority of production by independent suppliers

As a company with international production activities and business operations, HUGO BOSS relies on well-rehearsed, standardized and system-enabled sourcing and production processes as a key success factor. This is the only way of ensuring the timely availability of goods on the shop floor and the outstanding quality that customers of HUGO BOSS products expect. 20% of the total procurement volume is manufactured by HUGO BOSS' own factories (2013: 20%). The remaining 80% comprises products sourced from independent contract suppliers or as merchandise (2013: 80%). As the Group produces a substantial part of its classic tailoring range in-house, it secures and continually expands crucial expertise, further develops quality standards and optimizes the availability of goods.

The Group's own production facilities are located in Izmir (Turkey), the Group's largest production facility, Cleveland (USA), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). The Izmir plant mainly produces coats, suits, jackets, trousers, shirts as well as tailored womenswear across all product groups. Apart from prototypes, sample pieces and individual orders, the Metzingen site mainly produces suits, jackets and trousers in small series. This is also where HUGO BOSS tailors its Made to Measure suits. Production activities in Radom and Morrovalle are focused on shoe manufacture. The plant in Cleveland (USA), where suits for the American market had been produced to date, will be closed in the first half of 2015 based on a comprehensive site analysis. The volume so far manufactured in Cleveland will be relocated to own production facilities and existing Group suppliers, respectively. In contrast, capacity at the Group's own production facility in Izmir are to be increased in 2015 with the construction of a new production hall. This underscores the Group's commitment to concentrating crucial production expertise at a smaller number of larger locations.

Strategic management of the supplier network as a success factor

HUGO BOSS offers a wide range of apparel and accessories in the premium and increasingly also in the luxury segment. Given the resulting complexity of the range, it relies on a sufficiently large network of experienced and specialized suppliers. The number of suppliers was reduced again last year through optimized capacity utilization. In the areas of merchandise and contract manufacturing, for instance, the Group partnered with around 280 suppliers in 2014 (2013: 300). The sourcing volume is generally distributed across a global network of suppliers in order to spread risk and maintain the greatest possible independence from individual procurement markets and producers. The largest single independent supplier accounted for only 8% of the total volume sourced by the HUGO BOSS Group last year (2013: 7%). → **Report on Risks and Opportunities**

Quality requirements the most important factor in the selection of suppliers

HUGO BOSS imposes very demanding requirements on its suppliers and works exclusively with carefully selected partners. The most important criterion in the selection of suppliers is the ability to meet the high quality and finishing standards. Additional key criteria include the supplier's reliability, technical equipment and innovative capacity, financial robustness and cost efficiency. Strict adherence of production sites to the social standards contractually agreed upon is a non-negotiable precondition for the establishment of a business relationship. The observance of quality and social standards is monitored in regular on-site audits. → **Sustainability**

Sourcing modes depend on product groups

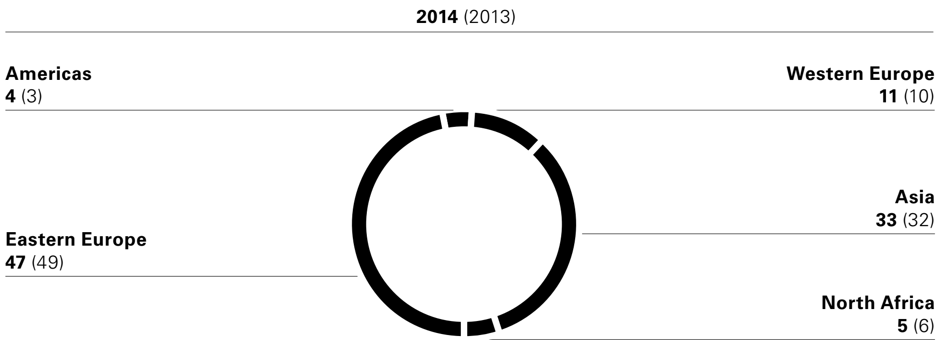
Sourcing activities are broken down into the procurement of raw materials, contract manufacturing and purchased merchandise. The raw materials sourced are mainly fabrics but also include additional items such as lining, buttons, thread and zippers. The majority of raw materials processed in-house or under contract come from Europe. Fabrics are predominantly sourced from long-standing partners in Italy.

Coats, sportswear jackets, suits, jackets and trousers are primarily made under contract manufacturing arrangements. In these product groups, HUGO BOSS mainly works with companies in Eastern Europe. For products made under contract manufacturing, the supplier is provided with the requisite patterns as well as the fabrics and other components. By contrast, sourcing in the area of sportswear has a greater focus on merchandise, which is mostly sourced from Asia, Eastern Europe and North Africa. With this kind of sourcing, suppliers obtain the necessary patterns from HUGO BOSS but independently source their raw materials. With the exception of the classic shoe collection that is produced at the Group's own factories in Italy and Poland, the product categories shoes and leather accessories are mainly sourced from business partners in Asia and Europe.

Eastern Europe remains most important sourcing region

Measured by value, almost half of all HUGO BOSS products are produced in Eastern Europe and Turkey (47%; 2013: 49%). The Group's own factory in Turkey plays a leading role in this respect, accounting for 15% of the total volume sourced (2013: 15%). Asia is the source of 33% of products (2013: 32%), and China is still the most important supplier country in this region. The remaining goods are obtained from Western Europe (11%; 2013: 10%), North Africa (5%; 2013: 6%) and the Americas (4%; 2013: 3%).

02|22 REGIONAL SPLIT OF SOURCING AND PRODUCTION VOLUME (in %)



Establishment of strategic relations with suppliers of crucial importance

The Group has a keen interest in maintaining long-term strategic relations with its suppliers. Joint efforts to enhance manufacturing expertise are essential in order to ensure the excellent finishing quality for which HUGO BOSS products are renowned worldwide. Precise synchronization between the production companies and technical development departments within the HUGO BOSS Group is essential in order to enable a quick response to market trends and minimize lead times. Production-related considerations are factored into the product development process at a very early stage, for instance. Feedback from suppliers on the fabrics and patterns processed in the last collection is taken into account in new designs. Innovative processing techniques are repeatedly tested in close consultation with production partners so that new developments in processes, IT systems and machinery can also be rolled out at partners' facilities once testing is complete. Last year, for example, a manual on processing down-based filling was prepared in conjunction with selected suppliers and machinery for automatically filling down products was installed at the participating suppliers' facilities. → **Research and Development**

Reducing complexity raises sourcing efficiency

In order to effectively counter cost increases in the sourcing processes, especially due to increased labor costs, continuous efficiency improvements are needed along the entire supply chain. An important lever to this end is ensuring a seasonally balanced utilization of supplier capacity and ordering large volumes where possible. In this context, the core range and associated reduction of collection complexity play an important role. The complexity of collections has been reduced by one-third over the past few years. A 10% year-on-year reduction was achieved in fiscal year 2014. In addition, the Group continually reassesses the regional optimization of its sourcing activities in light of diverging labor cost trends and changing industrial structures and manufacturing competencies in individual markets.

System-side integration of suppliers boosts efficiency of supply chain

HUGO BOSS is also continuing to work on optimizing its planning, production and logistics processes from an IT perspective. To this end, the uniform system-side integration of suppliers in the Group's organization has been stepped up in the past few years, thereby improving the transparency of merchandise flows along the entire supply chain. For example, an SAP-linked, web-based supplier platform simplifies communications with production partners. The system-side exchange of information also enables orders to be bundled on the basis of needs and the required production capacity to be reserved with the supplier at an early stage and cost-effectively. Real-time status reporting means that orders can be prioritized according to urgency, so that goods can be delivered on schedule. Closer integration with suppliers also allows placement of follow-up orders at short notice and quick response times. This is especially relevant for the replenishment business, which ensures that business partners are supplied at short notice, especially with the basic non-seasonal assortment.

Quality assurance throughout the production process

HUGO BOSS sets highest requirements for the quality of its products. To meet them, quality assurance starts where the product originates – directly with the supplier. The production facilities are supplied with standardized quality and processing manuals which document the requirements. In addition, the most important processes that are relevant to quality are described in a process manual for the Group's own production plants. In order to meet the high quality standards while minimizing manufacturing tolerance, the manufacturing process is automated to the extent that this is economically viable. Compliance with manufacturing standards is ensured using fixed, technology-enabled controls that are always performed at specific steps along the production line. In addition to the firmly established control levels, regular samples are taken to monitor the other steps of the process.

SUSTAINABILITY

As a global leader in the apparel industry, HUGO BOSS shares responsibility for adhering to sustainability standards along a global value chain. By acting responsibly, the Group creates added value – for customers, shareholders, business partners, employees and society. Sustainability is therefore a permanent part of HUGO BOSS' mission statement, strategy and business processes.

The six fields of action **We, Environment, Employees, Partners, Products and Society** were defined as part of a materiality analysis. They specify the central sustainability challenges for HUGO BOSS and, together with the reporting standards of the Global Reporting Initiative (GRI), create the foundation and structure for reporting on the Group's sustainability objectives and performance.

02|23 SUSTAINABLE ACTIVITIES

We act responsibly

We	**Acting in the interests of stakeholders**
Environment	**Conserving natural resources**
Employees	**Providing fair employment and targeted support**
Partners	**Working together responsibly**
Products	**Developing ideas for tomorrow**
Society	**Establishing common values**

The Group aims to continuously improve in all six fields of action described in this section and accordingly, has formulated ambitious objectives. As a means of measuring the Group's progress and the degree of implementation of these objectives, HUGO BOSS is working towards inclusion in the Dow Jones Sustainability Index, among other things.

We.
"Acting in the interests of stakeholders"

As part of its sustainability management, HUGO BOSS maintains a continuous dialogue with its stakeholders. The Group sees stakeholders' diverse expectations and demands as an opportunity to create value for all concerned. For example, in 2014 HUGO BOSS analyzed the needs and expectations of customers related to sustainability issues; and sought an open exchange with investors who give special consideration to sustainability. HUGO BOSS also intensified its ongoing dialogue with scientific institutions, in cross-industry initiatives and in its cooperation with non-government organizations last year, creating a basis for an open and transparent exchange of views on socially relevant topics. This also includes expanding reporting on corporate activities, which the Group disclosed for the first time in 2014 in the sustainability report for 2013.

HUGO BOSS places great importance on integrating the concept of sustainability within the organization. For this reason, in 2014 management included the corporate objectives defined in the fields of action of environment, employees, partners, products and society in executives' individual target agreements.

Environment. "Conserving natural resources"

Environmental and climate protection is given high priority at HUGO BOSS. Against this backdrop, the Group's environmental footprint is reduced continuously along the entire value chain – from the sourcing of raw materials through to the development and manufacture of products and on to transportation, retail and marketing. In this context, HUGO BOSS has the objective to reduce specific CO_2 emissions (Scope 1 and 2 Greenhouse Gas Protocol) in relation to sales by 30% by 2020, in comparison with 2010.

100% of the electricity used by HUGO BOSS AG's administrative and logistics buildings in Germany is derived from renewable sources. HUGO BOSS Ticino (Switzerland) has been supplied with 100% electricity from renewable sources since 2010. The energy management system (DIN EN ISO 50001) implemented by HUGO BOSS AG at its Metzingen headquarters in 2012 was successfully re-audited in 2014. This does not apply to the logistics center in Frickenhausen, the lease for which expired on December 31, 2014. In addition, Izmir, the largest HUGO BOSS production site, was certified according to DIN EN ISO 14001 and DIN EN ISO 50001 for the first time. HUGO BOSS has set itself the objective of continuously improving building efficiency. The Group intends to obtain sustainability certificates for all newly built operating properties. An important milestone in this respect was reached in 2013: The German Sustainable Building Council (DGNB) awarded the newest administrative building in Metzingen its "Gold" certificate as one of the three most sustainable new office and administrative buildings in Germany. In 2014, HUGO BOSS received the DGNB "Gold" certification for the new flat-packed goods distribution center in Filderstadt Bonlanden, near Stuttgart. Furthermore, the Group has taken measures to further reduce the volume of CO_2 emissions from logistics and distribution processes (Scope 3).

The environmental compatibility of the packaging used was also subjected to critical analysis. As a consequence, the Group switched over to using a more environmentally friendly recycled paper (post-consumer recycled) for all paper carrier bags of the core BOSS brand in 2014, thus meeting the strictest environmental standards.

Employees. "Providing fair employment and targeted support"

HUGO BOSS' code of conduct forms the basis for cooperation within the Group and with external partners. It is binding for all employees. Among other things, the code puts into words the general demands placed on conduct in business activities, contains regulations on avoiding conflicts of interest, governs the topics of data protection, health and industrial safety and forbids corruption and bribery. Within the framework of these regulations, executives are responsible for creating, together with employees, a culture characterized by the corporate values of quality, passion, respect, cooperation and innovation. These values are elaborated upon in numerous activities and workshops and are also included in each employee's individual target agreement. → **Employees**

Diversity is brought to life at HUGO BOSS as a Company with international operations and an international culture. For the Group, this means recognizing the diversity of society and safeguarding equal opportunities for all its employees – irrespective of nationality, gender, religion, political views, sexual orientation, age or any disability. Diversity enriches the corporate culture and is thus a clear success factor in international competition. The Group has further underlined the importance it places on diversity by becoming a signatory to the "Charter of Diversity".

Since seven years HUGO BOSS has been a member of the Germany-wide network "Erfolgsfaktor Familie" ("Success Factor Family") and offers its employees a flexible family support model. The key objective is to ensure an easy return to the workplace following maternity or parental leave. Employees at the Group's headquarters in Metzingen have places reserved at two different child daycare centers and the option of receiving financial support for alternative childcare arrangements.

To create higher awareness amongst employees on issues such as the importance of healthy nutrition, exercise and stress reduction, and to support practical initiatives; an annual health day is held at the headquarters in Metzingen with a myriad of presentations, workshops and exhibition stands. Healthy nutrition is also promoted by HUGO BOSS at the workplace. The campus restaurant offers a balanced nutrition concept with menus that change daily, as well as a large selection of fresh fruit and salads. Employees have the option to consult with special nutrition coaches. In addition, all employees at the Group's headquarters can exercise at the Company's own fitness studio and take part in subsidized courses. HUGO BOSS provides its employees with similar offerings at all its sites, for example at Coldrerio and the Group's largest production site in Izmir.

Partners. "Working together responsibly"

Focus areas of the sustainability management at HUGO BOSS are social compliance and environmental protection. Therefore, compliance with human rights and environmental standards is of central importance to the Group.

HUGO BOSS commits itself and its suppliers to comply with internationally recognized labor and social standards following the conventions of the International Labour Organization (ILO) and the Universal Declaration of Human Rights of the United Nations. The resulting HUGO BOSS social standards are a fixed component of contracts with suppliers. Before the Company enters into a business relationship with a new supplier, they are always assessed with regard to compliance with social standards. This is done either in the form of an audit or a self-assessment. The social standards regulate the following aspects: compliance with local laws, prohibition of child labor, prohibition of forced labor, maximum working hours, humane working conditions, prohibition of discrimination, payment of fair wages, healthy and safe working conditions, freedom of association and collective wage bargaining and responsible care for the environment. Should there be gaps in local legislation where, for example, working hours or wages are not defined, the HUGO BOSS' social standards become the minimum standard.

In order to ensure that good and safe working and social conditions are implemented as effectively as possible and to address the request for more transparency to an even greater extent, the Group started a partnership with the Fair Labor Association (FLA) in fiscal year 2014. By cooperating with other companies and NGOs in the context of the multi-stakeholder initiative, it is possible to learn from best practices and collaborate towards improving working conditions. Furthermore, the Fair Labor Association has initiated projects for more widespread fair compensation, which HUGO BOSS supports and is a contributor.

To be able to address the topic of appropriate compensation even more fully, the Group is in direct dialogue with the International Labour Organization (ILO).

Contract manufacturers and suppliers of merchandise that generate a relevant level of sales with HUGO BOSS are reviewed worldwide in regular audits. These audits are performed both by the Group's internal auditors and by external, experienced service partners. They ensure compliance with HUGO BOSS social standards and serve to assist the efforts of HUGO BOSS' suppliers to make improvements in the area of social compliance management. The audit findings are included in a bi-annual supplier evaluation. Should any infringements of the HUGO BOSS' social standards or legal requirements be identified, a binding package of measures is agreed upon with the supplier and a re-audit scheduled. In exceptional cases, such as repeated warnings and should there be no indication of improvements being initiated, or serious breaches of HUGO BOSS' social standards, HUGO BOSS reserves the right to terminate the business relationship. In principle, however, the Company places an emphasis on mutually defined and continuous improvement measures, in order to enable long-term partnerships.

Moreover HUGO BOSS' social standards oblige all suppliers to comply with local and national environmental legislation, as well as to promote environmental stewardship at their sites, in order to continuously reduce environmental impact. In 2014, the environmental module of the GSCP (Global Social Compliance Programme), an open standard based on best practices, was piloted successfully worldwide at selected suppliers. In 2015, the module will be used as an additional measure to reduce the environmental impact along the supply chain. Moreover, HUGO BOSS supports partners wherever possible, in order to ensure an ongoing knowledge transfer.

Products. "Developing ideas for tomorrow"

As a leading international company in the premium and luxury segment of the apparel industry, it is a matter of course for HUGO BOSS to live up to its responsibility to consumers. For its collections, the Group uses only materials that meet high quality standards and makes every effort to ensure that its products do not pose a health risk.

Accordingly, HUGO BOSS obliges its suppliers to sign a guarantee of compliance with the Restricted Substances List (RSL). The RSL contains guidelines on adherence to relevant national legislation governing the use of chemicals and other harmful substances in products, as well as the Group's internal guidelines, which are often more stringent than legal minimum standards. These requirements apply to all materials used and substances relevant to the production process. HUGO BOSS supports such preventive measures with active tests for hazardous products performed in accredited laboratories that ensure the safety and quality of the products. In addition, the Group launched a project in 2014 to make production processes even safer with new technologies and more environmentally friendly chemicals.

Likewise, HUGO BOSS attaches great importance to avoiding health hazards at the production companies. In this respect, the Group abstains from a procedure known as sandblasting. This procedure refers to the use of sand jets as a method of refining denim products to achieve a “used” look. Using quartz sand for this method without sufficient protective measures can lead to serious damage to employees’ health. The Group does not use any other sandblasting technology, nor does it employ any other blasting agents.

Animal welfare and protection of biodiversity are additional central principles of HUGO BOSS’ product responsibility. The Group respects this biodiversity and thereby supports nature conservation. Any animal testing, inhumane treatment of animals and inappropriate animal breeding and rearing methods are rejected. Fur products, which only account for a very small share of the overall collection, is mostly used for appliqués and trimmings on collars, hoods and sleeves.

As a result, the Group has decided, for example, to switch the sourcing of merino wool to give preference to sources which are able to prove that mulesing, which is a painful treatment for sheep, is not being applied. In 2014 it was decided no longer to use angora wool, which is in most cases obtained by procedures which are painful to the animals. The Group likewise strictly rejects the use of live-plucked down and is already using alternative materials.

In addition, HUGO BOSS has been in dialogue with several animal and consumer protection organizations for many years, to continuously improve in the area of animal welfare.

Society. “Establishing common values”

Corporate social responsibility comes as a matter of course for HUGO BOSS. The Group is aware that its success also depends on an intact society. Its economic strength empowers and obliges it to support society and work towards improvements.

The framework for corporate social responsibility is defined by HUGO BOSS’ code of conduct. It prohibits donations to political parties and their representatives, as well as to organizations such as trade unions, consumer rights groups and environmental protection groups, with which conflicts of interests might arise. Furthermore, the code outlines specific criteria for HUGO BOSS’ philanthropic donations.

HUGO BOSS has aligned its corporate social responsibility to helping disadvantaged children lead a better life, particularly by granting them access to education. To this end, the Group works together with selected child welfare organizations. UNICEF and HUGO BOSS have been partners in this area for many years. The Group has been successfully supporting the UNICEF initiative "Schools for Africa" for many years now and supports educational projects in Bangladesh. HUGO BOSS also provides aid when crises occur and targeted assistance is needed. For example, in 2014 HUGO BOSS implemented an internal Christmas campaign, in order to aid Syrian child refugees. At a national level, HUGO BOSS champions children and young people, for example as a partner of the Off Road Kids foundation. This is an organization providing aid to street children throughout Germany.

HUGO BOSS and its employees at the headquarters are also firmly embedded in the community in Metzingen. For example, the Group has joined forces with the works council in numerous regional charitable works and supports medical, societal and charitable organizations. The Group has also worked with the children's cancer ward in Tübingen for many years, which it supports with unwavering commitment by giving donations in cash and kind.

3

COMBINED MANAGEMENT REPORT
THE FISCAL YEAR

COMBINED MANAGEMENT REPORT
THE FISCAL YEAR

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GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

The general economic situation and industry-specific environment proved challenging for the HUGO BOSS Group last year. The global economy failed to achieve the significant recovery that had originally been assumed, and with growth of 3.3% lagged expectations according to the IMF. Growth varied from region to region, with emerging markets tending to be weaker than the industrialized nations. Against the background of a persistently weak economic environment and resulting cautious consumer spending, growth in the premium and luxury goods sector was unable to gain momentum, and at 5% was slightly below the previous year's level. All regions contributed to this industry growth.

GENERAL ECONOMIC SITUATION

Mixed development of the global economy

In light of the original expectation of a significant recovery, the development of the **global economy** proved disappointing last year. Although the economy picked up again slightly following a poor start to the year, overall growth did not accelerate compared to 2013. According to the IMF, the global economy once more grew by 3.3% in 2014. The trend varied from region to region and suffered from the continuing high debt in some areas of the private and public sectors, geopolitical tensions and a slowdown in world trade. Emerging economies tended to have slower growth than industrialized nations.

Slight growth in the European economy

Overall, the **European economy** had slightly positive growth of 0.8% in 2014, according to the IMF. Following an upturn in the first quarter, growth slackened again over the remainder of the year, disappointing the original expectations. The main reason for this development was reduced investment activity against the background of declining foreign demand and geopolitical tensions. For example, the economic sanctions imposed on Russia had a sustained negative impact on business sentiment. On the other hand, consumer spending provided support. The ECB implemented further monetary easing measures to stimulate the economy. Despite a slowdown in the second half of the year, the German economy showed above-average growth compared to the region as a whole. While the French and Italian economies were sluggish, a significant economic recovery was to be observed particularly in Ireland and Spain. Great Britain's economy was on a solid growth track in 2014, mainly supported by increasing government spending.

U.S. economy expanding after a sluggish start to the year

After a first-quarter dip due to weather conditions, the **U.S. economy** picked up significant momentum in the remainder of the year and according to the IMF grew by a total of 2.4%. Growth was driven by robust investment, particularly from foreign countries, a recovery in private consumer spending and a noticeable upturn in the labor market. The much more restrictive fiscal policy and the end of the U.S. Federal Reserve's bond purchase program have not had any direct negative impact to date. The economy in **Latin America** produced unexpectedly slack growth in 2014; the IMF assumes a rate of 1.2%. The trend was depressed by a fall in direct investment from abroad, reduced export activities, political uncertainties and a failure to introduce structural reforms. Consumption also slowed markedly because of the weakness in the labor market. The fall in prices of raw materials observed at the year-end appears to have had a further negative effect on the region's growth overall.

Regionally uneven development in the Asian economy

The economy in **Asia** developed unevenly from region to region in 2014. Whereas growth remained strong in many of the smaller countries, there was a slowdown in China. According to the IMF, the region overall (excluding Japan) enjoyed the same upward trend as in the previous year at 6.5%, while growth in China was 7.4%. Here, as in other countries, weaker exports in the wake of softer global demand had a dampening effect. In addition, muted growth in production and trade as well as the significant consolidation of the real estate market had negative effects. The Chinese government reacted to sluggish economic performance with tax breaks and infrastructure projects. The central bank also cut interest rates. According to IMF estimates, the Japanese economy grew by only 0.1%, mainly because of weaker-than-expected private consumption. Growth was supported in particular by the strongly expansive monetary policy adopted by the Japanese central bank and the postponement of planned tax increases. In Australia, economic expansion of 2.8% was spurred by strengthening consumption and export activities.

SECTOR PERFORMANCE

Moderate sector growth in a challenging market environment

The premium and luxury goods sector faced further challenging macroeconomic conditions and slow consumer activity last year, particularly in the emerging markets. Performance was depressed throughout the year by the political tensions in Russia and Hong Kong, more stringent anti-corruption laws in China and weak economic data from Europe. Nonetheless, the sector succeeded in continuing its growth and enjoyed an upward trend of 5% after currency adjustments according to a study by industry association Altagamma and consultancy firm Bain & Company. This was primarily due to the positive development in retailing, to which the online channel made an above-average contribution. In the wholesale channel the sector suffered from challenging market conditions and the rationalization of small retail companies, which was particularly pronounced in Europe. Negative currency effects influenced many companies' sales and profit performance, particularly in the first half of the year. The womenswear segment showed a slightly stronger development overall than menswear.

Tourism boosts otherwise weak sector development in Europe

In **Europe**, currency-adjusted sector growth of 2% in large parts of the region was affected by the mixed general economic conditions and correspondingly weak demand. Retail customer footfall was down in many cases. The UK market grew despite this, while the German apparel market shrank. In Eastern Europe, the sector felt the effects of the protracted Ukrainian conflict, which were also reflected in a falling number of Russian tourists in other parts of the European region. Nevertheless, tourist demand rose overall and continued to spur market growth particularly in the metropolitan regions of Western and Southern Europe.

Market development in the Americas gains momentum over year

After a muted start to the year, the premium and luxury segment of the clothing industry in the **Americas** picked up as the year progressed. Sales in the region rose in total by 6% in local currencies compared to the prior year. First, the recovering economy and rising consumer confidence were reflected in robust local demand in the U.S. Second, growth was boosted by increasing demand from Chinese and Latin American tourists. The sector grew more slowly in Latin America itself, with the Brazilian market in particular suffering from a gloomy consumer climate.

Declining market development in China puts pressure on sector in Asia

The contribution made by **Asia** to sector growth proved to be much lower last year than was originally expected. The growth adjusted for currency effects of 5% was spread unevenly across the region. In China, slower macroeconomic growth, the consolidation in the property sector and more muted consumer confidence in the wake of the government's anti-corruption legislation put pressure on the sector's development. Sales of luxury goods on the Chinese mainland actually declined slightly overall. Including demand from Chinese tourists, however, China remained the country with the highest share of global sales even in the past year. In Southeast Asian countries and Japan, for example, the industry benefited from the rising number of tourists from China. In contrast, growth in Hong Kong slowed significantly, in particular as a result of mounting political tension. In Japan, the sector expanded by 10% in local currency thanks to solid demand on the part of domestic consumers and the growing number of tourists.

GROUP EARNINGS DEVELOPMENT

The HUGO BOSS Group continued its dynamic growth trajectory in fiscal year 2014. In a challenging market environment, the Group's sales and earnings have risen to new record heights. Group sales increased by 6% adjusted for currency effects and, at EUR 2,572 million, were also 6% higher than the prior year's level in the reporting currency. EBITDA before special items improved by 5% to EUR 591 million.

SALES PERFORMANCE

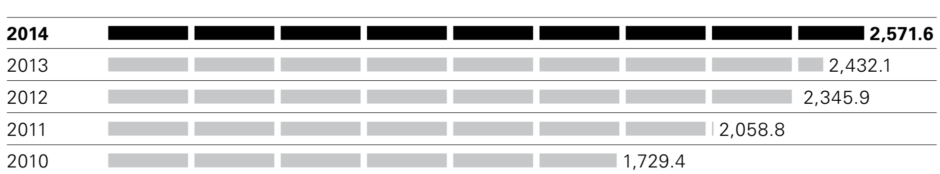
OVERALL STATEMENT ON BUSINESS DEVELOPMENT

HUGO BOSS grows sales and consolidated net income

The HUGO BOSS Group succeeded in continuing its growth trajectory in fiscal year 2014 despite the challenging economic and industry-specific situation. Effective implementation of the Group strategy ensured that HUGO BOSS was once more able to drive its sales and consolidated net income to new record levels in fiscal year 2014. However, this performance was slightly below the original expectations. The key factor here lay in weaker growth in the Group's own retail business towards the end of the year.

SALES DEVELOPMENT

03|01 SALES DEVELOPMENT (in EUR million)



In fiscal year 2014, HUGO BOSS generated consolidated sales of EUR 2.572 million. Sales in the Group's reporting currency were thus 6% up on the prior-year period (2013: EUR 2.432 million). Exchange rate fluctuations evened out over the course of the year and remained without an effect on the development of the consolidated sales. In local currencies, HUGO BOSS also registered a 6% increase in sales year on year.

03|02 SALES PERFORMANCE BY QUARTER (in Mio. EUR)

Development of sales over the course of the year reflects new seasonal structure of business model

The **development of sales over the course of the year** reflects, in particular, the increasing share in sales of the Group's own retail business. First-quarter sales rose by 3% to EUR 613 million thanks to double-digit increases in the Group's own retail business (Q1 2013: EUR 593 million). In local currencies, sales in this region were up 6%. Despite the challenging conditions set by the general economy and the slow recovery of consumer activity, sales growth picked up in the second quarter. At EUR 559 million, Group sales overtook those of the comparable prior-year period by 5% (Q2 2013: EUR 532 million), or a sales increase of 8% after currency adjustment. HUGO BOSS also continued to grow in the third quarter. The Group's own retail business and the wholesale business therefore both contributed to the rise in sales of 9% to EUR 717 million (Q3 2013: EUR 658 million). Third-quarter sales growth also came to 9% after currency adjustment. The weaker growth of the Group's own retail business towards the end of the year was partly compensated by the upturn in the order business with wholesale partners. At EUR 684 million, sales in the fourth quarter of fiscal year 2014 were 5% up on the prior year (Q4 2013: EUR 649 million). They were up 3% in currency-adjusted terms.

SALES BY REGION

03|03 SALES BY REGION (in EUR million)

	2014	**In % of sales**	2013	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,566.5	61	1,457.3	60	7	7
Americas	586.6	23	570.1	24	3	4
Asia/Pacific	360.8	14	346.8	14	4	7
Licenses	57.7	2	57.9	2	0	0
TOTAL	**2,571.6**	**100**	**2,432.1**	**100**	**6**	**6**

[1] Including Middle East and Africa.

03|04 SALES BY REGION – FIVE-YEAR-OVERVIEW (in EUR million)

	2014	2013	2012	2011	2010
Europe[1]	1,566.5	1,457.3	1,378.0	1,245.4	1,073.2
Americas	586.6	570.1	558.7	454.8	380.7
Asia/Pacific	360.8	346.8	352.7	309.3	230.4
Licenses	57.7	57.9	56.5	49.3	45.1
TOTAL	**2,571.6**	**2,432.1**	**2,345.9**	**2,058.8**	**1,729.4**

[1] Including Middle East and Africa.

Currency-adjusted sales growth in all regions

As previously, in fiscal year 2014 HUGO BOSS succeeded in posting sales increases after currency adjustment in all three regions. Sales in **Europe** including the Middle East and Africa increased in the reporting currency by 7% to EUR 1.567 million (2013: EUR 1.457 million). In a difficult market environment, sales also rose in local currencies by 7%. Double-digit sales growth in the UK and the Iberian Peninsula contributed to this development. In the **Americas** sales in the Group's reporting currency increased by 3% to EUR 587 million (2013: EUR 570 million) or 4% in local currencies, particularly thanks to growth in the United States as well as Central and South America. Sales in **Asia/Pacific** were EUR 361 million in the Group's reporting currency, 4% up on the prior-year level (2013: EUR 347 million). Local currency sales rose 7% compared to the prior-year period. Sales increases in all markets contributed to this growth. → **Sales and profit development of the business segments**

SALES BY DISTRIBUTION CHANNEL

03|05 SALES BY DISTRIBUTION CHANNEL (in EUR million)

	2014	**In % of sales**	2013	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,471.3	57	1,314.1	54	12	12
Directly operated stores	976.4	38	874.0	36	12	12
Outlet	427.1	16	378.6	15	13	13
Online	67.8	3	61.5	3	10	10
Wholesale	1,042.6	41	1,060.1	44	(2)	(1)
Licenses	57.7	2	57.9	2	0	0
TOTAL	**2,571.6**	**100**	**2,432.1**	**100**	**6**	**6**

03|06 SALES BY DISTRIBUTION CHANNEL – FIVE-YEAR-OVERVIEW (in EUR million)

	2014	2013	2012	2011	2010
Group's own retail business	1,471.3	1,314.1	1,149.7	924.2	691.1
Directly operated stores	976.4	874.0	757.6	617.7	447.7
Outlet	427.1	378.6	343.2	273.6	223.7
Online	67.8	61.5	48.9	32.9	19.7
Wholesale	1,042.6	1,060.1	1,139.7	1,085.3	993.2
Licenses	57.7	57.9	56.5	49.3	45.1
TOTAL	**2,571.6**	**2,432.1**	**2,345.9**	**2,058.8**	**1,729.4**

Growth in Group's own retail business spurred by 3% increase in retail comp store sales

The **Group's own retail business (Retail)** once more contributed to sales growth in fiscal year 2014 with double-digit growth rates. In particular, the expansion of the store network by the opening of new stores and takeovers led to a rise in sales in the reporting period in both local currencies and the reporting currency of 12%, to EUR 1.471 million (2013: EUR 1.314 million). On the basis of retail comp store sales, i.e. including retail areas opened or taken over before December 31, 2012, sales in the Group's own retail business were 3% higher than the prior-year level in the reporting currency. Sales also rose by 3% after currency adjustment. The share of the Group's own retail business in Group sales was further expanded and stood at 57% in the reporting period (2013: 54%).

Double-digit sales growth in directly operated stores (DOS)

The sales of **directly operated stores (DOS)** were successfully increased by 12% in local currencies in the reporting period, and also by 12% after currency adjustment, to EUR 976 million (2013: EUR 874 million). This includes sales of directly operated freestanding stores as well as sales generated with concession partners. With the concession model, the Group directly operates HUGO BOSS shop-in-shops in retail partners' selling space. With sales growth in the Group's reporting currency of 13% to EUR 427 million, the **outlet business** contributed to the positive development of sales from the Group's own retail business (2013: EUR 379 million). This is also equivalent to a currency-adjusted increase of 13%. The sales generated by the Group's own **online stores** rose in fiscal year 2014 in both local currencies and the reporting currency by 10% to EUR 68 million (2013: EUR 61 million).

Slight decline in sales in the wholesale channel

In fiscal year 2014, sales in the **wholesale channel** were down 2% on the prior year in the reporting currency and totaled EUR 1.043 million (2013: EUR 1.060 million). Adjusted for currency effects, sales declined by 1%. The takeover of selling spaces previously operated by wholesale partners caused a shift in sales from wholesale business to the Group's own retail business. Consolidation of the customer portfolio and the resultant decline in business with smaller business partners also contributed to this trend. On the other hand, HUGO BOSS posted solid growth in the business with large department store partners due to thriving pre-order business. However, the replenishment business, which allows HUGO BOSS to react to short-term surges in demand from business partners, shrank slightly in the past fiscal year. The share of the wholesale channel in consolidated sales decreased from 44% in the prior year to 41% in fiscal year 2014.

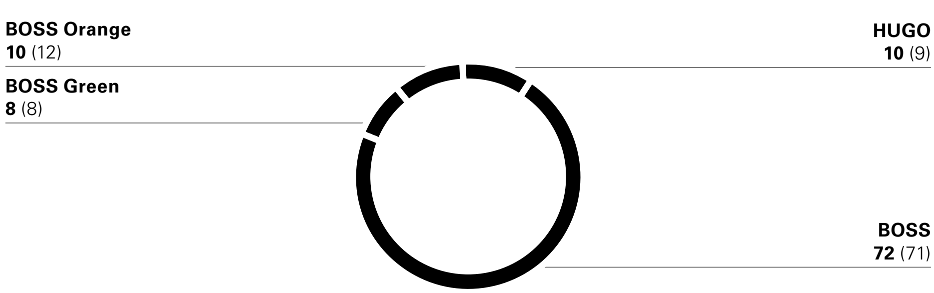
Stable development of sales in the license business

The **license business** showed stable development in fiscal year 2014. The products produced by partners include fragrances, eyewear and watches. As in the prior-year period, sales with external licensees came to EUR 58 million (2013: EUR 58 million). License income from fragrances fell slightly compared to the prior year. Double-digit growth in women's fragrances was compensated by decreasing sales in the area of men's fragrances. In license income for watches, in contrast, a double-digit rise in sales was recorded. The share of the license business in consolidated sales remained unchanged at 2%.

SALES BY BRAND

03|07 SALES BY BRAND (in %)

2014 (2013)



8% increase in sales of BOSS core brand after currency adjustment

In fiscal year 2014, the **BOSS** core brand posted sales growth of 7% compared to the prior year and generated sales of EUR 1.858 million (2013: EUR 1.735 million). This translates into an 8% increase after currency adjustment. The **BOSS Green** brand successfully increased sales over this period both in local currencies and in the reporting currency by 12% to EUR 210 million (2013: EUR 187 million). Sales of the **BOSS Orange** brand at EUR 260 million were down 8% from the comparable prior-year period (2013: EUR 283 million), and by

7% after currency adjustment, while the **HUGO** brand at EUR 243 million displayed sales growth of 7% compared to the prior year (2013: EUR 227 million). HUGO achieved growth of 8% after currency adjustment.

Double-digit growth in womenswear sales

In the reporting period, **menswear** sales were up 5% on the prior-year level and totaled EUR 2.283 million (2013: EUR 2.169 million). Sales growth of 6% was reported after currency adjustment. This corresponds to an unchanged share in total sales of 89% (2013: 89%). **Womenswear** sales grew at a disproportionately fast rate of 10% in the reporting currency and 11% in local currencies, coming close to EUR 289 million (2013: EUR 263 million). The growth rates of BOSS womenswear led by Artistic Director Jason Wu were even higher by comparison. This development echoed the positive customer response to the collections presented and was supported by extended brand communication activities and an associated increased brand awareness. As in the prior year, womenswear made up 11% of total sales.

Increase in brand sales

Brand sales generated with HUGO BOSS products worldwide in fiscal year 2014 came to EUR 5.123 million and, mainly due to the positive trend in the Group's own retail business, were higher by 2% than the previous year's (2013: EUR 5.014 million). Brand sales are calculated as the total of sales earned from the Group's own retail business and sales with both wholesale partners and licensed HUGO BOSS partners that are extrapolated on the basis of the retail figures.

DEVELOPMENT OF THE ORDER SITUATION

Importance of order business falls due to increasing share of Group's own retail business

HUGO BOSS is increasingly aligning its distribution activities and its business model to its own retail business. Because of the resulting above-average growth in this segment, the share of sales through the wholesale channel is decreasing. To this extent, the pre-order business, i.e. the sale of goods ordered in advance to wholesale partners, is losing significance for the development of the business as a whole although its share of sales within the wholesale segment remained unchanged in the past year.

In relation to total Group sales, the **share of the traditional order business** fell in the past fiscal year to 32% (2013: 34%). In order to plan its production to the best possible effect despite this, HUGO BOSS is therefore integrating not only order intake but, above all, the trend in its own retail business into its volume planning.

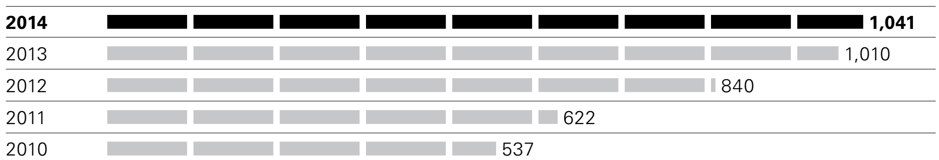
NUMBER OF GROUP 'S OWN RETAIL STORES

Group's own retail network grows by a net figure of 31 stores in 2014

In fiscal year 2014, the total number of the **Group's own retail stores** including outlets increased by a net figure of 31 to 1,041 (2013: 1,010). With a net increase of 17 locations, the major share of expansion fell on freestanding stores. The total selling space of the Group's own retail stores rose by 4% to around 140,000 sqm (December 31, 2013: 135,000 sqm).

:// www.hugoboss.com/Store Locator

03|08 NUMBER OF GROUP'S OWN RETAIL STORES



In addition to organic growth of 66 stores, takeovers of 20 retail stores and shops previously operated by wholesale partners contributed to the increase in selling space in all three regions. On the other side of the picture there were 55 closures, mostly shop-in-shops which were closed in connection with a qualitative upgrade of the store portfolio.

03|09 NUMBER OF GROUP'S OWN RETAIL STORES BY REGION

2014	Freestanding stores	Shop-in-Shops	Outlets	**TOTAL**
Europe	183	363	49	**595**
Americas	83	75	46	**204**
Asia/Pacific	122	93	27	**242**
TOTAL	**388**	**531**	**122**	**1,041**
2013				
Europe	169	357	50	**576**
Americas	83	78	39	**200**
Asia/Pacific	119	91	24	**234**
TOTAL	**371**	**526**	**113**	**1,010**

Flagship store opened in Rome and concession model strengthened in France

Focusing on **Europe**, the retail network was further strengthened organically by the opening of 38 of the Group's own stores as well as the takeover of five shop-in-shops previously managed by wholesale partners. The opening of a flagship store in Rome further strengthened brand presence in Italy. In addition, the Group was able to make significant strides with the concession model in France by opening new shop-in-shops at retail partners. Taking into account the 24 closures, operations in Europe report a net increase in the number of the Group's own retail stores of 19 to a current 595 (2013: 576).

Expansion of store network in the Americas

In the **Americas**, the store network was extended by new openings in Canada, Mexico and Washington, D.C., USA. In addition, seven outlet stores were added to the portfolio, some of them temporarily. Taking into account six closures, this led to a net increase of four to a total of 204 own retail stores in this region (2013: 200).

Takeovers and new openings strengthen market presence in Asia/Pacific

In the course of the expansion in **Asia/Pacific**, 18 new stores and 15 takeovers were added to the portfolio of stores in fiscal year 2014. The Group's presence in the Chinese market was strengthened by the opening of a flagship store on Canton Road in Hong Kong and eight other new openings. In Australia and Taiwan, HUGO BOSS took over a total of

15 points of sale previously operated by wholesale partners. Including the closure of 25 mostly smaller stores, there was a net increase of eight to a total of 242 own retail stores in this region (2013: 234).

In addition, some 6,550 points of sale are operated by wholesale partners, either as separate stores and shop-in-shops or in a multi-brand setting. This means that customers today can buy HUGO BOSS products in a total of around 7,600 points of sale in 130 countries.
→ Key locations/global market presence

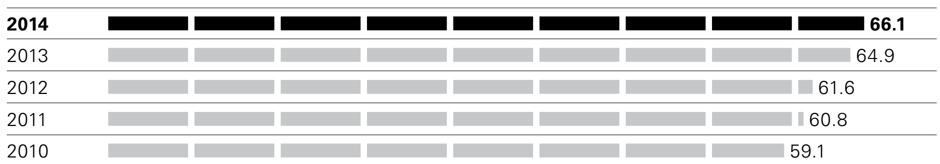
EARNINGS DEVELOPMENT

03|10 INCOME STATEMENT (in EUR million)

	2014	**In % of sales**	2013	In % of sales	Change in %
Sales	**2,571.6**	**100.0**	**2,432.1**	**100.0**	**6**
Cost of sales	(872.5)	(33.9)	(852.5)	(35.1)	(2)
Gross profit	**1,699.1**	**66.1**	**1,579.6**	**64.9**	**8**
Selling and distribution expenses	(994.9)	(38.7)	(891.6)	(36.7)	(12)
Administration expenses	(236.2)	(9.2)	(228.5)	(9.4)	(3)
Other operating income and expenses	(19.3)	(0.8)	(3.3)	(0.1)	>(100)
Operating result (EBIT)	**448.7**	**17.4**	**456.2**	**18.7**	**(2)**
Net interest income/expenses	(4.5)	(0.2)	(14.4)	(0.6)	69
Other financial items	(7.1)	(0.3)	(8.3)	(0.3)	14
Financial result	**(11.6)**	**(0.5)**	**(22.7)**	**(0.9)**	**49**
Earnings before taxes	**437.1**	**16.9**	**433.5**	**17.8**	**1**
Income taxes	(102.6)	(4.0)	(100.1)	(4.1)	(2)
Net income	**334.5**	**13.0**	**333.4**	**13.7**	**0**
Attributable to:					0
Equity holders of the parent company	333.3	12.9	329.0	13.5	1
Non-controlling interests	1.2	0.1	4.4	0.2	(73)
Earnings per share (EUR)[1]	**4.83**		**4.77**		**1**
EBITDA	**571.5**	**22.2**	**561.4**	**23.1**	**2**
Special items	(19.3)	(0.8)	(3.3)	(0.1)	>(100)
EBITDA before special items	**590.8**	**23.0**	**564.7**	**23.2**	**5**
Income tax rate in %	**23**		**23**		

[1] Basic and diluted earnings per share.

03|11 GROSS PROFIT MARGIN (in %)



Gross profit margin increased to 66,1%

The **gross profit** in fiscal year 2014, at EUR 1.699 million, was 8% above the prior-year figure (2013: EUR 1.580 million). The **gross profit margin** therefore increased by 120 basis points to 66,1% (2013: 64,9%). This performance was particularly due to the above-average growth in the Group's own retail business and lower discounts in this channel.

Expansion of the Group's own retail business resulting in higher selling expenses

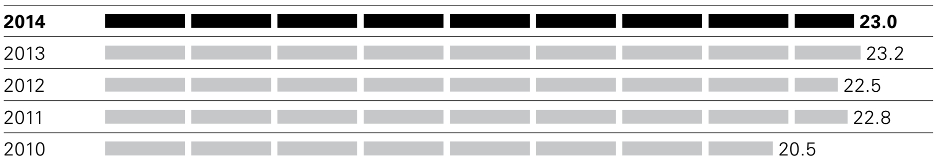
Selling and marketing expenses in fiscal year 2014 totaled EUR 995 million, up 12% year on year (2013: EUR 892 million). Relative to sales, selling and marketing expenses increased from 36,7% to 38,7%. Particularly due to the global expansion of the Group's own retail business, selling expenses increased in the reporting year by 10% compared to the prior year. This includes additional expenses for the net increase of 31 locations, which were opened or taken over in the course of the global expansion of this sales channel in fiscal year 2014. The increase in selling and marketing expenses by 19% year on year mainly reflects intensified brand communication activities in the areas of advertising, digital and retail marketing. In relation to sales, selling and marketing expenses increased compared to the prior year to 6,3% (2013: 5,7%). Additional lease expenses associated with the commissioning of the new flat-packed goods distribution center in Germany contributed to a 14% increase in logistics expenses compared with the prior year. At 2,6% of sales, they were slightly higher than the prior year's level (2013: 2,5%). Bad debt allowances and bad debts were again immaterial in the reporting period 2014 on account of continued strict receivables management and the declining proportion of the wholesale business in consolidated sales. → **Notes to the consolidated financial statements, Note 3**

Slight reduction in administration expenses in relation to sales

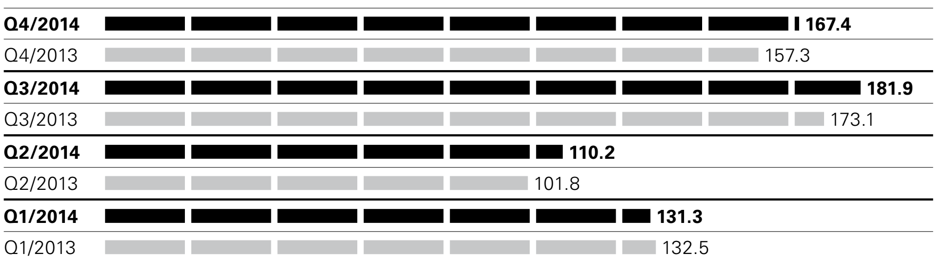
Administration expenses in fiscal year 2014 totaled EUR 236 million, up 3% year on year (2013: EUR 229 million). As a percentage of sales, however, they fell slightly to 9,2% (2013: 9,4%). General administration expenses increased by 3% to EUR 175 million (2013: EUR 170 million). Relative to sales, research and development costs incurred during the creation of fashion collections remained at the prior-year level of 2,4%, while increasing in absolute terms by 5% year on year to EUR 62 million (2013: EUR 59 million). → **Notes to the consolidated financial statements, Note 4**

The net expense arising from **other operating expenses and income** of EUR 19 million (2013: net expense of EUR 3 million) resulted from special items which were essentially related to the early dissolution of the agreement with a trade agent in the Middle East and the closure of the production site in Cleveland, Ohio, which is scheduled for the first half of 2015. As a result, income generated in the first quarter of fiscal year 2014 in connection with the sale of a showroom in France was completely offset. → **Notes to the consolidated financial statements, Note 5**

03|12 ADJUSTED EBITDA MARGIN (in %)



03|13 EBITDA BEFORE SPECIAL ITEMS BY QUARTER (in EUR million)



5% increase in EBITDA before special items

The key internal performance indicator **EBITDA before special items** increased year on year by 5% to EUR 591 million (2013: EUR 565 million). At 23,0%, the adjusted EBITDA margin was 20 basis points below the prior-year figure (2013: 23,2%). The increase in selling and distribution expenses was not fully compensated by the increase in the gross profit margin. Due to an increase in the ratio of property, plant and equipment to total assets as a result of investments in the Group's own retail business, **amortization and depreciation** came to EUR 123 million, up 17% over the prior year (2013: EUR 105 million). **EBIT** came to EUR 449 million at the end of fiscal year 2014, down 2% year on year (2013: EUR 456 million).

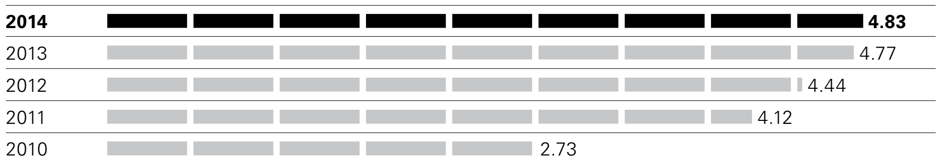
Improvement in financial result

The **financial result**, measured as the net expense after aggregating the interest result and other financial items, improved in fiscal year 2014 by 49% to EUR 12 million (2013: EUR 23 million). On account of the lower amount of debt and a lower interest level, the net interest expense decreased significantly by 69% to EUR 5 million (2013: EUR 14 million). Other financial items came to a net expense of EUR 7 million and, mainly due to an improved trend in exchange rates, were 14% below the prior year's level (2013: net expense of EUR 8 million). **→ Notes to the consolidated financial statements, Note 6**

Consolidated net income slightly above prior-year level

At EUR 437 million, **earnings before taxes** were up 1% year on year (2013: EUR 433 million). At 23%, the **Group's income tax rate** was on the same level as in the prior year (2013: 23%). The shares of earnings of companies of the HUGO BOSS Group in Germany and abroad had a neutral impact on the Group's tax rate in fiscal year 2014 due to regional differences in growth rates. **Net income** totaled EUR 437 million in the past fiscal year, up slightly year on year (2013: EUR 433 million). The net income attributable to equity holders of the parent company also increased by 1% to EUR 333 million (2013: EUR 329 million). Net income attributable to non-controlling interests came to EUR 1 million and mainly relates to the 40% investment held by the Rainbow Group in the "joint venture" entities in China, which were taken over in their entirety by HUGO BOSS at the end of June (2013: EUR 4 million).

03|14 EARNINGS PER SHARE (in EUR)



Earnings per share improved year on year by 1% to 4,83 EUR (2013: 4,77 EUR).

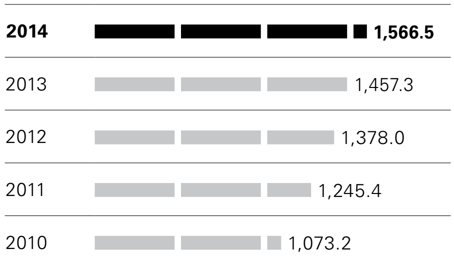
DIVIDENDS AND APPROPRIATION OF PROFIT

HUGO BOSS AG closed fiscal year 2014 with a net income of EUR 292 million (2013: EUR 211 million). The unappropriated surplus after transfer to retained earnings came to EUR 255 million (2013: EUR 235 million). Given the **profits-based dividend policy**, the Supervisory Board and the Managing Board will propose to the Annual Shareholders' Meeting that a **dividend of EUR 3.62 per share** (2013: EUR 3.34 per share) be paid out for fiscal year 2014. This corresponds to a figure of EUR 250 million (2013: EUR 231 million). It will also be proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 5 million be carried forward to new account (2013: EUR 5 million).

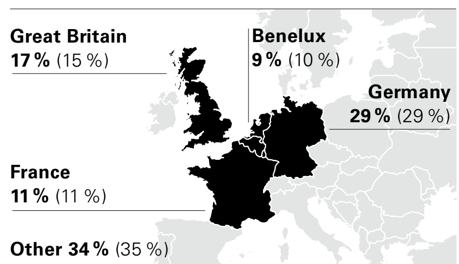
SALES AND PROFIT DEVELOPMENT OF THE BUSINESS SEGMENTS

EUROPE

03|15 SALES EUROPE
(in EUR million)



03|16 SHARE IN SALES EUROPE 2014
(2013)



Sales in **Europe** including the Middle East and Africa increased in fiscal year 2014 in both local currencies and in the reporting currency by 7% to EUR 1.567 million (2013: EUR 1.457 million).

Ongoing transformation of the business model and increased selling space productivity

In the past fiscal year, sales in the **Group's own retail business** in Europe rose 14% to EUR 851 million (2013: EUR 747 million). This is equivalent to an increase of 13% in local currencies. In addition to continued selling space expansion, this favorable performance was particularly due to the heightened productivity of existing retail selling space. Sales with customers in the **wholesale** channel increased in both local currencies and the reporting currency by 1% to EUR 716 million (2013: EUR 710 million). This development was caused in particular by the upturn in the order business in the second half of the year.

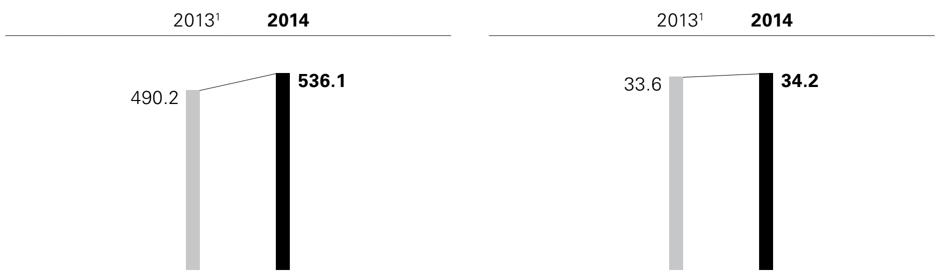
Great Britain still the fastest growing core market within the region

At EUR 448 million, sales in **Germany** were up 7% on the prior-year level (2013: EUR 417 million). This rise was underpinned by double-digit growth in the Group's own retail business and sales growth in the wholesale channel. In **Great Britain**, both the Group's own retail business and the business with wholesale partners recorded double-digit sales growth. Sales in Great Britain in the Group's reporting currency reached EUR 262 million, up 22% on the prior year (2013: EUR 215 million). In local currencies, this corresponds to sales growth of 16%. At EUR 171 million, sales in **France** were up 3% year on year (2013: EUR 166 million), with double-digit growth in the Group's own retail business offsetting a decline in the wholesale channel. Because of the continuing consolidation in the wholesale channel, sales in the **Benelux countries**, at EUR 145 million, fell 6% below the prior-year level (2013: EUR 153 million). In the past fiscal year, however, the Group's own retail business developed positively in this market as well. The business in **Eastern Europe** also developed well in the last fiscal year. HUGO BOSS posted double-digit sales growth in local currencies in this growth market.

Economic upturn supports sales growth in Spain

In **Southern Europe**, HUGO BOSS was able to generate sales growth in fiscal year 2014 in both **Italy** and the **Iberian Peninsula**. Double-digit growth rates in the Group's own retail business and in the wholesale channel led to a significant rise in sales, particularly on the Iberian Peninsula.

03|17 PROFIT DEVELOPMENT EUROPE
(in EUR million) (in % of sales)



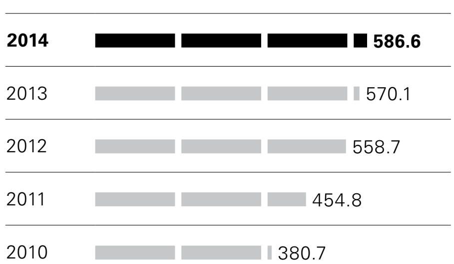
[1] Due to the reallocation of certain cost centers between corporate units and Europe, certain amounts shown here do not correspond to the figures reported in prior years.

Improved segment profit in Europe thanks to higher gross profit

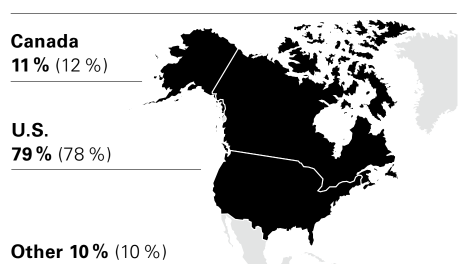
The **segment profit** for Europe came to EUR 536 million, up 9% year on year (2013: EUR 490 million). The gross profit margin rose as a result of the growth in the Group's own retail business and lower discounts in this channel. The higher selling and marketing expenses were offset by the increase in gross profit. At 34.2%, the adjusted EBITDA margin was up 60 basis points on the prior year (2013: 33.6%).

AMERICAS

03|18 SALES AMERICAS
(in EUR million)



03|19 SHARE IN SALES AMERICAS 2014
(2013)



In the **Americas sales** in the Group's reporting currency increased by 3% year on year to EUR 587 million (2013: EUR 570 million). In local currencies, this corresponds to sales growth of 4%.

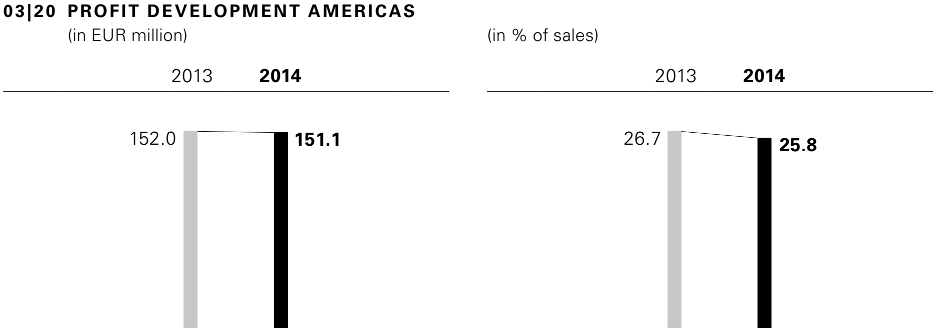
Wholesale development offset by growth in the Group's own retail business

In fiscal year 2014, sales in the **Group's own retail business** rose by 11%, reaching EUR 326 million (2013: EUR 293 million). This is equivalent to an increase of 13% adjusted for currency effects. Spurred by the continued expansion in this channel, all the region's markets contributed to this development with double-digit sales growth. Sales of EUR 261 million were generated in the **wholesale channel** in the same period (2013: EUR 277 million). Accordingly, sales in this distribution channel decreased by 6% in the Group currency and by 5% in local currencies. In the United States in particular, the takeovers of selling space previously managed by wholesale partners completed in fiscal year 2013 resulted in a shift in sales from wholesale business to the Group's own retail business.

Currency-adjusted U.S. sales up 4%

In the **U.S.**, sales increased in both local currencies and the reporting currency by 4%, totaling EUR 463 million at the end of the twelve months (2013: EUR 447 million). The double-digit growth in sales in the Group's own retail business more than made up for the decline in the wholesale business. Sales in **Canada** in the Group's reporting currency totaled EUR 67 million, down 3% year on year (2013: EUR 68 million). Supported by the trend in the Group's own retail business, however, sales increased by 5% in the local currency in this market also. In **Central and South America**, sales increased by 5% in the reporting currency to EUR 57 million (2013: EUR 55 million). Despite the slowdown in economic growth in the region, it was possible to generate sales growth adjusted for currency effects of 10%.

03|20 PROFIT DEVELOPMENT AMERICAS

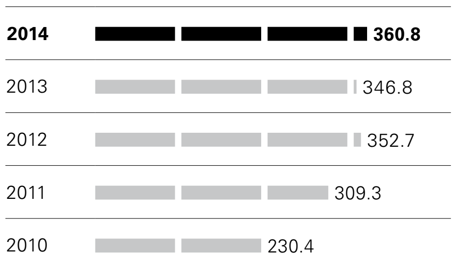


Segment profit for the Americas slightly short of prior-year level

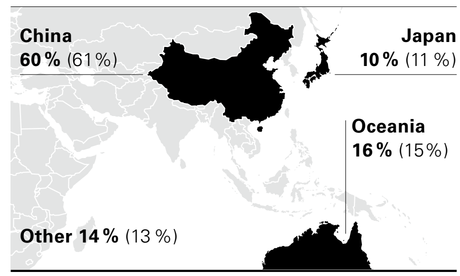
The **segment profit** for the Americas came to EUR 151 million, 1% down on the prior-year level (2013: EUR 152 million). The improved gross profit margin was offset by an increase in selling and marketing expenses due to expansion of the Group's own retail activities. The adjusted EBITDA margin for the region, at 25.8%, was 90 basis points below that of the prior year (2013: 26.7%).

ASIA/PACIFIC

03|21 SALES ASIA/PACIFIC
(in EUR million)



03|22 SHARE IN SALES ASIA/PACIFIC 2014
(2013)



HUGO BOSS to assume full control of its store network in China and Macau

HUGO BOSS has been operating its network of stores in China and Macau completely on its own since June 30, 2014. Under the terms of the agreement reached, HUGO BOSS took over the remaining 40% stake in the "joint venture" established with the Rainbow Group in July 2010 effective June 30, 2014. This has given the Group full control of the 55 stores previously operated by the "joint venture" in mainland China and in Macau. Apart from the elimination of the Rainbow Group's share of earnings, this did not affect the HUGO BOSS Group's sales or earnings in fiscal year 2014. **→ Notes to the Consolidated Financial Statements, Acquisition of non-controlling interests without change of control**

In fiscal year 2014, **sales** in **Asia/Pacific** in the Group's reporting currency, at EUR 361 million, were up 4% on the prior-year period (2013: EUR 347 million). In local currencies, sales in this region were up 7%.

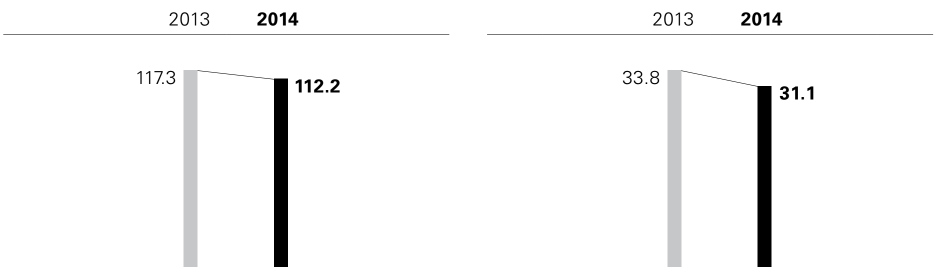
The Group's own retail business posts double-digit growth

Sales in the **Group's own retail business** in this region rose by 7% in the reporting currency to EUR 295 million (2013: EUR 274 million). This is equivalent to growth of 10% compared to the prior-year period in local currencies. Sales with **wholesale** partners, at EUR 66 million, were down 8% year on year (2013: EUR 72 million), or a fall of 7% after currency adjustment.

Currency-adjusted sales growth in all markets

At EUR 215 million, sales in **China** were up 2% on the prior year (2013: EUR 211 million). Adjusted for currency effects, the sales increase was also 2%. The persistently difficult environment in the retail business burdened the development of sales here. In **Oceania**, sales of EUR 57 million represented an increase of 6% compared to the prior year (2013: EUR 53 million). Here, too, negative currency effects depressed sales in the reporting currency. Supported by significant productivity gains in the Group's own retail business, sales increased by 13% after currency adjustments. At EUR 38 million, sales in **Japan** were down 3% on the prior-year level (2013: EUR 39 million), which, however, represented a sales increase of 5% after currency adjustments.

03|23 PROFIT DEVELOPMENT ASIA/PACIFIC
(in EUR million) (in % of sales)

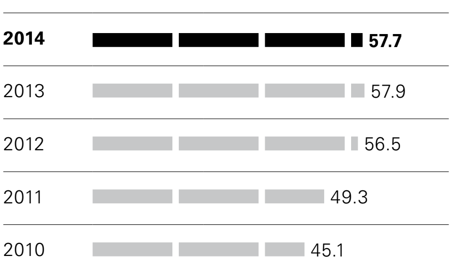


The **segment profit** for Asia/Pacific came to EUR 112 million, 4% down on the prior-year level (2013: EUR 117 million). This was mainly due to a disproportional increase in selling and marketing expenses particularly in connection with the expansion of the Group's own retail business. At 31.1%, the adjusted EBITDA margin in this region was down 270 basis points from the prior year (2013: 33.8%).

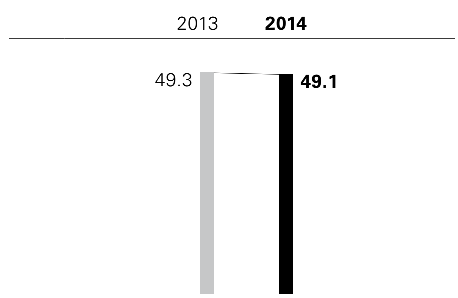
Segment profit for Asia/Pacific slightly below prior-year level

LICENSES

03|24 SALES LICENSES
(in EUR million)



03|25 PROFIT DEVELOPMENT LICENSES
(in EUR million)



The **license business** showed stable development in fiscal year 2014. The products produced by partners include fragrances, eyewear and watches. As in the prior-year period, sales with external licensees came to EUR 58 million (2013: EUR 58 million). License income from fragrances fell slightly compared to the prior year. Double-digit growth in women's fragrances was compensated by decreasing sales in the area of men's fragrances. In license income for watches, in contrast, a double-digit rise in sales was recorded.

License business stable

The license **segment profit** came to EUR 49 million, remaining constant year on year (2013: EUR 49 million).

NET ASSETS

In fiscal year 2014, the development of the Group's key financial reporting indicators was strongly influenced by the expansion of its own retail business. Investments into the sales network led to higher intangible assets, property, plant and equipment and inventories. Efficiency of capital employed, defined as the ratio of trade net working capital to sales, was above the level achieved at the end of 2013 as of the reporting date.

03|26 STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 (in %)

ASSETS	2013	2014
Property, plant and equipment and intangible assets	34	**32**
Inventories	29	**30**
Trade receivables	15	**15**
Other assets	14	**15**
Cash and cash equivalents	8	**8**
TOTAL	100	**100**
ASSETS (in EUR million)	1,501.3	**1,661.8**

For absolute figures please refer to the statement of financial position, p. 157

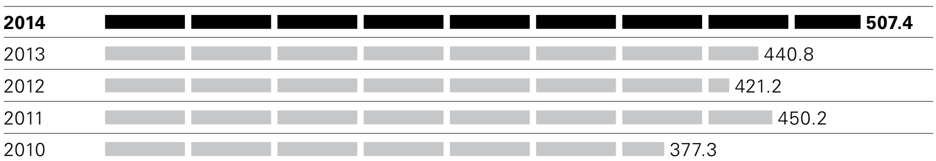
Increase in total assets due to higher inventories and property, plant and equipment and intangible assets

Total assets rose by 11% at the end of fiscal year 2014 year on year to EUR 1.662 million (December 31, 2013: EUR 1.501 million). This change was driven in particular by an increase in inventories and property, plant and equipment and intangible assets in connection with the expansion of the Group's own retail business. The **share of current assets** increased compared to the prior year to 60% (December 31, 2013: 59%). The **share of non-current assets** fell accordingly from 41% in the prior year to 40% as of December 31, 2014.

Investments in retail business lead to rise in property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets rose by 5% at the end of fiscal year to EUR 531 million (December 31, 2013: EUR 508 million). This was due to capital expenditure on the expansion and enhancement of the Group's own retail business. **→ Financial position, capital expenditure**

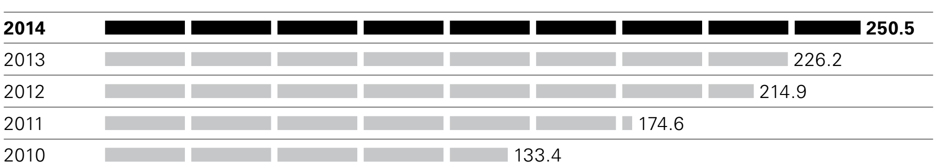
03|27 INVENTORIES AS OF DECEMBER 31 (in EUR million)



Expansion of Group's own retail business drives up inventories

Inventories increased by 15% as of December 31, 2014 to EUR 507 million (December 31, 2013: EUR 441 million). After currency adjustments, inventories increased by 8% year on year. The higher volume of inventories was largely driven by the further expansion of the Group's own retail business.

03|28 TRADE RECEIVABLES AS OF DECEMBER 31 (in EUR million)



Increase in trade receivables

Trade receivables increased by 11% year on year to EUR 251 million (December 31, 2013: EUR 226 million). Adjusted for exchange rate effects, this corresponds to an increase of 7%. The rise was largely driven by a higher share than last year of deliveries in the wholesale business at the end of the reporting period and higher receivables in connection with the expansion of the concession model.

Other assets increased by 17% year on year to EUR 243 million (December 31, 2013: EUR 207 million). This development is mainly attributable to higher refund claims from returns and an increase in deferred tax assets because of additional temporary differences.
→ Notes to the consolidated financial statements, Note 7

Cash and cash equivalents came to EUR 129 million as of the reporting date (December 31, 2013: EUR 119 million), principally due to the positive trend in free cash flow.

03|29 STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 (in %)

EQUITY AND LIABILITIES	2013	2014
Shareholders' equity	49	51
Provisions and deferred taxes	11	12
Trade payables	16	15
Other liabilities	12	12
Financial liabilities	12	10
TOTAL	100	**100**
EQUITY AND LIABILITIES (in EUR million)	1,501.3	**1,661.8**

For absolute figures please refer to the statement of financial position, p. 157

Increase in equity ratio to 51%

Equity increased as of the reporting date by 14% to EUR 844 million (December 31, 2013: EUR 740 million). The **equity ratio** thus increased to 51% as of the reporting date (December 31, 2013: 49%).

Provisions and deferred taxes, at EUR 196 million, were 15% higher than in the prior year (December 31, 2013: EUR 170 million). This includes provisions for pensions and other personnel expenses of EUR 91 million (December 31, 2013: EUR 83 million) as well as other provisions of EUR 95 million (December 31, 2013: EUR 69 million) and deferred tax liabilities of EUR 10 million (December 31, 2013: EUR 17 million). The increase in other provisions was essentially related to the early dissolution of the agreement with a trade agent in the Middle East and the closure of the production site in Cleveland, Ohio, which is scheduled for the first half of 2015. → **Notes to the consolidated financial statements, Note 25**

03|30 TRADE PAYABLES AS OF DECEMBER 31 (in EUR million)

2014	**255.0**
2013	235.3
2012	227.6
2011	225.1
2010	188.0

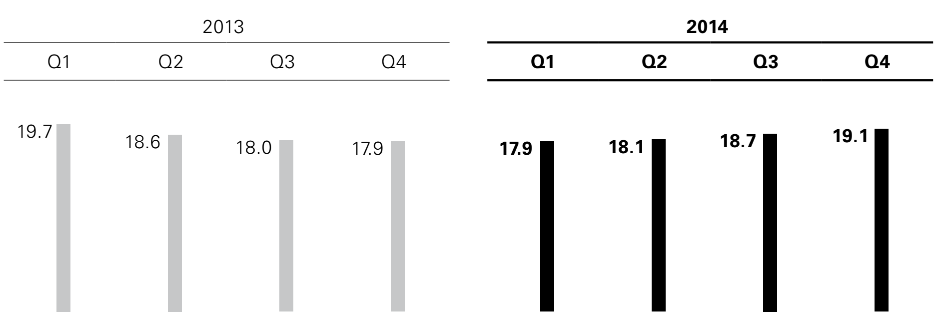
Higher trade payables

Trade payables increased by 8% year on year to EUR 255 million driven by quantity effects (December 31, 2013: EUR 235 million). After currency adjustments, this corresponds to a rise of 6%.

Other liabilities increased by 10% year on year to EUR 195 million (December 31, 2013: EUR 176 million) and, in addition to VAT liabilities and social security liabilities, mainly contain accruals of rental obligations for the Group's own retail business as well accrued vacation, wages and salaries. The year-on-year change primarily results from an increase in the accruals of rental obligations and higher VAT liabilities.

The aggregate of **current and non-current financial liabilities** decreased as of the reporting date by 4% to EUR 172 million (December 31, 2013: EUR 179 million). This development principally resulted from the lower utilization of the syndicated loan of EUR 100 million (December 31, 2013: EUR 111 million). Apart from the tranches of the syndicated loan agreement drawn, the financial liabilities contain negative market values of interest and exchange rate hedges amounting to EUR 8 million (December 31, 2013: EUR 3 million).

03|31 TRADE NET WORKING CAPITAL (in % of sales)



Trade net working capital is the HUGO BOSS Group's key performance indicator for measuring the efficiency of capital employed. The only components factored into the calculation of this indicator are inventories, trade receivables and trade payables. Trade net working capital increased by 16% year on year to EUR 503 million (December 31, 2013: EUR 432 million), as a result of the increase in inventories and trade receivables. This could only be partially compensated by higher trade payables. The moving average of **trade net working capital as a percentage of sales** on the basis of the last four quarters, at 19,1%, was 120 basis points higher than in the prior year (2013: 17,9%).

Trade net working capital as a percentage of sales above prior-year level

FINANCIAL POSITION

In light of the Group's strong internal financing power and the long-term financing in the form of a syndicated loan taken out at favorable conditions, the Group did not undertake any material financing activities in fiscal year 2014. The increase in the free cash flow supported a reduction of net financial liabilities to EUR 36 million. The capital expenditure of EUR 135 million was below the prior-year figure.

FINANCIAL MANAGEMENT AND FINANCING PRINCIPLES

The most important goal of **financial management** at HUGO BOSS is to secure the Group's financial strength in the long term through sufficient liquidity reserves.

Central bundling of global financial management

Group-wide financial management comprises corporate finance, cash and liquidity management, and the management of market price risks and default risks. It is centrally organized in the corporate treasury department. **Global financial management** is based on Group-wide principles and guidelines. At the level of the subsidiaries, the finance managers are responsible for compliance with treasury guidelines.

The **external financing volume** of the HUGO BOSS Group is essentially drawn through HUGO BOSS International B.V. This allows economies of scale to be leveraged and the cost of capital to be optimized. Only in individual cases do HUGO BOSS companies directly obtain debt capital, for instance, if it is economically advantageous to use local credit and capital markets. If the Group companies directly enter into external loan transactions, HUGO BOSS AG issues guarantees or letters of comfort in exceptional cases.

The corporate treasury department optimizes and centralizes payment flows and secures Group-wide liquidity in its cash and liquidity management. The cash inflow from the operating activities of each Group company is the Group's most important source of liquidity.

Using efficient **cash management systems**, liquidity surpluses of individual Group companies are used to cover other companies' financial requirements (cash pooling). This intercompany financial balancing system reduces external financial requirements and net interest expenses.

DEBT FUNDING AND FINANCING STRUCTURE

Market capacity, cost of financing, investor diversification, flexibility, covenants and terms to maturity are taken into account when **selecting financial instruments**. **→ Notes to the consolidated financial statements, Notes 27 and 30**

Syndicated loan secures long-term financial flexibility

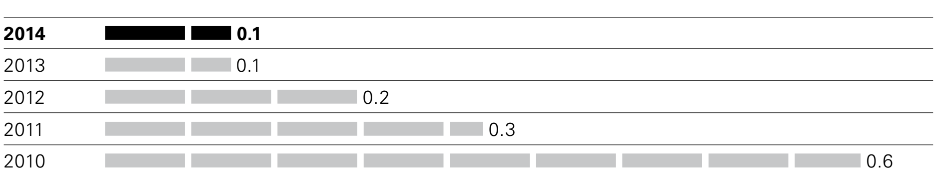
The Group secured its **financial flexibility** in the long term by refinancing the syndicated credit facility that expired in May 2013. A syndicate of banks led by DZ Bank, Landesbank Baden-Württemberg and Unicredit AG granted the syndicated loan with a volume of EUR 450 million and a term of five years. This comprises a fixed tranche amounting to EUR 100 million and a revolving tranche of EUR 350 million. As of the reporting date, only the fixed tranche had been used.

In its capacity as "in-house bank", HUGO BOSS International B.V. provides these funds to Group companies with increased financing needs in the form of intercompany loans. These loans are issued in the local currency of each respective distribution company and, for the most part, take the form of an overdraft facility. In addition, subbranches of the revolving tranche permit amounts to be borrowed in foreign currencies. The Group has additional liquidity secured in the form of bilateral lines of credit with a total volume of EUR 111 million, of which EUR 67 million had been drawn as of December 31, 2014. Apart from the undrawn amounts from the lines of credit amounting to EUR 394 million, the Group has access to liquidity funds of EUR 129 million as of the reporting date, of which EUR 10 million is kept in time deposits with a term of up to three months.

FINANCING CONDITIONS

The **syndicated loan agreement** contains a standard covenant requiring the maintenance of total leverage, defined as the ratio of net financial liabilities to EBITDA before special items. **→ Notes to the consolidated financial statements, Note 27**

03|32 TOTAL LEVERAGE AS OF DECEMBER 31[1]



[1] Net financial liabilities/EBITDA before special items.

Total leverage at prior-year level

As in prior fiscal years, HUGO BOSS was substantially lower than the maximum permissible value as of December 31, 2014. At 0.1, the total leverage ratio was at the prior year's level as of the reporting date.

The **financial liabilities** of the HUGO BOSS Group are mostly subject to variable interest rates and have short fixed-interest periods for the most part. Of the amount of financial liabilities amounting to EUR 133 million subject to variable interest rates, a volume of approximately EUR 111 million was hedged against an increase in interest rates using payer swaps as of December 31, 2014. There is no exposure to interest rate risks from the fixed-interest loans.
→ **Notes to the consolidated financial statements, Note 27**

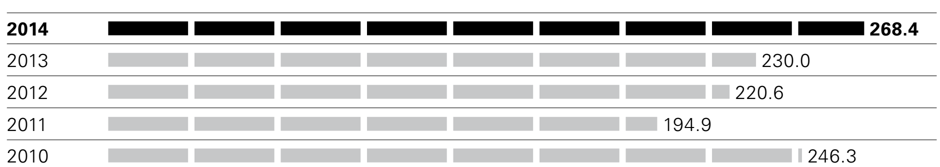
Land charges in connection with land and buildings amount to EUR 42 million (2013: EUR 45 million).

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Financing is supplemented by operating lease agreements not reported in the statement of financial position relating to the Group's own retail locations as well as logistics and administration properties. → **Notes to the consolidated financial statements, Note 33**

STATEMENT OF CASH FLOWS

03|33 FREE CASH FLOW (in EUR million)



The 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 presented after currency adjustments, these figures cannot be derived from the statement of financial position.

Cash inflow from operating activities below prior-year level

Cash inflow from operating activities, at EUR 395 million, was down on the prior-year level (2013: EUR 416 million), negatively affected by an increased cash outflow due to the change in inventories and trade receivables. The increased cash inflow resulting from the change in trade liabilities compensated in part, leading to a total outflow of cash from trade net working capital of EUR 50 million (2013: EUR 45 million). Subsequent payments of income taxes from prior years resulted in a higher outflow of cash in comparison to the previous year.

The net cash outflow from interest expenses and income decreased to EUR 3 million as of the reporting date (2013: EUR 8 million). The lower amount of debt and the lower market interest rates had a positive effect.

Lower cash outflow from investing activities

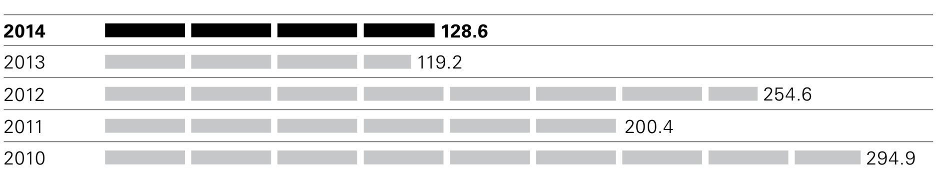
At EUR 127 million**, the cash outflow from investing activities** was down on the prior-year level (2013: EUR 186 million). In the prior-year period, investments into the new flat-packed goods distribution center and the acquisition of other business units increased the cash outflow.

Free cash flow, measured as the cash inflow from operating activities and the cash outflow from investing activities, increased by EUR 38 million to EUR 268 million in the fiscal year just ended (2013: EUR 230 million).

Cash outflow from financing activities shaped by dividend payment

Cash outflow from financing activities in 2014 totaled EUR 262 million (2013: EUR 363 million) and was most heavily influenced by the dividend payment of EUR 230 million (2013: EUR 215 million). The acquisition of the remaining 40% share in the "joint ventures" in China and Macau led to a cash outflow of EUR 19 million. In the prior year, refinancing activities led to a high cash outflow.

03|34 CASH AND CASH EQUIVALENTS AS OF DECEMBER 31 (in EUR million)



Cash and cash equivalents came to EUR 129 million as of the reporting date (December 31, 2013: EUR 119 million).

NET FINANCIAL LIABILITIES

03|35 NET FINANCIAL LIABILITIES AS OF DECEMBER 31 (in EUR million)

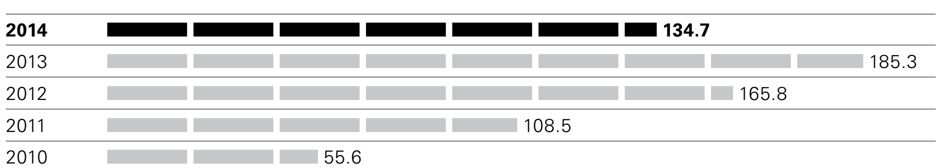
Net financial liabilities improved

Net financial liabilities, the sum total of all financial liabilities due to banks less cash and cash equivalents, improved by 37% as of the end of the fiscal year 2014 to EUR 36 million (December 31, 2013: EUR 57 million).

Financial liabilities to banks came to EUR 164 million, slightly below the prior-year level (December 31, 2013: EUR 176 million).

CAPITAL EXPENDITURE

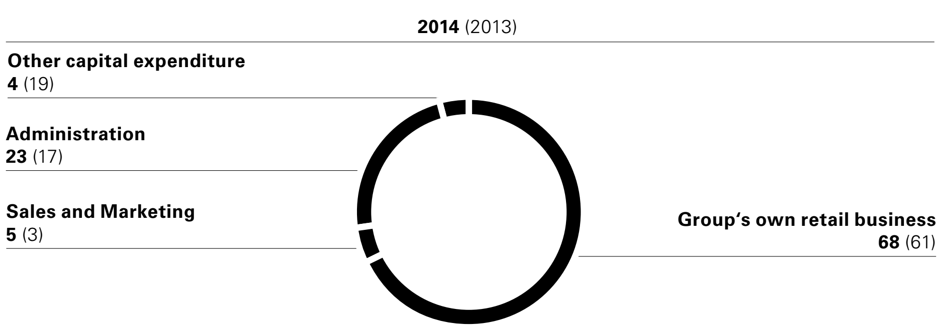
03|36 CAPITAL EXPENDITURE (in EUR million)



HUGO BOSS invests EUR 135 million in fiscal year 2014

In the past fiscal year, HUGO BOSS invested a total of EUR 135 million in property, plant and equipment and intangible assets. Total investment thus declined by 27% year on year (2013: EUR 185 million). The decrease is mainly attributable to capital expenditure on the expansion of logistics capacities in the prior-year period, which did not recur in the period under review.

03|37 CAPITAL EXPENDITURE BY FUNCTIONAL AREA (in %)



Capital expenditure focuses on own retail business

Making up 68% of the total investment volume, the **global expansion and modernization of the Group's own retail business** continued to be the focal point of investment activity in the past fiscal year (2013: 61%). This corresponds to an investment volume of EUR 92 million (2013: EUR 113 million).

Investment in **new retail stores** owned by the Group came in 2014 to EUR 48 million (2013: EUR 75 million). In Europe, flagship stores were opened in Rome and Milan and retail stores in Marseille, Berlin and Moscow. In the Americas, attractive locations were added to the portfolio in cities such as Washington, D.C., and Vancouver. Additional highlights in Asia/Pacific were the opening of a flagship store in Hong Kong and new openings in Sydney and Osaka.

Modernization of the Group's own retail locations increases

In the past fiscal year, EUR 44 million was invested worldwide in the **renovation and modernization** of existing retail locations (2013: EUR 38 million). The bulk of these investments were in Europe, with the primary focus on the modernization of two stores in London and in Zurich. In several cases, the Group expanded the stores' floorspace during the modernization work by taking over adjacent selling spaces.

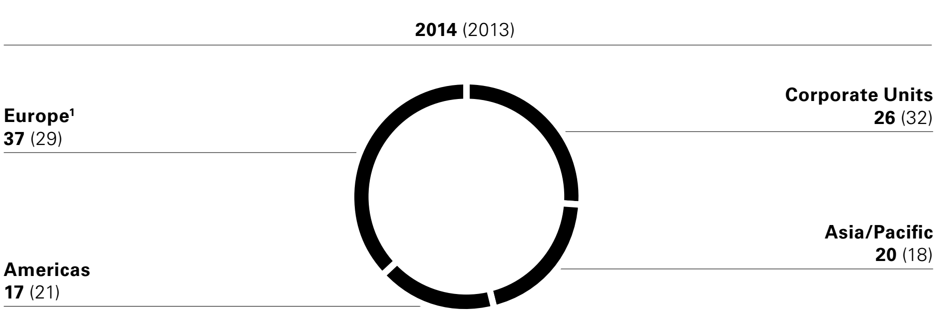
In 2014, investment in the **production, logistics and distribution structure** as well as in **research and development** amounted to EUR 12 million (2013: EUR 41 million). The decrease is mainly attributable to capital expenditure on the expansion of logistics capacities in the prior-year period.

Investments in **administration** came to EUR 31 million in the past fiscal year (2013: EUR 32 million). They include, in particular, investments in the IT infrastructure of EUR 21 million (2013: EUR 16 million).

The accumulated amortization and depreciation on property, plant and equipment and intangible assets taking into account own work capitalized came to EUR 688 million (2013: EUR 603 million). **→ Notes to the consolidated financial statements, Notes 11 and 12**

Obligations from investment projects that have commenced as of December 31, 2014 amounted to EUR 1 million (December 31, 2013: EUR 2 million). **→ Notes to the consolidated financial statements, Note 33**

03|38 CAPITAL EXPENDITURE BY REGION (in %)



[1] Including Middle East and Africa.

COMPENSATION REPORT

This report is based on the recommendations of the German Corporate Governance Code 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 disclosures pursuant to IAS 24 are presented in the notes to the consolidated financial statements.

MAIN FEATURES OF THE COMPENSATION SYSTEM FOR THE MANAGING BOARD

Decisions concerning the compensation system for the Managing Board as well as regular consultation and review of the compensation system are the responsibility of the Supervisory Board. The Personnel Committee is charged with preparing proposals. The compensation system applicable for the members of the Managing Board of HUGO BOSS AG since fiscal year 2010 was approved with a clear majority by the Annual Shareholders' Meeting on May 10, 2011. Without in principle altering this system approved by the Annual Shareholders' Meeting, agreements with all members of the Managing Board were adjusted effective January 1, 2013 such that the performance-related compensation component is solely oriented toward quantitative targets. Consequently, personal objectives are no longer included in the objectives agreed with members of the Managing Board.

Total compensation of the Managing Board comprises a non-performance-related (fixed) compensation component and a performance-related (variable) compensation component. The compensation structure is partly oriented 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 based on 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 society. At its professional discretion, the Supervisory Board can make decisions as regards special payments for the outstanding achievements or success of a member of the Managing Board.

Pursuant to a resolution of the Annual Shareholders' Meeting of June 21, 2010, the individual amounts paid to members of the Managing Board are not disclosed. Accordingly, the disclosures required under Sec. 285 Sentence 1 No. 9 a) Sentences 5 to 8 HGB and Sec. 314 (1) No. 6 a) Sentences 5 to 8 HGB are not made for a period of five years. This applies to the fiscal year beginning on January 1, 2010 and the following four fiscal years, i.e., until December 31, 2014. As a consequence, the total compensation is disclosed as an aggregate amount and broken down into the individual compensation components.

NON-PERFORMANCE-RELATED COMPENSATION

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 receive fringe benefits such as company cars, supplementary payments to health and nursing care insurance, conclusion of and contributions to an accident and directors and officers (D&O) liability insurance as well as other benefits in kind integral to the salary and other equipment and services needed to fulfill their duties as members of the Managing Board. In accordance with Sec. 93 (2) Sentence 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. Each member of the Managing Board is responsible for the taxation of the taxable benefit resulting from the private use of the company car.

PERFORMANCE-RELATED COMPENSATION

In fiscal year 2013, the performance-related compensation, comprising an annual bonus and a bonus assessed over a multiple-year period, was adjusted such that only quantitative targets are taken into account. In future, personal objectives will no longer be included in the objectives agreed with members of the Managing Board.

SHORT-TERM VARIABLE INCENTIVES

The annual bonus is determined by reference to the development of a target indicator defined for each fiscal year. Trade net working capital (total of inventories and trade receivables less trade payables) was set as the assessment base for the annual bonus for all members of the Managing Board. At the beginning of each fiscal year, the Managing Board and the Supervisory Board agree on the target to be reached as well as the maximum and minimum thresholds for trade net working capital as a percentage of sales as a basis for determining the annual bonus. 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 annual bonus is paid out if a specified threshold set below the annual target is reached. No annual bonus is paid if a specified threshold set above the annual target is reached or exceeded. The annual bonus is payable within a week of the Supervisory Board approving the consolidated financial statements for the fiscal year in question.

LONG-TERM VARIABLE INCENTIVES

The multiple-year bonus is assessed over a period extending over several years and is measured by reference to the development of quantitative targets over a three-year period. The quantitative targets are oriented towards increasing the enterprise value and are tied to the development of the indicators sales and EBITDA before special items over a period of three years. The amount of variable compensation for a fiscal year depends on the degree to which a predefined target sales and target EBITDA before special items are achieved over a period of several years. For the multiple-year period, targets as well as maximum and minimum thresholds are defined for both earnings indicators for each of the three fiscal years. The degree of target achievement is determined separately for each of the three fiscal years. The payout is 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 a specified maximum threshold is reached or exceeded. No multiple-year bonus is paid out if the indicators reach or drop below a specified minimum threshold.

Installments for the expected target multiple-year bonus are paid within a week of the Supervisory Board approving the consolidated financial statements for the first fiscal year of the three-year period. The actual target realization for the multiple-year bonus is 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 installment amounts exceed the amount of the vested multiple-year bonus, the member of the Managing Board in question repays the difference to HUGO BOSS AG within a week of the consolidated financial statements for the third fiscal year being approved.

TOTAL COMPENSATION AND AMOUNTS PAID OUT IN THE REPORTING YEAR

Total compensation of the Managing Board in fiscal year 2014 came to EUR 4,434 thousand (2013: EUR 5,211 thousand). Of this amount, EUR 3,682 thousand was attributable to fixed salary components including fringe benefits (2013: EUR 3,466 thousand), which was paid in full in the 2014 reporting period.

The total compensation for fiscal year 2014 does not include any annual bonus (in contrast to the previous year). The annual bonus is omitted if the parameter used to measure it – trade net working capital – reaches or exceeds a certain percentage above the annual target. This percentage was exceeded in fiscal year 2014.

The total compensation for fiscal year 2014 contains an amount of EUR 752 thousand for short-term variable incentives. This is related to actual target achievement for the annual bonus for 2013 and constitutes the difference between the amount of EUR 1,607 thousand paid out in 2014 and the amount of EUR 855 thousand retained as a provision in the previous year. In contrast to the previous year, no long-term variable incentives (multi-year bonuses 2013–2015 and 2014–2016) are included in total compensation for the year due to the three-year measurement period. In the previous year, total compensation included an amount of EUR 890 thousand equaling the difference between actual target achievement for the multi-year bonuses 2010–2012 and the pro rata amount which had been retained as a provision in the previous year.

In fiscal year 2014, the Managing Board received an advance installment of the multiple-year bonus for fiscal year 2013 totaling EUR 2,844 thousand (2013: EUR 0 thousand), which will ultimately be measured by the target realization for the multiple-year period 2013–2015.

SHARE-BASED PAYMENTS

Active members of the Managing Board do not hold any participation rights from the tranches of the stock appreciation rights program issued in the fiscal years 2001 to 2009.

BENEFITS IN THE EVENT OF TERMINATION OF EMPLOYMENT

In the event of early termination, the service agreements include provisions that comply with the recommendations of the German Corporate Governance Code, with the exception of the deviation stated in the declaration of compliance of December 2013. The service agreements do not stipulate any provisions in the event of regular termination, with the exception of the provisions governing pensions.

The service contract with one of the members of the Managing Board contains a clause 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 partners are granted under certain circumstances an additional termination right and, if the service agreement is indeed terminated, the member of the Managing Board has to be compensated. The Company has not entered into any other compensation arrangements with the other members of the Managing Board or employees in the event of a takeover bid.

The Company has entered into pension obligations for members of the Managing Board. The post-employments benefits are based on the years of service and the basic salary.

03|39 PENSION EXPENSES (in EUR thousand)

	2014	2013
Service Costs (IFRS)	2,148	1,638
Present value provision (IFRS) after offsetting of the plan assets	10,466	4,432
Expenses of earned pension commitments (HGB)	2,206	3,908
Present value provision (HGB) after offsetting of the plan assets	1,515	411

OTHER DISCLOSURES

In 2014, former members of the Managing Board and their surviving dependents received total compensation of EUR 197 thousand (2013: EUR 3,967 thousand). In the fiscal year just ended, the total compensation does not include any payments to former members of the Managing Board in connection with post-employment benefits or the exercise of outstanding participation rights from the stock appreciation rights program (2013: EUR 3,774 thousand).

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 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 and that of the deputy chairman are taken into account in the calculation of 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 fiscal year in question. Members of the Supervisory Board, who have 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 have been authorized to provide the Company with a separate invoice for VAT, and exercise this right. The Supervisory Board received compensation for its activities in 2013 amounting to EUR 2,134 thousand. For fiscal year 2014, total compensation is expected to come to EUR 2,209 thousand. This figure includes a provision for the variable component of EUR 1,454 thousand (2013: EUR 1,408 thousand), which is calculated on the basis of the expected earnings per share in the consolidated financial statements.

LEGAL DISCLOSURES

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement (in accordance with Sec. 289a HGB ["Handelsgesetzbuch": German Commercial Code]) contains the declaration of compliance, disclosures relating to corporate governance practices and a description of the way the Managing Board and Supervisory Board work. **:// group.hugoboss.com/Investor Relations/Corporate Governance**

DEPENDENT COMPANY REPORT

Pursuant to Sec. 312 AktG ["Aktiengesetz": German Stock Corporation Act], the Managing Board of HUGO BOSS AG is obliged to prepare a dependent company report. The dependent company report presents the relationships with Permira Holdings Limited, Guernsey, and the companies of the HUGO BOSS Group. The Managing Board has prepared a dependent company report and made the following concluding statement: "… the Company has at all times received appropriate consideration for all transactions within the meaning of this report based on the circumstances prevailing at the time of each respective transaction and has not suffered any disadvantage in fiscal year 2014 by reason of undertaking or refraining from undertaking measures at the instruction or in the interest of Permira Holdings Limited, Guernsey, and its affiliates."

DISCLOSURES UNDER TAKEOVER LAW PURSUANT TO SEC. 289 (4), 315 (4) HGB

The disclosures required in accordance with Sec. 289 (4) and Sec. 315 (4) HGB are presented and explained in the following. As far as the Managing Board is concerned, there is no further need for explanations within the meaning of Sec. 175 (2) Sentence 1 and Sec. 176(1) Sentence 1 AktG.

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

There are capital investments exceeding 10% of the voting rights. The respective voting rights announcements are published on the internet at **group.hugoboss.com/en/investor-relations/financial-releases** and are also disclosed in the annual financial statements of HUGO BOSS AG for the fiscal year 2014.

Apart from this, HUGO BOSS AG has not been notified of any other shareholders holding more than 10% of the voting rights.

In fiscal year 2014, HUGO BOSS AG was notified of 16 voting rights announcements pursuant to Sec. 21 (1) and Sec. 22 of the German Securities Trading Act (WpHG). The respective voting rights announcements are published on the internet at **group.hugoboss.com/en/investor-relations/financial-releases** and are also disclosed in the annual financial statements of HUGO BOSS AG for the fiscal year 2014.

The Company has not received any other notifications from shareholders who hold 3% or more of the voting rights in HUGO BOSS AG.

There are no shares in HUGO BOSS AG with special rights granting control authority. There are no special rules governing the exercise of shareholder rights by shareholders who are employees of HUGO BOSS AG.

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": German 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 good cause. In accordance with Art. 6 (3) of the Articles of Association, members of the Managing Board may not generally be older than 60 years of age when they are appointed. Members of the Managing Board are appointed by the Supervisory Board for no more than five years.

Amendments to the Articles of Association are made by resolution of 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.

AUTHORIZATION OF THE MANAGING BOARD TO INCREASE SHARE CAPITAL WITH THE OPTION OF EXCLUDING SUBSCRIPTION RIGHTS

The Management 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 eliminate fractional rights (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 Section 186 (3) Sentence 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.

AUTHORIZATION TO ACQUIRE OWN SHARES AND TOUSE OWN SHARES, ALSO WHILE EXCLUDING PUT OPTIONS AND SUBSCRIPTION RIGHTS, INCLUDING AUTHORIZATION TO REDEEM ACQUIRED OWN SHARES AND REDUCE CAPITAL

Pursuant to the resolution of the Annual Shareholders' Meeting of June 21, 2010, the Managing Board is authorized on or before June 20, 2015 to acquire registered ordinary shares and/or registered preferred shares without voting rights of the Company up to a share of no more than 10% of the share capital outstanding as of June 21, 2010. HUGO BOSS AG can exercise its authorization to acquire own shares fully or in partial amounts, once or several times for one or several purposes only for registered ordinary shares and/or registered preferred shares while partially excluding any put options for the corresponding categories. The acquisition can be made through the stock exchange or a public offer addressed to the holders of the corresponding share category. Own shares acquired under this authorization can be sold again through the stock exchange or through an offer addressed to all shareholders while excluding subscription rights of shareholders. They can alternatively be redeemed as compensation for the acquisition of a company 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 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** – so-called "change-of-control clauses".

The service contract with one of the members of the Managing Board also contains a clause 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 partners are granted under certain circumstances an additional termination right and, if the service agreement is indeed terminated, the member of the Managing Board has to be compensated. The Company has not entered into any other compensation arrangements with the other members of the Managing Board or employees in the event of a takeover bid.

REPORT ON RISKS AND OPPORTUNITIES

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 rather that of sustainably increasing its enterprise value. Effective risk management enables the Group to identify uncertainties and the resulting risks at an early stage and to mitigate any potential adverse consequences by implementing suitable measures. In combination with the systematic identification of new opportunities, this increases the reliability of the Group's decision making process and establishes the foundation for continuous target realization.

RISK REPORT

The success of the HUGO BOSS Group is based on the systematic use of opportunities within the framework of the medium- and long-term corporate strategy. Complementary to this, the risk policy pursues the objectives of securing the Company's continuation as a going concern and supporting the efforts of the operating units to implement the strategy successfully. The early identification of risks and immediate assessment of their possible impact is, however, only the basis for and first step in the development of effective risk control measures. The second step of risk management therefore promotes responsible action and makes an important contribution to the Group's value.

RISK MANAGEMENT

Group-wide standards ensure successful risk management

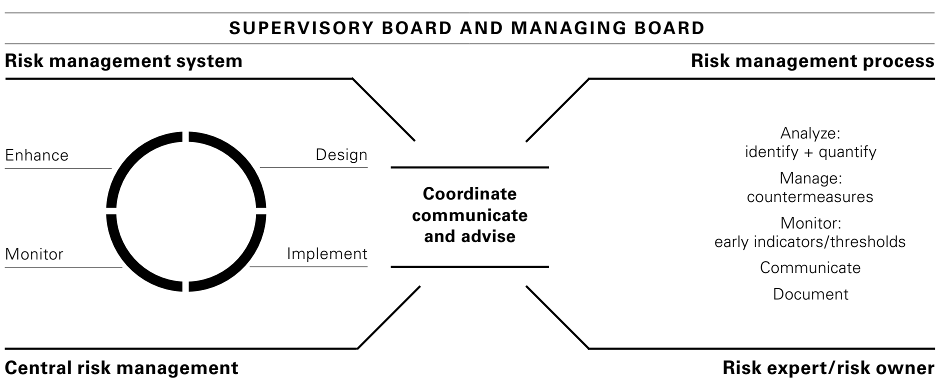
Successful risk management is founded on Group-wide standards for systematically handling risks. These are set for the HUGO BOSS Group by the Managing Board as part of the risk policy and documented in a risk manual that is applicable throughout the Group and is available for all employees online. Risks are defined as potential, negative deviations from the planned operating result (EBIT) or, in the case of tax and interest risks, from the cash flow. Clear thresholds describe the risk-bearing capacity of the HUGO BOSS Group and permit a classification of risks into levels from "minor" to "high". Risks are identified and assessed at regular intervals. Whenever there are critical topics, the regular reporting process is supplemented by ad hoc reporting in order to allow timely analysis of new developments. In addition, the 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. All risks and the actions taken are systematically recorded using a risk management software. This ensures reliable version management and audit trails. The HUGO BOSS Group's risk management system is designed in accordance with and complies with the recommendations of the international standard ISO 31000.

A dedicated team at the headquarters of HUGO BOSS AG is responsible for the coordination of the Group-wide risk management in order to be able to identify risks early, analyze and monitor them, and to counteract them with risk mitigation measures as required. The team develops the tools of the risk management system further and ensures that risks are identified Group-wide and recorded at regular, pre-defined intervals. All information concerning the risks identified in the subsidiaries worldwide converges here allowing its timely aggregation and analysis at Group level. The team continuously communicates with all risk owners so that it is always informed of the latest developments. In another direction, it regularly reports to the Managing Board, supports it in the implementation, execution and monitoring of the risk management and internal control system as well as in the process of reporting to the Audit Committee of the Supervisory Board.

Decentralized risk management in the divisions

Responsibility for risk identification and analysis, adequate handling of uncertainties and the implementation of effective risk mitigation measures is locally assigned to the respective divisions or subsidiaries where risks occur. To this end, a risk expert and a risk owner are defined in each case.

03|40 HUGO BOSS RISK POLICY



Risks are handled in four ways: avoidance, mitigation, transfer and acceptance. Consequently, one of the elements of risk management includes the transfer of risks to insurers. This allows the financial consequences of insurable risks to be largely neutralized.

Differentiated risk quantification based on a multiple scenario analysis

The current status of all identified risks is assessed at least once a year or at more frequent half-yearly, quarterly or monthly intervals, depending on the extent of the financial effect. In this process, new developments are documented and the risk quantification is revised if necessary. To this end, an estimate is made of the likelihood of occurrence of risks and the associated effects on the operating result (EBIT) or cash flow. Any net risk as an actual risk potential is defined as the gross risk reduced by measures taken to mitigate or avoid the risks identified.

03|41 MEASUREMENT CRITERIA FOR BUSINESS RISKS

Likelihood of occurrence		Extent of financial impact
unlikely	**≤ 20%**	**minor**
possible	**> 20–40%**	**moderate**
likely	**> 40–60%**	**significant**
very likely	**> 60%**	**high**

To obtain a more precise view of the potential effects of identified risks, alternative risk scenarios are analyzed 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 severe ramifications. The risk owner assigns a weighting to each of the three scenarios to calculate the average impact in the event of occurrence. This approach allows not only a differentiated view of potential effects, but also thorough analysis of unlikely extreme scenarios that could potentially have a significantly stronger impact on the ability of the HUGO BOSS Group to achieve its objectives. In the latter case, the focus is not so much on preventive measures but on the development of disaster recovery plans to support the rapid restoration of operations after an occurrence actually happens. In addition to the quantification of risk based on a 12-month planning period, a medium-term risk trend is also determined. This indicator is used be able to initiate the development of adequate countermeasures for growing risks promptly.

The continuous monitoring of early warning indicators enables the Group to identify possible deviations from the budget at an early stage. Reporting chains and the adoption of suitable countermeasures defined in advance ensure timely response in the event of occurrence. All of this information is compiled in the Group-wide risk software and is available at all times.

This allows the HUGO BOSS Group to identify risks at an early stage and to respond quickly and in a targeted manner. The risk management system is reviewed at regular intervals by the internal audit department to ensure its proper functioning and appropriateness. In consultation with the external auditors, the Audit Committee set up by the Supervisory Board regularly monitors the effectiveness of the systems of internal control, risk management and internal audit. In the course of the audit of the annual financial statements, the external auditors verify whether the Managing Board has suitably implemented the measures prescribed by Sec. 91 (2) AktG.

Risk categories and structure of the risk atlas

A uniform risk atlas is used as a basis for identifying and aggregating risks worldwide. This bundles individual risks by topic into risk areas. The latter are in turn allocated to one of the main risk categories: external risks, strategic risks, financial risks, operative risks and organizational risks.

03 |42 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**
Geopolitical developments	**Brands and corporate image**	**Changes in interest rates**	**Quality**	**Personnel**
Product piracy	**Investments**	**Currencies**	**Logistics**	**Facilities**
Environment and health		**Counterparties**	**Sales and distribution**	**Legal**
Competitive environment		**Taxes**		**Governance and compliance**
		Provisions for pensions		**Health and safety**

ASSESSMENT OF THE RISK SITUATION BY MANAGEMENT

The individual risks are aggregated using two alternative methods to obtain the most accurate possible picture of the HUGO BOSS Group's total risk position. First, an addition of all the expected loss values within the five risk categories described above shows that the greatest exposure continues to come from operational risks. Compared to the last report as of the end of fiscal year 2013, the total risk position has risen slightly overall. This development can be explained by the global uncertainties that have increased perceptibly in the course of the year 2014.

03|43 DEVELOPMENT AND COMPOSITION OF TOTAL RISK EXPOSURE

Risk category	Trend	Expected value
External risks	↗	
Strategic risks	↗	
Financial risks	↗	
Operative risks	↘	
Organizational risks	↘	
Total risk	↗	

Second, using a Monte Carlo simulation method, the probability distributions of individual risks are aggregated to form a single probability distribution for a possible total loss. A large, representative number of conceivable risk-dependent future scenarios is calculated by random selection. In these scenarios, certain risks occur and others do not in accordance with the probabilities of their occurrence. By this means, not only average loss amounts, but also maximum annual loss values within randomly selectable confidence intervals can be determined across all simulation runs. These value-at-risk indicators are compared to the enterprise's equity to assess its risk-bearing capacity. The result of this analysis shows that the HUGO BOSS Group's equity is in excess of all simulated risk-dependent loss values, even within the tightest confidence intervals.

On the basis of the information that is continually recorded as part of the risk management process both by the parent Group and the subsidiaries worldwide and evaluated by the central risk management team, the Managing Board currently assumes that based on the information available all individual and aggregated risks can be classified as manageable. Interdependencies or common causes that could simultaneously trigger several risks also do not endanger the continued existence of the Group as a going concern.

The main risks to which HUGO BOSS is exposed in fiscal year 2015 are described in detail below. The risks discussed concern both the operating segments and the corporate units of the HUGO BOSS Group. In general, it is possible that additional latent risks or risks that are currently estimated as immaterial may also 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.

EXTERNAL RISKS

Macroeconomic risks

Like any company with global activities, the HUGO BOSS Group is exposed to risks arising from the uncertainty of future developments of macroeconomic conditions. A decisive factor in this context is the development of the global economy, which can lead to reduced demand for apparel and accessories in the premium and luxury segments. Its dependence on consumer behavior exposes the consumer goods industry in general to risks that can impact budgeted sales and/or margins. The effects of macroeconomic developments can occur globally or in individual markets, and can have knock-on effects. However, the advance order intake and the development of the Group's own retail business, provide the HUGO BOSS Group with early warning indicators that permit a timely forecast of the consequences of potential macroeconomic risks. The HUGO BOSS Group has taken several measures to mitigate the impact of turns in the business cycle. This includes a clear brand profile geared towards the expansion of the market share in a highly competitive environment. A business model designed for international growth also taps the potential of new consumer groups and serves to compensate for potential decreases in demand in individual markets. A further objective is to achieve a balanced distribution of sales across different regions to avoid overdependence on individual markets. Looking at fiscal year 2015, the Group generally expects the continued growth of the global economy and the premium and luxury industry. Adverse macroeconomic developments can have a moderate impact on planned business growth, however, regardless of the measures taken. Management considers the occurrence of this risk as possible because of the continuing uncertainties about the euro debt crisis and the further deterioration of China's economic prospects. ➔ **Subsequent Events and Outlook, Outlook**

Geopolitical developments

A company with international activities, HUGO BOSS is also exposed to risks in connection with the development of individual sales markets. This risk can be triggered by changes in the political or regulatory environment or by socioeconomic developments. As is the case with any company, the Group's net assets, financial position and results of operations are exposed to the risk of terrorist activities. In the course of 2014, several, sometimes widely differing regional crises and developments have considerably heightened this risk. The continuing tensions between the West and Russia and the resulting trade restrictions as well as the sharp devaluation of the Russian ruble may have not only a direct impact on the business with Russia, but also indirect effects on further European economic developments and therefore on consumer purchasing behavior. In addition, the global increase in activities by terrorist organizations contains the risk of declining demand in individual markets, particularly large cities affected by attacks. However, global distribution in more than 120 countries at Group level provides a natural hedge against adverse developments in particular countries or regions. No significant changes in the regulatory or sociocultural environment are expected in the HUGO BOSS Group's key markets. The political situation in the United Kingdom and the possibility of a referendum on EU membership there will be constantly observed over the year to be able to counter any possible negative impact effectively. Unexpected changes in country-specific business conditions in key markets may generally lead to minor financial effects. However, from the Managing Board's point of view this is currently classed as unlikely due to the measures taken.

Product piracy

Businesses offering high-quality branded articles, particularly in the premium and luxury segment, have always been affected by product piracy. A global increase in the distribution of fake goods is being recorded due to online sales. In addition to legal protection and close collaboration with authorities worldwide, HUGO BOSS has taken far-reaching organizational measures to be able to discover instances of product piracy quickly and pursue them vigorously. The risk of direct sales losses due to fake articles being widely offered is currently evaluated as minor and unlikely. However, in view of the latent risk of downstream image losses, HUGO BOSS constantly reviews developments and will take further protective measures as required.

Environmental and health risks

A global value chain is always subject to a number of risks that may arise due to environmental disasters, epidemics and the consequences of climate change. The unforeseeable wide spread of the Ebola virus in West Africa in 2014 illustrates the risk potential of such events. In order to respond rapidly and adequately to the impact of natural disasters, the HUGO BOSS Group has overhauled the emergency management system at its headquarters and added a special organizational structure that bundles the cross-functional skills needed to master emergencies and guarantees single leadership with clear decision-making paths. Nevertheless, minor effects on target realization cannot be entirely ruled out, although management considers this situation to be unlikely.

Competitive environment

The competition with other premium and luxury goods manufacturers for the trust and loyalty of consumers essentially also means a competition for the best retail selling spaces, highly qualified personnel and presence in the right media. Rising competitive pressure can lead to higher costs or lower sales in increasingly saturated markets. However, the HUGO BOSS Group considers itself to be very well positioned in the international competitive arena, so that the financial impact associated with this risk should not rise above a very low level. The Managing Board currently regards it as unlikely that such an impact will materialize.

STRATEGIC RISKS

Collection and industry risks

Collection and industry risks can arise from changes in fashion and lifestyle trends. The challenge lies in identifying the right trends in time and translating these quickly into an unmistakable collection statement. HUGO BOSS counters these risks with in-depth analyses of target groups and markets and the detailed assessment of the development of sales in the past season. Greater proximity to customers through the retail business also makes a major contribution toward quickly channeling information on trends and consumer behavior into collections. The probability of occurrence of collection and industry risks is therefore deemed unlikely by management. Potential adverse effects are classified as minor. ➔ Group strategy

Risks to the brand and corporate image

The economic success of HUGO BOSS hinges on the brand image together with a strong and lasting positioning of the Group's brands in the premium and luxury market. As a consequence, protecting and maintaining brand image has a high priority at HUGO BOSS. Strategic measures are taken for this purpose, including but not limited to a continuous monitoring of markets and media, clearly differentiated brand positioning supported by targeted marketing activities and a globally consistent brand presence. In addition, legal trademark protection and the prosecution of product piracy are important efforts to secure the brand image.

The corporate image of the HUGO BOSS Group is reflected in its perception by stakeholders such as customers, shareholders, suppliers and employees. Corporate communication is centrally coordinated by the corporate communication and investor relations departments. HUGO BOSS uses these interfaces to stay in continuous dialog with key interest groups. Compliance with laws, standards and guidelines, both within the Group and by suppliers is also regularly verified. Nevertheless, negative effects on the brand image and the Group's reputation remain possible. Based on the measures taken, however, the effects on the Group's net assets, financial position and results of operations are deemed minor.

Investment risk

One of the core strategic measures of HUGO BOSS is to continue the expansion of the Group's own retail business. Retail activities involve investment risks that arise in connection with the establishment and maintenance of stores, long-term leases and personnel expenses. This leads to an increase in fixed costs. However, it also widens the gross profit margin. To keep the risk of bad investments and unprofitable retail stores as low as possible, decisions on the opening and closing of stores are made centrally in consultation with the responsible regional director. Prior to opening new retail stores, all locations are thoroughly examined regarding their potential and comprehensive sales and development plans are prepared.

Nevertheless, there is still a general risk that individual retail stores of the Group will fail to reach the originally budgeted sales targets and, in the worst case, that they might need to be closed. Group companies therefore have to submit a monthly report on the performance of their retail activities so that negative developments can be detected early and countermeasures taken. The investment risk is also mitigated by the standardized store concept used in all points of sale worldwide, which means that fixtures and fittings can be redeployed elsewhere if a store is closed. As part of general investment controlling activities, the value contribution of all other investments is also examined taking into account the risks involved. Additional reductions of the value of depreciated property, plant and equipment and amortized intangible assets at the Group's own retail stores level, other intangible assets with indefinite useful lives (key money) and goodwill that have to be made due to the results of impairment tests are the largest risk position in this area. Against the background of the measures described, investment risk is assessed as possible, but with a minor financial impact. → **Group management, Investment controlling**

FINANCIAL RISKS

The central tasks of the HUGO BOSS Group include coordinating and managing internal financing requirements, ensuring the financial independence of the Group as a whole and mitigating financial risks.

The HUGO BOSS Group is mainly exposed to financing and liquidity risks, interest rate risks, currency risks and counterparty risks as well as tax and pension risks. These risks are subject to continuous and intensive control. The development of exposures is constantly monitored, quantified and – if necessary – hedged in order to mitigate accounting risks and risks from future cash flows.

Financing and liquidity risks

Managing liquidity risk is one of the central tasks of HUGO BOSS AG's treasury department. Liquidity risk is the risk that existing or future payment obligations cannot be met in terms of timing, volume or currency due to a lack of cash. The HUGO BOSS Group manages this risk centrally. To ensure the Group's liquidity and financial flexibility at all times, financial requirements are determined based on three-year financial planning. These are then secured using lines of credit and liquid funds.

The HUGO BOSS Group successfully refinanced the syndicated loan that expired in May 2013. The syndicated loan, which was granted by a syndicate of banks, has a total line of credit of EUR 450 million and a term of five years. It is intended for general corporate financing and comprises a fixed tranche of EUR 100 million and a revolving tranche of EUR 350 million. HUGO BOSS has thereby secured its long-term financial flexibility. Apart from the fixed tranche of EUR 100 million, no further tranche subbranches had been utilized as of the reporting date.

The existing syndicated loan agreement contains standard covenants requiring the maintenance of total leverage. A breach of covenants would lead to the early termination of the agreement. Even if general economic conditions deteriorate, HUGO BOSS does not see any risk of breaches of financial covenants. → **Net assets and financial position, Financing**

In addition, the syndicated loan contains a so-called "change of control clause" that grants the contracting parties additional termination rights in the event of a change of control. HUGO BOSS considers this risk very low.

Apart from the syndicated financing line of credit, HUGO BOSS has short-term bilateral lines of credit amounting to 111 million, which afford even greater flexibility.

In addition to the line of credit amounting to EUR 561 million as of December 31, 2014, the Group had liquid funds of 129 million as of the reporting date. These funds are generally held as call deposits and time deposit investments. In addition, the HUGO BOSS Group mitigates financing and liquidity risks further using a cash pooling mechanism. Based on the amounts drawn from the lines of credit, the cash situation and the cash pooling mechanism in place, management deems the occurrence in the case of financing and liquidity risks to be unlikely and the financial impact to be minor.

Interest rate risks

Market-driven fluctuations in interest rates impact future interest income and payments on cash balances and liabilities subject to variable interest on the one hand. On the other hand, they also influence the market value of financial instruments. Significant changes in interest rates can therefore affect the profitability, the liquidity and the financial position of the Group.

The financial liabilities of the HUGO BOSS Groups are mostly subject to variable interest rates and have short-term fixed-interest periods. The resulting interest rate risk also poses a cash flow risk with implications for the amount of future interest payments. To minimize the effects of future interest volatility on borrowing cost, derivative financial instruments in the form of interest rate swaps are used for the most part. Derivatives designated to an effective hedge within the meaning of IFRS impact equity in the event of interest rate changes. Derivatives that are not designated to such a hedge are posted to profit or loss. As of the reporting date, derivatives amounting to EUR 100 million were designated as effective interest rate hedges for the syndicated loan agreement within the meaning of IFRS.

Moreover, opportunity effects can arise. These result from the recognition of non-derivative financial instruments at amortized cost rather than at fair value. The opportunity risk is the difference between both values, although this is neither reported in the statement of financial position nor in the income statement.

In accordance with IFRS 7, the effect on profit and equity of changes in the most important interest rates was analyzed. The scope of the analysis included variable-interest financial liabilities of EUR 133 million (December 31, 2013: EUR 134 million), interest derivatives of EUR 111 million (December 31, 2013: EUR 111 million) and cash and cash equivalents of EUR 129 million (December 31, 2013: EUR 119 million). The impact of interest rate fluctuations on future cash flows was not included in this analysis.

Owing to the continued low interest rates, the shift in the interest yield curve was changed from +100/–30 to +100/–10 basis points in the reporting year in order to avoid negative interest and present realistic scenarios in the analysis of interest rate sensitivity as of the reporting date. Taking the sharp fall in money market and capital market interest into account, HUGO BOSS considers this change to be appropriate. To ensure the comparability of this reporting period and the prior period, the shift in the interest yield curve was also changed to +100/–10 basis points for fiscal year 2013.

03|44 INTEREST RATE SENSITIVITIES AS OF DECEMBER 31 (in EUR million)

	2014		2013	
	+100 bp	**(10) bp**	+100 bp	(10) bp
Cash flow risks	0.8	(0.1)	0.5	(0.1)
Risks from interest rate derivatives recognized in income	0.6	(0.1)	0.7	(0.1)
Effects on net income	**1.4**	**(0.2)**	**1.2**	**(0.2)**
Risks from interest rate derivatives reflected on the consolidated statement of financial position	2.3	(0.2)	3.1	(0.3)
Effects on Group equity	**3.7**	**(0.4)**	**4.3**	**(0.5)**

An increase in market interest rates by 100 basis points as of December 31, 2014 would have led to an increase in net income of EUR 1,4 million (2013: EUR 1,2 million) and in equity of EUR 3,7 million (December 31, 2013: EUR 4,3 million). A decrease in market interest rates by 10 basis points would have resulted in a decrease in net income of EUR 0,2 million (2013: EUR 0,2 million) and in Group equity of EUR 0,4 million (December 31, 2013: EUR 0,5 million). The effects from interest rate derivatives would have resulted from changes in fair value. Cash flow risks would have mainly resulted from higher/lower interest income and expenses from cash and cash equivalents.

Based on the effects of interest changes on financial instruments illustrated by the sensitivity analysis, the effects of interest rate changes on the HUGO BOSS Group are classified as minor. Given the expansionary monetary policy, particularly by the European Central Bank and the Federal Reserve, management currently considers interest rate changes likely with a minor financial impact.

Currency risks

The currency risks of the HUGO BOSS Group essentially result from the global business activities and the Group's internal financing activities. In business operations, exchange rate risks mainly relate to receivables and liabilities (transaction risk), such as through the sourcing of goods and salary payments in a currency other than the Group's functional currency or through intercompany financing activities in Group companies that have a functional currency other than the euro.

Distribution activities in key markets are performed by local Group companies, which place their orders exclusively with the Group. In order to centrally manage the exchange rate risk, intercompany orders are generally invoiced in local currency. The exchange rate risk thus results from the cash flow in local currency of the subsidiaries. The currency risks of the HUGO BOSS Group from business operations are mainly attributable to the business operations in the United States, Great Britain, Australia, Switzerland, Japan, Turkey, Hong Kong and China as well as the purchasing activities of sourcing units in foreign currencies.

Exchange rate risks also arise from the translation of the net assets employed at Group companies outside the Eurozone and of their income and expenses (translation risk). The Group does not hedge this risk. → **Notes to the consolidated financial statements, Currency translation**

Exchange rate management for transaction risks is centrally performed for all Group companies. An exception here is the transaction risk for salary payments in Turkish liras, which is managed directly by the local company in Turkey.

The primary objective of exchange rate management at HUGO BOSS is to mitigate the overall exchange rate exposure using natural hedges. Such hedges are based on the offsetting of currency exposures from business operations throughout the Group against each other, thereby reducing the overall exposure requiring hedging measures by the amount of the closed positions. Forward exchange contracts and swaps as well as plain vanilla currency options can be concluded to hedge the remaining exposures. The objective of the hedging strategy is to limit the effects of exchange rate fluctuations on exposures already on the balance sheet and future cash flows. As a rule, the terms of the derivatives entered into are adjusted to the underlying hedged item when they are concluded. The derivative financial instruments, which are traded in the OTC market, are solely intended to hedge the risk intrinsic in hedged items. To obtain the best possible terms, quotes are requested from several banks and transactions are concluded with the bank that offers the best terms.

Foreign currency risks in financing result from financial receivables and liabilities in foreign currency and loans in foreign currency granted to finance Group companies. A distinction is drawn between two types of agreements when granting loans to Group companies. Operating loans are structured similarly to an overdraft facility and can be drawn flexibly within a set credit limit. Financing loans are granted to 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.

Group-wide guidelines ensure strict separation of the functions trading, handling and control for all financial market transactions. The same guidelines form the basis for the selection and scope of hedges. The objective of currency hedges is to minimize currency effects on the development of the Group's net income and equity.

Based on the requirements of IFRS 7, the HUGO BOSS Group has calculated the effects of changes in the most important exchange rates on net income and equity. In contrast to the prior year, the currency risk was not only determined on the basis of the balance sheet currency exposure as of December 31, 2014, but also on the basis of planned future cash flows in Turkish liras. This approach was selected because of the HUGO BOSS Group's changed hedging strategy, which aims both to mitigate balance sheet risks and to hedge future cash flows. The exposures include cash, receivables and payables as well intercompany loans held in currencies other than the functional currency of each respective Group company. Effects from the translation of financial statements of foreign subsidiaries outside the Eurozone are not taken into account.

The following sensitivity analyses show the net income and equity that would have resulted if different exchange rates had prevailed as of the reporting date. It is assumed that the balances as of the reporting date are representative for the entire year.

03|45 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2014
(in EUR million)

	USD	GBP	AUD	CHF	JPY	HKD	CNY	TRY[1]
Gross currency exposure	**39.3**	**17.8**	**28.1**	**(74.2)**	**27.1**	**16.0**	**7.2**	**7.2**
Hedging	(34.8)	(11.2)	(22.6)	21.6	(26.4)	(12.9)	0.0	12.5
Net currency exposure	**4.5**	**6.6**	**5.5**	**(52.6)**	**0.7**	**3.1**	**7.2**	**19.7**
Volatility	8.9	8.1	9.9	4.2	10.6	9.1	9.3	14.2
Appreciation of the euro by standard deviation								
Net income	(0.3)	(0.4)	(0.4)	1.7	(0.1)	(0.2)	(0.5)	(0.8)
Equity	(0.3)	(0.4)	(0.4)	1.7	(0.1)	(0.2)	(0.5)	(2.2)
Depreciation of the euro by standard deviation								
Net income	0.3	0.4	0.4	(1.7)	0.1	0.2	0.5	0.8
Equity	0.3	0.4	0.4	(1.7)	0.1	0.2	0.5	2.2

[1] Gross currency exposure refers to the reporting date.

03|46 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2013
(in EUR million)

	USD	GBP	AUD	CHF	JPY	HKD	CNY	TRY
Gross currency exposure	**3.7**	**14.8**	**27.5**	**(39.7)**	**25.6**	**(9.5)**	**21.9**	**7.3**
Hedging	(17.4)	(15.6)	(25.9)	0.0	(22.1)	0.0	0.0	0.0
Net currency exposure	**(13.7)**	**(0.8)**	**1.6**	**(39.7)**	**3.5**	**(9.5)**	**21.9**	**7.3**
Volatility	8.4	7.3	10.4	4.9	12.4	9.0	9.1	13.0
Appreciation of the euro by standard deviation								
Net income	0.9	0.0	(0.1)	1.5	(0.3)	0.7	(1.5)	(0.7)
Equity	0.9	0.0	(0.1)	1.5	(0.3)	0.7	(1.5)	(0.7)
Depreciation of the euro by standard deviation								
Net income	(0.9)	0.0	0.1	(1.5)	0.3	(0.7)	1.5	0.7
Equity	(0.9)	0.0	0.1	(1.5)	0.3	(0.7)	1.5	0.7

The implicit volatility of the individual foreign currencies was factored in to present the fluctuation of the foreign currencies of relevance to the HUGO BOSS Group relative to the euro and satisfy the requirements of IFRS 7 with regard to the disclosure of a "reasonably possible change". The presentation of the prior period was adjusted accordingly for the purpose of comparability.

Had the euro appreciated against the foreign currency exposures of relevance by one standard deviation in each case the Group's net income would have been EUR –1,0 million lower (2013: EUR 0,5 million) and its equity EUR –2.4 million (2013: EUR 0.5 million) lower. Had the euro depreciated by the same amount, the Group's net income would have been EUR 1,0 million higher (2013: EUR –0,5 million) and its equity EUR 2.4 million (2013: EUR –0.5 million) higher. As of the reporting date, derivatives with a nominal value of EUR 12.5 million were designated as effective currency hedges within the meaning of IAS 39. Changes in value are recognized directly in equity. In contrast to the prior year, the sensitivity of equity is thus not reflected in the consolidated net income.

The volatility used for the sensitivity analyses is determined as of the reporting date in each case. If the abandonment of the minimum exchange rate of the Swiss franc against the euro by the Swiss National Bank in January 2015 had been included in the sensitivity analysis, the risk assessment would not have changed materially. Management expects further changes in the exchange rates of relevance to HUGO BOSS to be likely in fiscal year 2015. The risk of exchange rate fluctuations and its impact on the earnings of the HUGO BOSS Group based on the above sensitivity analysis is classified as minor.

Counterparty risk

The counterparty risk related to financial institutions mainly results from the investment of liquid funds as part of liquidity management, from any short-term bank deposits and from trading in derivative financial instruments.

With respect to financial instruments, the Group is exposed to a (bank) default risk in connection with the possible failure of a contractual party to meet its obligations. The maximum amount involved is therefore the positive fair value of the financial instrument in question. To minimize the risk of default, the HUGO BOSS Group generally only contracts financial instruments for financing activities with counterparties that have excellent credit ratings and in compliance with set risk limits. Only in exceptional cases and subject to the approval of the Managing Board it is permitted within tight limits to hold time deposits and conclude derivative transactions with banks that have lower credit ratings. HUGO BOSS assumes that the concentration of risk is low and perceives the probability of counterparty default to be unlikely with a minor financial impact. **→ Notes to the consolidated financial statements, Note 27**

Tax risks

Tax issues are regularly analyzed and assessed by the central tax department in cooperation with external tax consultants. There are tax risks for all open assessment periods.These can result from current business operations or changes in the legal or tax structure of the Group. Sufficient provisions were recognized in prior fiscal years for known tax risks. The amount provided for is based on various assumptions such as interpretation of the respective legal requirements, latest court rulings and the opinion of the authorities, which is used as a basis by management to measure the loss amount and its likelihood of occurrence. Such assessment also takes into account the estimation of local, external experts such as lawyers and tax advisors. On account of changes in the tax legislation of individual countries or diverging estimations of existing issues by the tax authorities, the Group assumes that additional tax risks are likely with minor financial impact.

Pension risks

The HUGO BOSS Group is exposed to risks in connection with defined benefit obligations. These can impact the net assets, financial position and results of operations of the Group. Pension commitments are measured on the basis of actuarial reports and accounted for accordingly. The main measurement parameters are the discount rate and the expected salary and pension trends. Future changes in measurement parameters can lead to an increase or decrease in provisions for pensions on subsequent reporting dates. Furthermore, changes in financial markets can affect the value of the plan assets available to cover the pension obligations. Furthermore, local pension regulations in specific countries can also lead to increased cash outflows. Pension risks and their effect on the net assets, financial position and results of operations are classified as likely with a minor financial impact. **→ Notes to the consolidated financial statements, Note 26**

OPERATIONAL RISKS

Risks relating to the sourcing market

The high quality requirements imposed on HUGO BOSS products and, in turn, on sourcing and production processes make close partnering with suppliers essential. However, concentration of production capacity can result in sales losses in the event of production downtime. Strategic suppliers are regularly inspected and rated so that any adverse developments are detected early and appropriate countermeasures can be implemented. A concentration of risk could also result from regional incidents affecting several suppliers, divisions or product groups at the same time.

To secure a reliable supply of production material and capacity at suitable quality and cost levels, orders to suppliers as well as capacity utilization are coordinated centrally. The supplier structure is regularly reviewed in order to detect sovereign risk in due time. Given the high quality standards and available production capacities, HUGO BOSS attempts to spread risks by diversification. The sourcing volume is distributed among a global network of suppliers in order to maintain the greatest possible independence from individual procurement markets and producers. Indeed, the largest single independent supplier only made up about 8% of the total sourcing volume (2013: 7%). As a rule, HUGO BOSS avoids single sourcing and identifies alternative suppliers early on as needed to secure the supply of goods in the event of contingencies. The Group was recently able to use such a scenario to relocate production at short notice when military conflict commenced unexpectedly in Ukraine in 2014. Against the backdrop of the known earthquake risks at the Group's own production site in Turkey, particularly thorough measures have been implemented here. Based on a regular analysis of the potential damage, relocation options have been identified and the risks of financial loss are covered to the extent possible by taking out insurance.

Given the measures in place, management estimates that risks from dependence on individual suppliers or the regional distribution of the volume sourced are unlikely to occur. The financial impact of risks in connection with supply chain dependencies is classed as moderate.

Wage increases in production, which are particularly likely in emerging economies, together with rising prices for raw materials can augment production costs and burden gross profit margin. The HUGO BOSS Group counters this risk with margin-based collection planning, Group-wide measures to improve efficiency in production and sourcing processes, improvements in the use of materials and rigorous implementation of the pricing policy. The lead time in sourcing and production processes provides an opportunity to respond to early warning indicators. Given current developments in emerging economies, it is assumed at present that, although risks from higher production costs are still possible, they would only have a minor negative impact on the expected development of earnings.

The forecasting of sales volumes, planning of production capacity and allocation of raw materials and finished goods as part of the sourcing processes involves planning risks. Deviations from an appropriate allocation can lead to excess allocation resulting in high inventory levels on the one hand. On the other hand, it can also lead to insufficient allocation and the risk of failing to benefit from sales opportunities. In view of the large volumes involved, such misallocations have to be considered likely; depending on their magnitude, the associated financial consequences could have a significant impact on the expected development of earnings. As a consequence, the Group is making great efforts to continually improve forecast quality and shorten lead times to further mitigate this risk. To this end, the electronic integration of suppliers in the Group's organization was driven forward in the past few years, thereby optimizing transparency along the entire supply chain. → **Sourcing and production**

Quality risks

Product quality is decisive for brand image. With this in mind, HUGO BOSS products are subject to quality assurance controls that are standardized throughout the Group and executed at all steps of the manufacturing process. Production sites are regularly inspected by field technicians who verify whether design and product specifications are being strictly complied with. Entry controls, controls at suppliers and quality checks at the Technical Development Center located at the Metzingen headquarters ensure that the strict quality standards of HUGO BOSS are followed and that goods are supplied to customers in immaculate condition and on schedule. Nevertheless, a certain amount of product returns for quality reasons is still possible in the future. However, the impact on the development of earnings is classified as minor due to the recognition of appropriate provisions for returned goods and the regular review of the amounts recognized.
→ Sourcing and production

Logistics risks

Raw materials and finished goods are stored in a small number of selected locations that guarantee the highest quality standards. The central distribution center for hanging garments at the Group's headquarters in Metzingen and the new, highly automated flat-packed goods distribution center south of Stuttgart form the core of the global logistics network. These two strategic storage locations and several regional distribution centers are operated independently by HUGO BOSS. Nevertheless, the Group is exposed to logistics risks, mainly related to the temporary outage or loss of warehouses. To counteract the risk of losing raw materials or finished goods and, in turn, sales due to interruptions in supply, extensive technical and organizational measures for fire prevention and security are implemented; their observance is continually inspected. HUGO BOSS has also taken out insurance to cover the direct financial risk from a loss of goods or equipment in warehouses or the outage of the Group's own production facilities. In view of the measures implemented, the probability that risk-related occurrences will materialize in the logistics processes is currently assessed as unlikely. Associated financial consequences are expected to be minor.

Sales and distribution risks

The increasing significance of the Group's own retail business has led to an increased inventory risk, particularly in the event of unfavorable macroeconomic developments. The challenge of inventory management is to optimize inventories without compromising the ability to rapidly respond to customer orders. To mitigate inventory risks and optimize inventories in general, replenishment activities are coordinated by a competence center. Write-downs for inventory risks from slow-moving goods and the resulting reduction in marketability are reviewed at regular intervals. Sufficient write-downs were recognized as of the reporting date from management's perspective. A downturn in demand or an erroneous assessment of sell-through rates can have a negative impact on stock turnover and possibly result in higher discounts. The countermeasure of granting additional discounts necessarily translates to a reduced margin and is therefore continually monitored by the controlling department. A centrally managed pricing policy, differentiated retail channels and collections adjusted to the respective distribution channel serve to further improve the efficiency of sales floor space. Nevertheless, unexpected developments in the markets that affect both the Group's own retail business and distribution through business partners will still be possible in the future. The Managing Board assesses the resulting cumulative impact on the net assets, financial position and results of operations, mainly through discounts or impairments, as significant.

Attention is paid to ensuring a balanced customer structure to avoid a potential overdependence on individual customers in the wholesale channel. The continued expansion of the Group's own retail activities will further reduce the dependence on the wholesale business. Indicators such as order backlog, sales and supply rates are monitored continually by the controlling department so that suitable actions can be initiated promptly if necessary. In addition, bad debts can be incurred in the wholesale channel. This risk is a function of both macroeconomic developments as well as the individual situation of customers. The HUGO BOSS Group is thus exposed to the negative impact of the insolvency of individual business partners and a concentration of bad debts in the event of a deterioration of economic conditions in individual markets and regions. The Group-wide receivables management based on uniform rules which has been implemented in the past, was intensified further by introducing centrally coordinated measures. These focus on 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 also means that deliveries are only made upon prepayment or by agreeing other terms designed to secure payment, or to the discontinuation of business with customers with an insufficient credit rating. The internal audit function regularly checks compliance with these Group guidelines. As of the reporting date, there was no concentration of default risk 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 minor. This risk will be reduced further in the medium term by the further expansion of the Group's own retail activities and the focus on strategic partnerships with large wholesale companies.
→ Notes to the consolidated financial statements, Note 17

ORGANIZATIONAL RISKS

IT risks

A powerful IT infrastructure uniformly implemented throughout the Group ensures smooth business operations with efficient processes. Various measures are implemented to mitigate the risk of system interruptions, data loss and unauthorized access including multi-level security and anti-virus concepts, the issue of user rights, access control systems, data backups and uninterrupted power supply. HUGO BOSS also works with professional service providers to avert risks. The effectiveness of all ongoing and planned actions is regularly reviewed so that the highly dynamic IT threats are constantly given adequate consideration. Consequently, management assumes that the probability of occurrence with respect to IT risks is unlikely and that any financial effect would be minor.

Personnel risks

Personnel risks mainly stem from recruitment bottlenecks, a shortage of specialists and employee turnover. These risks are limited using a comprehensive range of training measures, performance-based compensation and timely succession planning. In addition, extensive talent and performance management supports the development and career planning of employees in a targeted way. The Group's good reputation with respect to working conditions and employee satisfaction is regularly confirmed by the company's consistent presence in the top positions of various employer rankings. A broad-based employee survey at HUGO BOSS AG in fiscal year 2014 will give important indications for the development of additional initiatives with which HUGO BOSS can be expanded as an employer brand and its attractiveness further enhanced. The Group will thus be able to recruit, inspire and retain highly qualified personnel even in an increasingly competitive environment. Measures launched in the past, such as the promotion of employee health and the support for striking a work-life balance will remain a focal point in future. Due to the successful measures, the Group is well positioned to face the growing international competition for highly qualified specialists and managers. As a result, it estimates the probability of occurrence of the associated risks to be unlikely with a minor impact on the planned development of earnings.
→ Employees

Building risks

All buildings and equipment operated by HUGO BOSS are insured against losses from natural hazards. The residual risks borne by the Group are therefore very largely limited to the agreed deductibles in the event of a loss. Rigorously implemented maintenance strategies ensure smooth operations and, at the same time, maintenance expenses that can be projected. Even minor additional financial expenditure is therefore considered unlikely.

Legal risks

Possible legal risks can arise in the course of worldwide business activities. All significant legal transactions entered into by the HUGO BOSS Group are reviewed and approved by the central legal department to avoid litigation to the extent possible. The central legal department works closely with local lawyers and subsidiaries. Insurance policies with coverage worldwide are used to mitigate liability risk. Sufficient provisions were recognized in the past fiscal year for current litigation costs. A burden from additional legal risks is considered possible, although the impact on the net assets, financial position and results of operations of the Group is considered minor from the perspective of management.

Risks relating to corporate governance and compliance

HUGO BOSS is characterized by a trust-based corporate culture with flat hierarchies. Conscientious conduct and mindsets are encouraged at every organizational level. Despite sophisticated and multi-level review and control mechanisms, access to confidential information and the high level of entrepreneurial leeway allowed generally entail the risk of misuse. In line with good corporate governance, HUGO BOSS has therefore incorporated corresponding rules in the employment agreements concluded with all employees. Individuals with insider knowledge within the meaning of German stock corporations law undertake to comply with the pertinent requirements and are listed in an insider register. In addition, the existing authorization rules are regularly reviewed and enhanced.

All employees of the HUGO BOSS Group are required to comply with the general code of conduct applicable throughout the Group and the supplementary compliance rules applicable in specific areas. As in the past, an extensive training program was implemented on the topic of compliance again in the past fiscal year. Adherence to the compliance rules is monitored centrally and reported to the Managing Board. Because of the characteristics of the HUGO BOSS business model, which consists mainly of the sale of apparel and accessories to end consumers and wholesale partners, the risk of corruption is relatively small. Nevertheless, all companies are regularly subjected to a relevant risk analysis and, if appropriate, detailed audits are conducted at local subsidiaries. Overall, compliance infringements are therefore classified as unlikely; their financial impact would be minor from the perspective of management.

In addition, suppliers are contractually bound to comply with social standards which govern issues such as occupational health and safety, a ban on child labor and payment of fair wages. Oversight takes the form of regular inspections. If infringements of standards and legal requirements are detected, depending on the seriousness of the infringement, the review frequency is increased and a binding plan of measures is agreed, with its implementation being monitored. In serious cases, a cooperation may be discontinued. Failure to comply with the Group's social standards is currently classified as generally possible by the Managing Board as a whole. Unexpected infringements could have a moderate impact on the Group's net assets, financial position and results of operations. **→ Sustainability, → Corporate Governance Report**

Occupational health and safety

As a premium and luxury segment brand with a global presence, HUGO BOSS also maintains the highest standards in occupational health and safety. Beyond compliance with all national legislation and regulations, the Group strives to improve the safety, health and welfare of all employees, customers and other third parties. Every employee bears a responsibility in this area that has to be fulfilled in the operational environment every day. A minor financial impact from the risk of failure to comply with rules cannot be entirely ruled out, even though it is regarded as unlikely. With the aim of continuously enhancing its safety standards and health measures, the HUGO BOSS Group has launched a broad initiative that analyzes established actions and addresses improvement potentials if required.

REPORT ON THE ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM PURSUANT TO SEC. 289 (5) AND 315 (2) NO. 5 HGB

The system of internal control and risk management of the HUGO BOSS Group, as applied to the financial reporting process and the financial statements closing process, aims to accurately compile, present and assess all business transactions in the accounting records. The clear definition of areas of responsibility in the finance department of HUGO BOSS AG and the proper basic and advanced training of employees together with the deployment of adequate software and issue of uniformly applicable guidelines form the basis for a professional, efficient and consistent financial reporting process. Overall, this ensures that assets and liabilities are accurately recognized, measured and disclosed in the consolidated financial statements and that a reliable statement can be made on the net assets, financial position and results of operations as well as the cash flow.

Accounting-related IT systems

Management controls across all divisions depend on accurate and up-to-date information. Business information and reporting systems are therefore of high importance. In this context, the control quality has improved considerably with the Group-wide introduction of SAP AFS, SAP Retail and the BIS system (Business Intelligence Services system). The BIS system contains numerous KPI reports both for the area of finance and controlling and for all operational areas that can be accessed daily.

The extensive monthly management reporting package is one of the most important reporting tools in the area of finance. As part of the standardized Group-wide reporting, all HUGO BOSS companies supply detailed information on the most important line items of the statement of financial position and the income statement together with KPIs and explanations. In this process, the central finance department sets binding deadlines and content for reporting. Automated and standardized reporting formats are in place for many reporting topics. The central finance and controlling departments have content responsibility in this area. Related tasks include central maintenance of master data for the chart of accounts applicable throughout the Group as well as the continuous review of reporting formats with respect to their observance of the latest applicable international financial reporting requirements. In addition, checks are performed at regular intervals to verify whether business transactions at HUGO BOSS are recorded consistently and corrections made if deviations are detected.

In order to prevent unauthorized access to data of relevance to financial reporting and to ensure the integrity, availability and authenticity of data at all times, the SAP Security Policy (a component of the IT security guideline) was implemented Group-wide. This policy also contains requirements for controls designed to ensure a properly functioning finance organization. The IT security of the accounting-related processes is supplemented by system-enabled controls and workflow-based processes that impose the dual-control principle, suitable segregation of functions and approval processes. This includes invoice verification and approval, the sourcing processes or SAP authorization management.

In addition, the user rights required by employees are defined using roles which describe jobs or positions in the Group. Since 2009, HUGO BOSS has been using a special detection software without exceptions to ensure an appropriate segregation of functions in SAP systems. This compares a user's authorization profile with a pre-installed SoD (segregation of duties) model. Group-wide authorization management and the definition of roles are likewise performed in the central IT departments of HUGO BOSS AG in Metzingen.

Organization of financial reporting and accounting-related guidelines

All companies of the HUGO BOSS Group are legally independent entities. Apart from the managing director, who is responsible for business operations in the respective market, the finance manager is responsible for all issues of relevance to the company's financial reporting. The finance manager is also responsible for continuous monitoring of key management indicators, monthly reporting of KPIs to the central finance reporting and the preparation of a three-year plan for the respective market. In addition, the feasibility and viability of new investment projects, particularly in the Group's own retail business, have to be analyzed and also coordinated with the controlling department at HUGO BOSS AG.

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.

The finance managers and the managing directors of the HUGO BOSS companies confirm on a quarterly basis compliance with defined principles and the execution of management controls through what is referred to as a CFO certificate. Some of these controls are integrated in the ERP software deployed throughout the Group. 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.

In addition to providing active support to all divisions and Group companies, the central finance department in Metzingen is responsible for preparing and revising uniform guidelines and instructions for accounting-related processes. This mainly encompasses the preparation and revision of the bad debt allowance policy, an investment guideline, the IAS/IFRS accounting manual and clear intercompany reconciliation requirements.

Questions on specific accounting and valuation matters of relevance to the HUGO BOSS Group are likewise dealt with centrally, where they are analyzed, documented and communicated to the "HUGO BOSS financial community". In addition, a central e-mail address provides staff the option to address open issues in a timely manner to the central finance and controlling department. Significant accounting and valuation matters and changes to relevant IAS/IFRS and Interpretations are discussed with the auditors of the consolidated financial statements in regular meetings held at least on a quarterly basis. Professional development events are organized at regular intervals, while updates on topics of relevance for financial reporting are communicated in an accounting newsletter and posted in the Finance Forum on the Group's intranet. A financial college provides training to junior employees of the finance and controlling departments. Once a year, the finance managers meet at the finance managers' meeting. In addition, the year-end closing training is held in the fourth quarter. Here, finance and controlling employees from the entire Group are informed about current developments in international financial reporting and consensus is created in all matters relevant to the preparation of the annual financial statements.

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. The annual audit plan and its areas of focus are discussed with the Managing Board and Audit Committee. Ad hoc audits can be performed at any time. All audit reports are submitted directly to the CFO and, if necessary, to the Managing Board as a whole. In addition, the internal audit function reports regularly to the Audit Committee.

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 and strategy 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 result (EBIT) – 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 rounds. 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

General economic development

Economic conditions in its sales markets influence the Group's growth prospects. As a company operating in the consumer goods industry, HUGO BOSS can benefit directly from favorable macroeconomic developments and their effect on consumer confidence and customers' buying behavior. Thus, the current low energy costs and moderate inflation and interest rates in many markets could contribute to a further improvement in consumer confidence and have a positive influence on the purchase of fashionable clothing and accessories.

Changes in the market environment

Regulatory and legal changes can potentially have a positive impact on sales and the Company's profitability. A reduction of import duties or tax cuts, for instance, can improve the Company's competitive position compared to local competition.

FINANCIAL OPPORTUNITIES

Favorable exchange rate and interest fluctuations

Favorable exchange rate and interest developments can potentially have a positive impact on the development of the Group's earnings. The HUGO BOSS Group's central treasury department analyzes the market environment continuously and is responsible for identifying and tapping relevant opportunities within the framework financial management principles provide. The department works closely with the Group's global subsidiaries for this purpose.

STRATEGIC AND OPERATIONAL OPPORTUNITIES

Growth in relevant customer segment

Industry experts anticipate continued robust growth in the market segment relevant for the global premium and luxury goods industry. Indeed, some analysts project that by 2025 about 600 million more people will have the purchasing power to buy premium and luxury goods compared to today. Substantial growth is expected in emerging countries in particular, driven by rising income levels and the high share of total disposable income dedicated to consumption compared to other parts of the world. Given the positioning of its brands in the premium and luxury segment, the Group sees itself in an ideal position to profit from these developments in both menswear and womenswear. The rise of the middle class in China and many other emerging economies offers HUGO BOSS particular growth opportunities because the share of working, fashion-conscious women is relatively high here. The Group is working systematically on capturing the identified growth potential with market entry and market penetration strategies tailored to specific countries, through collaboration with business partners and independent subsidiaries. It is also systematically reinforcing its distribution activities in metropolitan areas, particularly in Europe, to create an attractive offering for the tourist segment, an area of growing commercial importance.

Growing 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 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. HUGO BOSS' brand commitment to offer fashionable clothing of impeccable taste and outstanding quality addresses these needs very effectively, so that the Group sees excellent opportunities to benefit from the growing fashion sense of men worldwide.

Changing shopping habits and lifestyles

The rapid technological progress seen in last 15 years, and specifically the quantum leap in the importance of the Internet, has radically changed the shopping habits and lifestyles of consumers. HUGO BOSS sees this change as an opportunity. With the expansion and continuous improvement of its online stores, the Group addresses the expectations of consumers with respect to product presentation, selection and service. It is also driving towards even closer integration of its online offering with bricks-and-mortar retail stores. Processes harmonized across all channels will offer customers a high-quality, uncomplicated information, purchasing and service experience. HUGO BOSS thereby meets the needs of the company's core target group, men and women who are successful in their professional and personal lives and have little spare time. At the same time, the Group uses digital media to strengthen perception of its brands and charge them emotionally.

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, HUGO BOSS can offer a growing number of interested consumers the option of wearing individually modified and tailored products with which they can stand out from the fashion mainstream. The exclusivity of this offering is also conveyed in the shopping experience, with dedicated selling space specially designed for this purpose. Opportunities are also seen in an individual approach to customers with systematic customer relationship management. Stronger ties are forged between customers and HUGO BOSS and customers' brand loyalty increased by targeted phone calls, personalized mailings and individual newsletters.

Brand portfolio allows targeting of differentiated customer segments

HUGO BOSS believes it has an outstanding position in the global apparel market. The Group's brands stand for excellent quality, outstanding workmanship and modern design. With its brands, the Group reaches out to a wide public across the entire spectrum of the premium and luxury fashion market – from the young lifestyle brand BOSS Orange and the trendy HUGO brand to the modern, sophisticated BOSS brand in which the Company's luxury competence has been successfully concentrated. The different brand worlds are also clearly distinguished from one another by increasing vertical differentiation in pricing and satisfy the demands of different target groups. The Group therefore sees itself as well positioned to make attractive offers to its customers in the premium and luxury segment and through all stages of their lives, securing even greater loyalty to its brands and tapping opportunities in the form of additional sales potential.

Greater market penetration in womenswear segment

HUGO BOSS is the market leader in the premium menswear market in many regions. However, its penetration in the womenswear segment is significantly lower in most markets. As a result, the Group sees substantial potential in this segment and is working intensively to successfully implement a strategy designed to grow its market share. The appointment of Jason Wu as Artistic Director has strengthened the Group's competence in this area significantly. In addition, brand communication has been increased to reinforce the perception of BOSS Womenswear as a fashionable, high-quality brand. Its continuous presence at the New York Fashion Week also highlights the high aspirations set by the company for this area.

Growing retail expertise

In recent years, HUGO BOSS has increasingly realigned its distribution activities towards end consumers and significantly increased the share of sales generated with its own retail business. With the expansion of its own store network, the Company is tapping additional sales potential, both in established and emerging markets. In addition, HUGO BOSS is increasingly taking the opportunity of directly operating mono-brand shop-in-shops at business partners. Complete control over how the point of sale is designed not only allows improvements in the quality of presentation, but also makes it possible to offer first-class advice and service, enhancing the purchasing experience and the perceived quality of the brand. At the same time, the Company is gaining insights into its customers' needs first hand. In view of the growing importance of this distribution channel, the Group is working hard to systematically increase its retail competence.

Improvements in operational processes

HUGO BOSS is addressing the growing importance of its own retail business by optimizing critical operational processes. Using IT-supported selling space, assortment and volume planning, the Group will be in a position in future to align itself even better with the needs of end consumers and respond to changes in the market even more swiftly than in the past. In addition, the coming years will focus on the systems-based integration and optimization of business-to-consumer processes to make merchandise flows to end consumers faster, more flexible and more efficient across all sales channels. The Group is also working intensively on increasing the use of virtualization technology in specific phases of the product development process to generate time and cost advantages. With these continuous process optimization efforts, HUGO BOSS is laying the foundations to enable it to tap future opportunities and achieve positive impact on sales and earnings.

ORGANIZATIONAL OPPORTUNITIES

Sustainable business model

The HUGO BOSS name has always stood for uncompromising quality and excellent finish. The Company therefore sets the highest standards not only for its products but for all business activities and processes. It is the Group's endeavor to pursue sustainability from the point of view of economic, ecological and social aspects. It is convinced that it can enhance its enterprise value with this approach. All departments and functions along the entire value chain have committed to corporate social responsibility and the pursuit of clearly defined goals. This will produce opportunities not only with regard to direct increases in sales and reductions in costs, but also in terms of the Company's and its brands' reputation generally.

SUBSEQUENT EVENTS AND OUTLOOK

HUGO BOSS expects to continue its successful growth trajectory in 2015. Implementation of the Group's strategy and the initiatives derived from it will raise sales and operating profit to record heights for the Company. The Group's sales should climb thanks to growth in all regions. Its own retail business is expected to continue driving this growth. A strong focus on productivity improvements in the Group's own retail business, gross margin expansion and strict management of operating overhead cost will contribute to the planned increase in earnings.

SUBSEQUENT EVENTS

HUGO BOSS takes over last franchise operations in China

HUGO BOSS will take over the last stores in the Chinese market that are still operated under the franchise model. The agreement reached with the partner Wenzhou Noble on January 26, 2015 provides for control over all 21 BOSS stores to be transferred to HUGO BOSS on April 1, 2015. This will enable the Group to implement its strategy, which aims at enhancing the brand image and upgrading the retail network, in an even more targeted manner and consistently across all channels.

No other events requiring disclosure

Between the end of fiscal year 2014 and the release for publication of this report on February 19, 2015, there were no further 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.

Changes in shareholder structure as a result of share placements

Finally, HUGO BOSS AG's shareholder structure changed on February 10, 2015 following two share placements by Red & Black Lux S.à r.l., an entity in which Permira Holdings Limited holds a majority interest. Prior to the placements, this entity had held 22.4 million shares, equivalent to 32% of the share capital, and was thus the largest single shareholder. Following the placement of 9 million shares with institutional investors and the sale of a further package of just under 5 million shares to PFC S.r.l. and Zignago Holding S.p.a., which are owned by the Italian Marzotto family, it now holds just under 8.5 million shares, equivalent to 12% of the share capital.

OUTLOOK

Forward-looking statements

The following report presents the forecasts by management of HUGO BOSS with respect to the future course of business and describes the expected development of significant macroeconomic and sector-specific conditions. It reflects management's understanding when the report was being prepared. This takes into account that actual developments can deviate favorably or adversely from these forecasts due to the emergence of risks and opportunities as described in the report on risks and opportunities. The HUGO BOSS Group assumes no obligation to update the information contained in this report beyond the publication requirements prescribed by law.

External factors influence development of business

Economic and sector-specific developments influence the development of operations and the financial position of HUGO BOSS. It is therefore imperative for the Group to detect such trends early in order to respond quickly with suitable measures.

Only slight upturn in economic growth expected

The IMF projects the growth of the **global economy** to accelerate only marginally to 3.5% in 2015, with the economies of both the industrialized nations and the emerging markets expected to pick up. The upswing in the U.S. could prove to be the driving force for global economic growth. The sharp decline in the oil price as well as receding fiscal strains in many of the large economies together with the still accommodative monetary policy should support the prospects for growth. However, the absence of structural reforms, muted capital and consumer spending and sustained geopolitical tensions are placing a damper on global economic expansion. As well as this, the persistently high levels of debt and historically low inflation rates in Europe could also pose a threat to growth.

European economy on a course of moderate recovery

According to the IMF, **Europe** will grow by 1.2% in 2015, spurred by easing government austerity measures and sustained low interest rates. Thus, the ECB will be implementing substantial quantitative easing measures from the first quarter. Moreover, the recent decline in oil prices and the depreciation of the euro should have a positive effect on the region's economy. In addition to this, the EU Commission as well as various individual countries have adopted economic stimulus programs. On the other hand, faltering reforms, -to pare back bureaucracy and to render job markets more flexible, for example – the continued heavy public-sector debt of many countries in this region, historically low inflation rates and, related to this, fears of deflation as well as persistent geopolitical strain harbor risks for the economy. Numerous parliamentary elections as well as the political situation in Greece could also exert pressure. For Germany, the IMF expects expansion of 1.3% in 2015. Assuming that economic reforms are implemented, growth in France should pick up as the year progresses, coming to a total of 0.9%. Economic growth in Great Britain is expected to remain largely unchanged at 2.7%.

The U.S. economy driving global economic growth

The economic upswing in the **U.S.** should also continue in 2015. According to the IMF, full-year growth should accelerate to 3.6% in 2015. Robust domestic demand, a further increase in capital spending in the corporate sector, favorable conditions in the job and real estate markets as well as increased government spending should fuel economic growth. Against the backdrop of stable economic conditions, the U.S. Fed is likely to raise its interest rates in the course of the year. However, the appreciation of the U.S. dollar and the faltering recovery of other markets outside the U.S. could place a damper on the export sector. The outlook for the **Latin American economy** is being dragged down by the decline in oil prices and other commodities. For this reason, the IMF expects growth of 1.3% in 2015, i.e. largely unchanged over the previous year. That said, the region should benefit from strengthening demand from the United States and progress on implementing economic reforms.

Stable economic growth in Asia

According to the IMF, the **Asian economy** (excluding Japan) will grow by 6.4% in 2015, and, hence, more slowly than in the previous year. Slipping momentum in China and persistently muted demand in Europe is expected to exert a drag on the economy. On the other hand, the region will benefit from rising demand in the United States. What is more, many of the countries in this region exhibit a solid domestic economy and are reaping the benefits of the fiscal, monetary and structural reforms of the last few years. The IMF calculates that Chinese growth will slow to 6.8% as a result of lower expansion in trade and manufacturing as well as the retarding effects of previous excess investment in the real estate sector. In Japan, economic growth is expected to accelerate to 0.6% in 2015, with expansionary monetary policy, declining oil prices and the weak yen likely to contribute to this. In Australia, growth rates should accelerate slightly over the previous year thanks to intact consumer spending and a recovery in the export sector among other things.

Continued industry growth in 2015

The **premium and luxury goods industry** is expected to continue growing in 2015. According to Altagamma and Bain & Company, growth in currency-adjusted terms will be in the mid-single digit percentage range and, hence, in line with the previous year. Improvements in overall economic conditions, low energy prices and increasing wages could provide impetus for growth as the year progresses. It is anticipated that, as in the previous year, companies operating in this sector will primarily focus on their own retail activities. The number of new stores opened will probably continue decreasing in comparison to prior years. Instead, many market participants will be investing in upgrading existing stores to improve the shopping experience and achieve higher productivity levels. Increasing importance will be placed on online distribution channels and integrating them into brick-and-mortar retail operations. On the other hand, department stores and specialist multi-brand retailers, which are often owner-operated, will remain under pressure. Many retailers are feeling the effects of declining footfall and rising rents. Accordingly, market consolidation is likely to continue in this channel.

In 2015, all regions are expected to contribute to growth in the industry. In **Europe** the sector should benefit from a gradual recovery in local demand and particularly also from growth in business with tourists, particularly from Asia. The gradual recovery in economic growth is likely to primarily have a positive effect in the Southern European countries of importance for the luxury goods sector. That said, muted consumer confidence in many markets and declining footfall in the retail sector will continue to exert pressure. In Eastern Europe, the sector is likely to suffer from the political tensions emanating from the Ukraine conflict. This will probably also cause the number of Russian tourists in Western Europe to decline, thus exerting pressure on demand in these markets. In the **Americas**, the luxury goods sector should remain robust in 2015, benefiting from the general recovery in the economy, the resultant high consumer confidence and rising local consumer spending in the United States. Mounting demand from Asian tourists will also spur business in the Americas, although the strong U.S. dollar could exert a drag on this trend. By contrast, growth is likely to be somewhat weaker in Latin America due to still muted consumer confidence. Experts project further expansion for the sector in **Asia**. However, low growth at best is anticipated for China.

The Chinese government's anti-corruption campaign, which is having an adverse effect on the social acceptance of premium and luxury brands, the slowdown in economic growth and sharply falling real estate prices will have a negative impact here. Supported by the appreciation of the local currency, Chinese customers will buy an increasing proportion of luxury goods abroad. In Hong Kong as well sector growth will likely remain muted. The Japanese market should continue to benefit from healthy demand on the part of domestic consumers alongside purchases by tourists.

Solid increase in Group sales expected

HUGO BOSS anticipates sales to increase solidly in 2015, despite the challenging economic and industry situation in many markets. In this context, the Group assumes that growth will exceed the rate of expansion in the global economy and the luxury goods industry.

Sales growth forecast in all regions

In 2015, all regions should contribute to the forecast solid increase in overall Group sales. In this context, the Group assumes that the growth rates in the individual regions will not differ significantly from one another. Growth is expected in all important European markets and will be underpinned by increasing focus on own retail. The Americas should see growth underpinned by gains not only in the U.S. market but also substantial improvement in Central and South America. The Group also plans to increase sales in Asia. In the Chinese market in particular, HUGO BOSS is working to implement various measures to accelerate growth over the prior year. Sales in the license segment should similarly see growth.

Group's own retail business expected to grow at an above-average rate

Sales in the Group's own retail business are likely to grow at an above-average rate in 2015 in comparison to the Group as a whole. Alongside growth in its own retail stores, online in particular will contribute to this.

Expansion of store network through new openings and takeovers

The Group plans to expand its store network in 2015. Based on an analysis of its market penetration, the Group sees opportunities for profitable expansion in all regions. Apart from opening freestanding stores, HUGO BOSS intends to further grow its shop-in-shop portfolio both by opening new shop-in-shops at retail partners and by assuming the management of existing floor space in department stores. The Group will also take over stores from franchise partners. For example, an agreement has been reached with the existing franchise partner in South Korea to take over all 17 franchise stores in the market from March 1, 2015. However, the Group also intends to close points of sale as part of its efforts to enhance the quality of its store portfolio particularly in Asia. In many cases, this development is associated with the relocation and merging of existing stores to form higher-quality and larger sales points.

Focus on boosting selling-space productivity

In addition to the expansion of its own store network and takeovers, the focus is on increasing sales productivity in the Group's own retail business. Important levers in this respect are the expansion of brand communication activities, intensified customer relationship management and the implementation of various measures for improving retail management.

Takeover and consolidation effects impact sales in the wholesale segment

Sales in the wholesale business are expected to develop weaker in comparison to the Group as a whole. This is primarily due to the takeovers of shop-in-shops from retail partners and from franchise stores. After the takeover, the sales generated at these sales points are accounted for as retail instead of wholesale. The ongoing consolidation of the customer portfolio and the associated decline in business with smaller business partners will also have a negative impact on sales through this distribution channel. On the other hand, HUGO BOSS is planning to further grow its business with major department stores above all. This outlook is based on trends in order intake, feedback from business partners on the new collections and expectations as to the replenishment business.

Gross profit margin is expected to increase further

HUGO BOSS expects a further improvement in its gross profit margin in 2015. While efficiency gains in production and sourcing activities are likely to be offset by rising labor costs, the growing share of sales generated by the Group's own retail business will support this increase. The gross profit margin generated through this distribution channel is higher than in wholesale.

Operating expenses rise primarily on account of retail expansion

The Group's operating expenses will increase primarily on account of the ongoing expansion of its own retail business. HUGO BOSS will also further expand its brand communication activities in order to strengthen customer demand. Marketing expenses will accordingly increase at least as strong as Group revenues. The share of research and development expenses in Group sales should remain more or less stable. Efficiency gains in connection with the flat-packed goods distribution center, which went into operation in 2014, will have a positive impact on logistics costs. Finally, the Group will cap the increase in administration expenses by means of stringent cost management.

Solid earnings growth expected

The anticipated growth in sales and the gross profit margin will support a solid increase in operating profit (EBITDA before special items). The Group's net income and earnings per share are also expected to improve. Alongside the increase in EBITDA, another contribution to this will come from a decrease in net financial expenses on account of a decline in the average level of liabilities. However, depreciation and amortization expense will rise in comparison to the previous year.

Trade net working capital expected to decrease relative to sales

Strict management of trade net working capital continues to be given high priority in order to support improvements to operating cash flow. In 2015, the Group is striving to reduce trade net working capital as a percentage of sales. Further potential for improvement has specifically been identified in a reduction of days inventories outstanding. Optimized merchandise flow planning and increased replenishment flexibility and speed thanks to the new distribution center will help to reduce days inventories outstanding particularly in the Group's own retail business.

Capital expenditure focuses on Group's own retail business

Expanding the Group's own retail business and the renovation of existing stores and shops will be the focal point of the Group's capital expenditure in 2015. Furthermore, the Group plans to reinforce its operating infrastructure primarily in the areas of IT and logistics. Special consideration is being given to the implementation of measures for the introduction of omnichannel services. Accordingly, capital expenditure will come to between EUR 200 million and EUR 220 million in 2015.

Free cash flow development supports achievement of positive net financial position

The Group anticipates a significantly positive free cash flow in 2015 primarily on account of the forecast earnings growth, strict management of trade net working capital and value-enhancing capital expenditure. The free cash flow should exceed the dividend payment. Surplus funds are to be retained as a liquidity reserve. The Group is correspondingly working on the assumption that cash and cash equivalents will exceed gross financial liabilities as of year-end. Particularly against the backdrop of the Group's strong internal financing power and the long-term financing in the form of a syndicated loan taken out at favorable conditions, the Group is not planning any material financing activities in 2015.

Dividend per share on the rise

HUGO BOSS pursues a profit-based distribution policy that allows the shareholders to participate appropriately in the Group's earnings development. The policy is to distribute to shareholders between 60% and 80% of consolidated net income on a regular basis. On account of the rise in profits in the past fiscal year, the Company's strong financial position and its financial outlook for 2015, the Managing Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting to be held on May 12, 2015 a dividend of EUR 3.62 per share for fiscal year 2014 (2013: EUR 3.34). The proposal is equivalent to a payout ratio of 75% of the consolidated net income attributable to the shareholders of the parent company in 2014 (2013: 70%). Assuming that the shareholders approve the proposal, the dividend will be paid out on the day after the Annual Shareholders' Meeting, on May 13, 2015. On the basis of the number of shares outstanding at year-end, the amount distributed will come to EUR 250 million (2013: EUR 231 million).

Further sales and earnings improvements in 2016 and beyond

The Group intends to generate further increases in sales and earnings in 2016 and beyond. Its strategy is oriented towards organic growth of the existing brand portfolio. It aims to grow Group sales at a high single-digit percentage rate annually in the period until 2020. More than 75% of sales are expected to be generated by the Group's own retail business in 2020. HUGO BOSS has also set itself the objective of earning an adjusted operating margin (EBITDA before special items in relation to sales) of 25% in the same period.

Adverse macroeconomic and sector-specific developments in key sales markets, rising costs in sourcing processes or a loss of appeal of the Group's brands could jeopardize the ability to meet these targets. 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. → **Risk Report**

03|47 TARGET ACHIEVEMENT AND OUTLOOK

	Targets 2014	**Result 2014**	Outlook 2015
Group sales[1]	High single-digit increase	+6%	Solid increase
Sales by region[1]	Growth in all regions		Solid growth in all regions
Europe		+7%	
Americas		+4%	
Asia/Pacific		+7%	
Sales by distribution channel[1]			
Group's own retail business	Double-digit growth	+12%	Above-average development relative to overall Group
Wholesale	Roughly stable development	(1)%	Below-average development relative to overall Group
Licenses	Growth	0%	Growth
EBITDA before special items	High single-digit increase	+5%	Solid increase
Trade net working capital	Roughly stable development relative to sales	Increase by 120 basis points to 19.1% of sales	Decline relative to sales
Capital expenditure	EUR 110 million to EUR 130 million	EUR 135 million	EUR 200 million to EUR 220 million
Group's own retail stores	Opening of about 50 new stores	Opening of 66 new stores, total number of stores rises by 31 on a net basis to 1,041	Continued expansion
Free cash flow	Ongoing strong development	Free cash flow increases by EUR 38 million to EUR 268 million	Generation of strongly positive free cash flow
Net financial liabilities	Attainment of positive net financial position at year-end	Net debt reduction by 37% to EUR 36 million	Attainment of positive net financial position at year-end

[1] On a currency-adjusted basis.

HUGO BOSS AG (DISCLOSURES PURSUANT TO HGB)

By contrast to the consolidated financial statements, the annual financial statements of HUGO BOSS AG are not prepared in accordance with International Financial Reporting Standards (IFRS), but rather in accordance with the provisions of HGB ["Handelsgesetzbuch": German Commercial Code].

BUSINESS ACTIVITY AND ECONOMIC ENVIRONMENT

As the parent company, HUGO BOSS AG is responsible for a number of functions within the HUGO BOSS Group. On the one hand, HUGO BOSS AG is responsible for all distribution channels in the German market and, through its permanent establishment, in the Austrian market. Responsibility for the collection theme and development for the main product groups across all brands is located in the Group's headquarters in Metzingen. Other tasks bundled at the Group's headquarters include management of the Group's own retail business, procurement, logistics, IT, personnel management, financial management including company financing as well as risk management. In addition, HUGO BOSS AG is responsible for internal communication and, in particular, for external communication including investor relations.

As part of its overarching Group functions, the Group's parent company, as represented by the members of the Managing Board, is responsible for the Group's alignment and thus also for setting the corporate strategy.

HUGO BOSS AG's results of operations are influenced by its operating business as well as management of the central functions in particular. The allocation of costs for services rendered to Group companies together with the investment result resulting from the holding function of HUGO BOSS AG are the main line items in this context.

HUGO BOSS AG's sales 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.

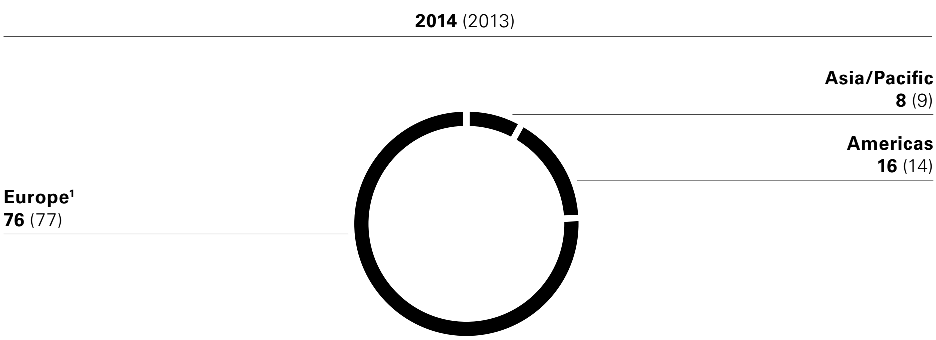
RESULTS OF OPERATIONS

SALES DEVELOPMENT

Sales of HUGO BOSS AG rise by 8%

In fiscal year 2014 the **sales** of HUGO BOSS AG increased by 8% to EUR 1.155 million (2013: EUR 1.067 million). This performance was aided by higher sales both in the Group's own retail business and in that with wholesale partners. The positive development of sales generated by the subsidiaries in the Group's own retail business also contributed to the rise in sales.

03|48 REGIONAL SALES PERFORMANCE (in %)



[1] Including Middle East and Africa.

In **Europe** (including the Middle East and Africa), sales with subsidiaries of HUGO BOSS AG increased in fiscal year 2014 by 3% to EUR 397 million (2013: EUR 387 million). Sales with third parties increased by 9% to EUR 474 million in the same period (2013: EUR 436 million). Sales outside Germany and Austria were mainly generated with subsidiaries.

Sales of HUGO BOSS AG with subsidiaries in the **Americas** increased by 30% to EUR 189 million (2013: EUR 145 million). In the **Asia/Pacific** region, on the other hand, HUGO BOSS AG experienced a decrease in sales from 5% to EUR 95 million (2013: EUR 100 million).

Sales of the **BOSS brand**, including the brand lines BOSS Orange and BOSS Green, rose by 8% to EUR 1.019 million (2013: EUR 940 million). The **HUGO brand** in fiscal year 2014 saw sales increase from 7% to EUR 136 million (2013: EUR 127 million).

DEVELOPMENT OF EARNINGS

03|49 INCOME STATEMENT HUGO BOSS AG (in EUR million)

	2014	**In % of sales**	2013	In % of sales	Change in %
Sales	**1,155.0**	**100.0**	**1,067.3**	**100.0**	**8**
Cost of sales	(696.0)	(60.3)	(653.9)	(61.3)	(6)
Gross profit	**459.0**	**39.7**	**413.4**	**38.7**	**11**
Distribution Costs	(327.0)	(28.3)	(298.9)	(28.0)	(9)
General administrative expenses	(95.4)	(8.3)	(101.3)	(9.5)	6
Other operating income	155.9	13.5	131.8	12.3	18
Other operating expenses	(66.2)	(5.7)	(59.1)	(5.5)	(12)
Operating profit	**126.3**	**10.9**	**85.8**	**8.0**	**47**
Income from investments in affiliated companies	228.3	19.8	196.6	18.4	16
Net interest income/expenses	(7.2)	(0.6)	(10.6)	(1.0)	32
Income from ordinary activities	**347.4**	**30.1**	**271.8**	**25.5**	**28**
Taxes on income and other taxes	(55.7)	(4.8)	(61.1)	(5.7)	9
Net income	**291.7**	**25.3**	**210.8**	**19.8**	**38**
Transfer to (–)/from (+) other revenue reserves	(41.5)	(3.6)	20.1	1.9	>(100)
Accumulated income previous year	4.6	0.4	4.3	0.4	7
Unappropriated income	**254.8**	**22.1**	**235.1**	**22.0**	**8**

Gross profit margin increases by 100 basis points

At EUR 459 million; the **gross profit** was up 11% on the prior-year level (2013: EUR 413 million). The gross profit margin hence increased from 38,7% in the prior year to 39,7%. In addition to the further increase in the share of sales generated by the Group's own retail business, efficiency gains in the production and sourcing activities aided this development.

Distribution costs rose in the past fiscal year by 9% to EUR 327 million (2013: EUR 299 million). This development mainly relates to the continued expansion of the Group's own retail business. Increased sales in this distribution channel led in particular to increased expenses in connection with rental agreements linked to sales performance. Furthermore, intensified brand communication activities resulted in an increase in marketing expenses in comparison to the previous year.

General administrative expenses decreased by 6% to EUR 95 million (2013: EUR 101 million) and mainly comprised personnel expenses, rent for premises, lease expenses, amortization and depreciation as well as various IT costs. The decrease mainly stems from the lower amount of amortization charged on enterprise software.

Other operating expenses mainly comprise research and development costs, bad debt allowances and exchange rate effects and increased by 12% year on year to EUR 66 million (2013: EUR 59 million). The recalculation of additional intra-Group recharged expenses resulted in expenses relating to other periods of EUR 6 million (2013: EUR 0 million).

In the past fiscal year **other operating income** amounted to EUR 156 million (2013: EUR 132 million) and mainly breaks down into cost allocations and services rendered to affiliated companies. The recalculation of additional intra-Group recharged expenses resulted in income relating to other periods of EUR 14 million (2013: EUR 0 million).

Operating profit considerably up on prior year

Operating profit rose in particular thanks to the positive development of gross profit by 47% to EUR 126 million in comparison to the previous year (2013: EUR 86 million).

At EUR 228 million, **income from investments in affiliated companies** was up 16% year on year (2013: EUR 197 million). Income from investments in affiliated companies of EUR 89 million (2013: EUR 95 million) mainly concerns the net income of HUGO BOSS Trade Mark Management GmbH & Co. KG, which is transferred to and drawn from the loan account of HUGO BOSS AG as limited partner in accordance with the partnership agreement. Income from profit and loss transfer agreements pertains to income from profit and loss transfer agreements in place with subsidiaries of HUGO BOSS AG. In fiscal year 2014, this amounted to EUR 140 million (2013: EUR 102 million) and resulted from the transfer of profit from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In fiscal year 2014 this company received dividend income from HUGO BOSS Holding Netherlands B.V. In the past fiscal year, expenses from loss absorption were immaterial (2013: EUR 1 million). The expense for the prior year related to the loss absorbed by HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen.

The **interest result** as a net expense (other interest and similar income less interest and similar expenses) decreased in fiscal year 2014 to EUR 7 million (2013: EUR 11 million). This change primarily reflects the lower level of borrowing and the repayment of financial liabilities due to HUGO BOSS International B.V.

Income before taxes in fiscal year 2014 came to EUR 347 million (2013: EUR 272 million). The increase was the result of the higher operating profit as well as higher income from profit and loss transfer agreements.

At 16%, the **effective tax rate** was well below the prior-year level (2013: 22%). The dividend income contained in profit transfers and income from a foreign "joint venture" had a positive effect on the effective tax rate. By contrast, expenses from income taxes relating to other periods of EUR 2 million (2013: EUR 16 million) increased the effective tax rate. As in the previous year, the income taxes relating to other periods mainly stem from the recognition of a provision for risks in connection with the tax field audit for the years 2007 - 2011 including subsequent effects.

Net income rises by 38%

At EUR 292 million, the **net income** for fiscal year 2014 was thus up 38% on the prior-year level (2013: EUR 211 million).

NET ASSETS

Property, plant and equipment increased slightly year on year to EUR 675 million (December 31, 2013: EUR 669 million). Both investments in software and user rights in connection with the continuous enhancement of the ERP system and those in the expansion and modernization of the retail network in Germany and Austria contributed to this.

Slight decrease in inventories

Inventories fell at the end of the fiscal year 2014 by 1% to EUR 169 million (December 31, 2013: EUR 170 million). Strict inventory management helped reduce the stock of finished goods in connection with the worldwide expansion of the Group's own retail business by 3% year on year. Over the same period, raw materials and supplies increased by 3%.

Increase in trade receivables

Trade receivables with external wholesale partners increased by 28% year on year to EUR 32 million (December 31, 2013: EUR 25 million). This development was mainly driven by the higher share than last year of deliveries in the wholesale business at the end of the reporting period. Days sales outstanding deteriorated slightly compared to the prior year.

Receivables from affiliated companies saw an increase to EUR 94 million (December 31, 2013: EUR 65 million). This development is essentially attributable to the larger volume of receivables due from affiliated companies.

Other assets, at EUR 26 million, were down 8% year on year (December 31, 2013: EUR 29 million). These mainly pertain to bonus receivables from suppliers, credit card receivables as well as income tax and VAT receivables. The decrease on the previous year is mainly attributable to lower income tax receivables.

Cash and cash equivalents, as the sum of cash on hand and bank balances, increased in comparison to December 31, 2013 by EUR 2 million to EUR 5 million (December 31, 2013: EUR 3 million).

Liabilities down slightly year on year

On the equity and liabilities side, **liabilities** stood at EUR 351 million as of the reporting date, meaning they were 1% below the prior-year level (December 31, 2013: EUR 355 million). This includes trade payables that as of the reporting date were, at EUR 93 million up 7% year on year, driven by quantity effects (December 31, 2013: EUR 88 million).

On aggregate, **provisions** decreased by 13% to EUR 96 million as of the reporting date (December 31, 2013: EUR 110 million). The decrease is mainly due to a voluntary prepayment in connection with the tax field audit for the assessment period 2007 - 2011. Lower personnel provisions also led to a decrease in the item.

Trade net working capital unchanged compared to prior year

Trade net working capital is HUGO BOSS AG's performance indicator for measuring the efficient use of capital. The only components factored into the calculation of this indicator are inventories, trade receivables and trade payables. As of the end of the reporting date, the trade net working capital was, at EUR 107 million, at the prior-year level (December 31, 2013: EUR 107 million). The increase in trade receivables was counterbalanced by an increase in trade payables.

FINANCIAL POSITION

03|50 STATEMENT OF CASH FLOW HUGO BOSS AG (in EUR million)

	2014	2013
Cash flow from operating activities	302	240
Cash flow from investing activities	(62)	(73)
Cash flow from financing activities	(238)	(170)
Change in cash and cash equivalents	**2**	**(4)**
Cash and cash equivalents at the beginning of the period	3	7
Cash and cash equivalents at the end of the period	5	3

At EUR 302 million, the **cash outflow from operating activities** was up 26% on the prior-year figure (2013: EUR 240 million). The increase is mainly attributable to the EUR 81 million rise in net income combined with decreased cash outflow from trade net working capital.

The **cash outflow from investing activities** decreased in fiscal year 2014 by 15% to EUR 62 million (2013: EUR 73 million). This decrease is on the one hand attributable to a smaller amount of receivables from affiliated companies compared to the prior year. On the other hand, investment in property, plant and equipment and intangible assets was, at EUR 34 million, below the prior-year level (2013: EUR 39 million).

Substantial increase in free cash flow

Free cash flow, measured as the cash inflow from ongoing operating activities and the cash outflow from investing activities, increased in fiscal year 2014 by EUR 72 million to EUR 239 million (2013: EUR 167 million).

As of December 31, 2014 the **cash outflow from financing activities** totaled EUR 238 million (2013: EUR 170 million). Alongside the payment of the dividend of EUR 231 million a cash outflow from liabilities due to affiliated companies of EUR 6 million characterized the development (2013: cash inflow of EUR 45 million).

Cash and cash equivalents, as the sum of cash on hand and bank balances, increased in comparison to December 31, 2013 by EUR 2 million to EUR 5 million (December 31, 2013: EUR 3 million).

CAPITAL EXPENDITURE

HUGO BOSS AG's total capital expenditure was EUR 34 million

In the past fiscal year, the investment in property, plant and equipment and intangible assets totaled EUR 34 million and was thus 13% below the prior-year level (2013: EUR 39 million).

Intangible assets mainly comprise software. The addition of EUR 21 million (2013: EUR 13 million) was mainly attributable to investments in software and user rights in connection with the continuous enhancement of the ERP system, comprising the industry solution SAP AFS and SAP Retail for the Group's own retail business.

The additions to **property, plant and equipment** of EUR 13 million (2013: EUR 26 million) partly related to additions of land and buildings in Metzingen. In addition, the opening of two new retail stores in Berlin and Dortmund, together with the takeover of a shop-in-shop in Münster that had previously been operated by wholesale partners in Germany, led to additional capital expenditure.

Existing obligations from investment projects that have commenced are reported in the annual financial statements of HUGO BOSS AG under "Other financial obligations" and as of December 31, 2014 amount to EUR 1 million (December 31, 2013: EUR 2 million).

RISKS AND OPPORTUNITIES

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. HUGO BOSS AG is generally exposed to the risks and benefits from the opportunities of its subsidiaries and investees to the extent of its share in equity in each case. → **Report on risks and opportunities**

As the parent company, HUGO BOSS AG is integrated in the Group-wide risk management system of the HUGO BOSS Group. The description required under Sec. 289 (5) HGB ["Handelsgesetzbuch": German Commercial Code] of the accounting-related internal control system and risk management system for HUGO BOSS AG is presented in the HUGO BOSS Group's risk report.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). If necessary – for instance, for purposes relating to the separate financial statements pursuant to HGB or for tax purposes – reconciliations are made to the respective requirements on account level. This means that specific information contained in the IFRS consolidated financial statements also constitutes a significant basis for the separate financial statements of HUGO BOSS AG. At HUGO BOSS AG, the conceptual framework referred to in the Risk Report section is supplemented by a mandatory HGB accounting manual and HGB chart of accounts. → **Report on risks and opportunities, Risk report**

OUTLOOK

Due to its integration with the Group's companies and its importance within the Group, the expectations for HUGO BOSS AG are reflected in the Group's outlook. It is expected that the statements made for the HUGO BOSS Group with respect to the development of markets, sales development and development of the result of operations will essentially be reflected in the development of sales and operating profit of HUGO BOSS AG. → **Subsequent events and outlook, Outlook**

OVERALL ASSESSMENT OF THE MANAGING BOARD ON THE ECONOMIC SITUATION OF THE GROUP

HUGO BOSS looks back at a solid development of its business in 2014. However, the general economic and sector-specific conditions were more challenging than originally expected, particularly in the second half of the year. The Group's sales and earnings growth was therefore slightly lower than the expectations presented in the Annual Report 2013.

Sales growth outperformed both the development of the economy as whole and the growth of the global premium and luxury goods industry. As forecast, all regions made a contribution to this development after currency adjustments. An analysis by distribution channel shows that sales in the Group's own retail business exhibited double-digit growth, in line with the original forecast. The wholesale business declined slightly and was at the lower end of the expectation range.

The operating result (EBITDA before special items) increased by 5%. This development was supported by a better-than-anticipated development of the gross profit margin. However, the expansion of the Group's own retail business and intensified marketing activities in particular had an adverse impact on the development of costs, meaning that earnings growth was lower than sales growth. → **Group earnings development**

Despite extensive investment in the Company's long-term growth and a higher-than-expected increase in trade net working capital, the development of free cash flow was better than ever before in the history of the Company. Net financial liabilities were almost fully depleted. → **Financial position**

The Group is thus in an exceedingly healthy economic condition that offers a good basis for further growth. Against this backdrop, HUGO BOSS expects that consolidated sales and earnings will continue to grow in 2015 and anticipates a further positive development of the Company overall also beyond the current year. → **Subsequent Events and Outlook**

Metzingen, February 19, 2015

HUGO BOSS AG
The Managing Board

Claus-Dietrich Lahrs
Christoph Auhagen
Mark Langer

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CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2014

04|01 CONSOLIDATED INCOME STATEMENT (in EUR thousand)

	Notes	**2014**	2013
Sales	(1)	**2,571,616**	**2,432,133**
Cost of sales	(2)	(872,523)	(852,583)
Gross profit		**1,699,093**	**1,579,550**
In % of sales		66.1	64.9
Selling and distribution expenses	(3)	(994,861)	(891,588)
Administration expenses	(4)	(236,204)	(228,518)
Other operating income and expenses	(5)	(19,307)	(3,291)
Operating result (EBIT)		**448,721**	**456,153**
Net interest income/expenses		**(4,518)**	**(14,428)**
Other interest and similar income		1,627	1,994
Interest and similar expenses		(6,145)	(16,422)
Other financial items		**(7,055)**	**(8,259)**
Financial result	(6)	**(11,573)**	**(22,687)**
Earnings before taxes		**437,148**	**433,466**
Income taxes	(7)	(102,668)	(100,107)
Net income		**334,480**	**333,359**
Attributable to:			
Equity holders of the parent company		333,262	328,965
Non-controlling interests	(8)	1,218	4,394
Earnings per share (EUR)[1]	(9)	**4.83**	**4.77**
Dividend per share (EUR)	(24)	**3.62**[2]	**3.34**

[1] Basic and diluted earnings per share.
[2] 2014: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2014

04|02 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in EUR thousand)

	2014	2013
Net income	**334,480**	**333,359**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	(11,632)	651
Items to be reclassified subsequently to profit or loss		
Currency differences	31,634	(11,921)
Gains/losses from cash flow hedges	(1,587)	4,460
Other comprehensive income, net of tax	**18,415**	**(6,810)**
Total comprehensive income	**352,895**	**326,549**
Attributable to:		
Equity holders of the parent company	352,062	322,582
Non-controlling interests	833	3,967
Total comprehensive income	**352,895**	**326,549**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

OF THE HUGO BOSS GROUP AS OF DECEMBER 31, 2014

04|03 CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in EUR thousand)

Assets	Notes	2014	2013
Intangible assets	(11)	147,998	139,223
Property, plant and equipment	(12)	383,349	368,582
Deferred tax assets	(7)	100,382	80,693
Non-current financial assets	(15), (30)	19,783	17,399
Non-current tax receivables		1,167	1,695
Other non-current assets	(15)	7,573	3,953
Non-current assets		**660,252**	**611,545**
Inventories	(16)	507,408	440,837
Trade receivables	(17)	250,532	226,204
Current tax receivables	(7)	8,291	10,781
Current financial assets	(15), (30)	22,528	23,323
Other current assets	(15)	83,022	69,402
Cash and cash equivalents	(18)	128,631	119,242
Assets held for sale	(13)	1,136	0
Current assets		**1,001,548**	**889,789**
TOTAL		**1,661,800**	**1,501,334**

Equity and liabilities			
Subscribed capital	(19)	70,400	70,400
Own shares	(20)	(42,363)	(42,363)
Capital reserve	(21)	399	399
Retained earnings	(22)	801,330	701,514
Accumulated other comprehensive income	(23)	14,672	(15,760)
Equity attributable to equity holders of the parent company		**844,438**	**714,190**
Non-controlling interests	(8)	(520)	26,107
Group equity		**843,918**	**740,297**
Non-current provisions	(25), (26)	70,545	52,739
Non-current financial liabilities	(27), (30)	153,643	164,768
Deferred tax liabilities	(7)	10,132	17,462
Other non-current liabilities	(28)	37,871	30,967
Non-current liabilities		**272,191**	**265,936**
Current provisions	(25)	115,656	99,868
Current financial liabilities	(27), (30)	18,256	14,653
Income tax payables	(7)	59,944	63,372
Trade payables	(29)	254,959	235,286
Other current liabilities	(28)	96,876	81,922
Current liabilities		**545,691**	**495,101**
TOTAL		**1,661,800**	**1,501,334**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2014

04|04 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in EUR thousand)

	Subscribed capital	Own shares	Capital reserve
Notes	(19)	(20)	(21)
January 1, 2013 (as reported)	**70,400**	**(42,363)**	**399**
Change in accounting policies/corrections			
January 1, 2013 (adjusted)	**70,400**	**(42,363)**	**399**
Net income			
Other income			
Comprehensive income			
Changes in basis of consolidation			
Dividend payment			
December 31, 2013	**70,400**	**(42,363)**	**399**
January 1, 2014	**70,400**	**(42,363)**	**399**
Net income			
Other income			
Comprehensive income			
Dividend payment			
Acquisition of non-controlling interests			
December 31, 2014	**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
(22)	(22)	(23)	(23)		(8)	
6,641	**586,961**	**(5,196)**	**(3,521)**	**613,320**	**24,587**	**637,907**
	(6,331)	(9)		(6,339)		(6,339)
6,641	**580,629**	**(5,205)**	**(3,521)**	**606,980**	**24,587**	**631,567**
	328,965			328,965	4,394	333,359
	651	(11,494)	4,460	(6,383)	(427)	(6,810)
	329,616	**(11,494)**	**4,460**	**322,582**	**3,967**	**326,549**
	(43)			(43)		(43)
	(215,330)			(215,330)	(2,448)	(217,779)
6,641	**694,873**	**(16,699)**	**939**	**714,190**	**26,107**	**740,297**
6,641	**694,873**	**(16,699)**	**939**	**714,190**	**26,107**	**740,297**
	333,262			333,262	1,218	334,480
	(11,632)	32,019	(1,587)	18,800	(385)	18,415
	321,630	**32,019**	**(1,587)**	**352,062**	**833**	**352,895**
	(230,514)			(230,514)		(230,514)
	8,700			8,700	(27,460)	(18,760)
6,641	**794,689**	**15,320**	**(648)**	**844,438**	**(520)**	**843,918**

CONSOLIDATED STATEMENT OF CASH FLOWS

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2014

04|05 CONSOLIDATED STATEMENT OF CASH FLOWS (in EUR thousand)

	Notes	**2014**	2013
	(35)		
Net income		334,480	333,359
Depreciation/amortization	(10)	122,760	105,262
Unrealized net foreign exchange gain/loss		(3,049)	18,916
Other non-cash transactions		5,178	(3,965)
Income tax expense/refund	(7)	102,668	100,107
Interest income and expenses	(6)	4,518	14,428
Change in inventories		(45,778)	(36,307)
Change in receivables and other assets		(31,987)	(30,584)
Change in trade payables and other liabilities		27,684	21,988
Result from disposal of non-current assets		(2,478)	2,741
Change in provisions for pensions	(26)	(1,319)	(2,414)
Change in other provisions		13,969	5,628
Income taxes paid		(128,389)	(104,799)
Cash flow from operations		**398,257**	**424,360**
Interest paid	(6)	(4,458)	(10,005)
Interest received	(6)	1,628	1,984
Cash flow from operating activities		**395,427**	**416,339**
Investments in property, plant and equipment	(12)	(104,459)	(160,243)
Investments in intangible assets	(11)	(25,307)	(13,083)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired	(35)	0	(11,659)
Effects from disposal of subsidiaries		0	(1,698)
Cash receipts from sales of property, plant and equipment and intangible assets		2,702	366
Cash flow from investing activities		**(127,064)**	**(186,317)**
Dividends paid to equity holders of the parent company	(24)	(230,514)	(215,330)
Dividends paid to non-controlling interests		0	(2,448)
Change in current financial liabilities		262	(254,645)
Cash receipts from non-current financial liabilities		0	111,350
Repayment of non-current financial liabilities		(10,354)	0
Repayment of borrowings		(2,093)	(2,012)
Cash outflows for the purchase of additional interests in subsidiaries without change of control		(18,838)	0
Cash flow from financing activities		**(261,537)**	**(363,085)**
Exchange-rate related changes in cash and cash equivalents		2,563	(2,301)
Change in cash and cash equivalents		**9,389**	**(135,364)**
Cash and cash equivalents at the beginning of the period		119,242	254,606
Cash and cash equivalents at the end of the period	(18)	**128,631**	**119,242**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2014

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 and luxury segment. With its brand world, HUGO BOSS caters for clearly defined target groups. The brands cover a comprehensive product range encompassing classic-modern apparel, elegant evening wear and sportswear, shoes, leather accessories and licensed fragrances, eyewear and watches.

HUGO BOSS AG compiles the consolidated income statement using the cost of sales method.

The consolidated financial statements and combined management report of HUGO BOSS AG, Metzingen, were authorized for issue to the Supervisory Board by the Managing Board by resolution dated February 19, 2015.

Due to rounding differences and the presentation in EUR thousand, it is possible that individual figures in the consolidated financial statements of HUGO BOSS AG do not exactly add up to the reported totals and that the reported percentage figures do not exactly reflect the reported absolute figures.

To improve the clarity of presentation, various items in the consolidated statement of financial position and consolidated income statement have been summarized. These items are shown separately and explained in the notes to the consolidated financial statements.

As a rule, the Group classifies assets and liabilities as current if they are expected to be recovered or settled within twelve months from the reporting date.

FINANCIAL REPORTING

The consolidated financial statements of HUGO BOSS AG as of December 31, 2014, were prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code]. All International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) together with the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable as of the fiscal year 2014 were taken into account.

ADOPTION OF NEW OR AMENDED IFRS

During the year, the Group adopted the following new and revised IFRSs and IFRICs endorsed by the EU. This also includes the amendments published as part of the ongoing Improvements to IFRSs project of the IASB. Unless otherwise stated, adoption of these revised standards and interpretations does not have any material effects on the presentation of the Group's results of operations, net assets and financial position. It did, however, give rise to additional disclosures in some cases.

New IFRSs and amended IAS adopted for the first time in fiscal year 2014:

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
IFRS 10 Consolidated Financial Statements	May 2011	January 1, 2014	December 2012	IFRS 10 completely replaces SIC 12 "Consolidation – Special Purpose Entities" and partially replaces IAS 27. The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. The comprehensive concept of control governs which entities should be included in the consolidated financial statements.
IFRS 10 Consolidated Financial Statements	June 2012	January 1, 2014	April 2013	The amendments to IFRS 10 clarify transition guidance. Accordingly, comparative information only has to be provided for the comparative period immediately preceding the given period.
IFRS 10 Consolidated Financial Statements	October 2012	January 1, 2014	November 2013	The amendments to IFRS 10 concern the definition of investment entities. This is less restrictive than the definition in the Exposure Draft.
IFRS 11 Joint Arrangements	May 2011	January 1, 2014	December 2012	IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". The standard focuses on the nature of the rights and duties arising from the arrangement rather than its legal form. The option to proportionately consolidate jointly controlled entities has been removed. The remaining method is accounting for the interest using the equity method. In addition, jointly controlled assets have been abolished, leaving only joint operations and joint ventures.
IFRS 11 Joint Arrangements	June 2012	January 1, 2014	April 2013	The amendments to IFRS 11 clarify transition guidance. Accordingly, comparative information only has to be provided for the comparative period immediately preceding the given period.
IFRS 12 Disclosure of Interests in Other Entities	May 2011	January 1, 2014	December 2012	IFRS 12 replaces the guidance in IAS 27, IAS 28, IAS 31 and SIC 12 on the disclosures to be included in the notes. By introducing new and more extensive disclosures for all types of interests in equities, the standard aims to improve disclosures on consolidated and non-consolidated entities.
IFRS 12 Disclosure of Interests in Other Entities	June 2012	January 1, 2014	April 2013	The amendments to IFRS 12 clarify transition guidance. Accordingly, comparative information only has to be provided for the comparative period immediately preceding the given period. In addition, the requirement to disclose comparative information for non-consolidated entities for periods prior to the first-time application of IFRS 12 has been removed.

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
IFRS 12 Disclosure of Interests in Other Entities	October 2012	January 1, 2014	November 2013	The amendments to IFRS 12 concern the definition of investment entities, which is less restrictive than the definition in the Exposure Draft.
IAS 27 Consolidated and Separate Financial Statements	May 2011	January 1, 2014	December 2012	The consolidation requirements previously contained in IAS 27 were revised and are now contained in IFRS 10 Consolidated Financial Statements. Accordingly, IAS 27 now only contains guidance governing separate financial statements.
IAS 27 Consolidated and Separate Financial Statements	October 2012	January 1, 2014	November 2013	The amendments to IAS 27 concern the definition of investment entities, which is less restrictive than the definition in the Exposure Draft.
IAS 28 Investments in Associates	May 2011	January 1, 2014	December 2012	The amendments to IAS 28 are follow-up changes resulting from the new IFRS 10, IFRS 11 and IFRS 12. As a result, the scope of IAS 28 has been extended to include the accounting treatment of joint ventures.
IAS 32 Financial Instruments	December 2011	January 1, 2014	December 2012	The amendments to IAS 32 clarify existing offsetting rules.
IAS 39 Financial Instruments: Recognition and Measurement	June 2013	January 1, 2014	December 2013	In certain circumstances, the novation of a hedging instrument to a central counterparty on account of legal requirements does not lead to the dissolution of a hedging relationship.
IFRIC 21 Levies	May 2013	January 1, 2014	June 2014	IFRIC 21 provides guidance on the accounting treatment of public levies that do not qualify as income taxes and clarifies in particular when to recognize a liability to pay such a levy. It also clarifies that levies that are triggered when specific thresholds are reached are not accounted for until they are reached.

The IASB has also published additional standards and interpretations. However, these either do not have any material effect on the consolidated financial statements of HUGO BOSS AG or the consequences of adoption are currently being examined. The following accounting standards were not yet subject to mandatory adoption in fiscal year 2014 and were therefore not adopted by HUGO BOSS:

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
IFRS 9 Financial Instruments	November 2009	January 1, 2018	Pending	IFRS 9 Financial Instruments governs the recognition, classification and measurement of financial instruments and replaces IAS 39. The basis taken for assessment is the nature of the contractually agreed cash flows from financial assets and the way in which an entity manages its financial instruments. A uniform impairment method is also envisaged. In October 2010, IFRS 9 was extended to include requirements on the accounting treatment of financial liabilities. In July 2014, the expected date of application was postponed from January 1, 2017. The Group is currently examining the impact that the application of IFRS 9 will have on its consolidated financial statements.

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
IFRS 9 Financial Instruments	November 2013	January 1, 2018	Pending	The primary objective of the revised requirements on hedge accounting is to improve the presentation of entities' risk activities in the financial statements. In July 2014, the expected date of application was postponed from January 1, 2017. The Group is currently examining the impact that the application of IFRS 9 will have on its consolidated financial statements.
IFRS 9 Financial Instruments	July 2014	January 1, 2018	Pending	The new standard contains the guidance revised in 2009 on the classification and measurement of financial assets, including guidance on impairments, and supplements the new guidance on hedge accounting published in 2013. The Group is currently examining the impact that the application of IFRS 9 will have on its consolidated financial statements.
IFRS 10 IAS 28 Consolidated Financial Statements Investments in Associates and Joint Ventures	September 2014	January 1, 2016	Pending	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. In the future, the full gain or loss resulting from a transaction is only recognized when the assets sold or contributed constitute a business within the meaning of IFRS 3, regardless of whether or not the transaction is designed as a share-based or asset-based deal. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business.
IFRS 10 IFRS 12 IAS 28 Consolidated Financial Statements Disclosure of interests in Other Entities Investments in Associates and Joint Ventures	December 2014	January 1, 2016	Pending	This standard is intended to clarify application of the exception from the consolidation obligation under IFRS 10 if the parent entity meets the definition of an "investment entity": • The exemption from preparing consolidated financial statements is available to an entity even if the parent entity measures all of its subsidiaries at fair value under IFRS 10. • A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. • When applying the equity method to an associate or a joint venture, an investor that is not an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
IFRS 11 Joint Arrangements	May 2014	January 1, 2016	Pending	The amendments provide additional guidance on the question as to how the acquisition of shares in a joint operation that is recognized in relation to the interest held in accordance with IFRS 11.20 is to be accounted for. The amendments clarify that the acquisition of shares in a joint operation that constitutes a business as defined in IFRS 3 Business Combinations must be accounted for in accordance with IFRS 3 (i.e. using the acquisition method) and other relevant standards such as IAS 12, IAS 38 and IAS 36.
IFRS 15 Revenue from Contracts with Customers	May 2014	January 1, 2017	Pending	The guidance and definitions contained in IFRS 15 will replace the content of both IAS 18 "Revenue" and IAS 11 "Construction Contracts" in the future. The new standard does not draw 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. The Group is currently examining the impact that the application of IFRS 15 will have on its consolidated financial statements.

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
IAS 1 Presentation of Financial Statements	December 2014	January 1, 2016	Pending	The amendments essentially comprise the following points: • Clarification that disclosures are only required in the notes if their content is not immaterial. This also applies if an IFRS has a list of minimum disclosure requirements. • Explanations concerning the aggregation and disaggregation of items in the statement of financial position and the statement of comprehensive income • Clarification regarding how the share of other comprehensive income arising from entities measured using the equity method should be presented in the statement of comprehensive income • Elimination of predefined note format in favor of a method that reflects relevance within an individual entity
IAS 16 IAS 38 Property, Plant and Equipment Intangible Assets	May 2014	January 1, 2016	Pending	The amendments provide guidance on the methods to be used for calculating depreciation and amortization of property, plant and equipment and intangible assets. It stipulates that the revenue-based method is not appropriate under IAS 16. This is because this method only reflects a pattern of generation of an asset's expected future economic benefits, rather than the pattern of consumption of an asset's expected future economic benefits. This is correspondingly clarified in IAS 16.62A. IAS 38.98A includes a rebuttable assumption that a revenue-based depreciation method is not appropriate for the same reasons as specified in IAS 16.
IAS 19 Employee Benefits	November 2013	July 1, 2014	Pending	The amendment is intended to supplement IAS 19.93 such that employee contributions or contributions by third parties are recognized as a reduction in the service cost in the period in which the related service is rendered.
IAS 27 Separate Financial Statements	August 2014	January 1, 2016	Pending	The amendments now permit the use of the equity method as an option for accounting for shares in subsidiaries, joint ventures and associated companies in an investor's separate financial statements.
Various IAS and IFRSs	December 2013	July 1, 2014	Pending	Annual improvements to the IFRSs – Cycle 2010 – 2012 This concerns the following standards: • IFRS 2 "Share-based Payment" • IFRS 3 "Business Combinations" • IFRS 8 "Operating Segments" • IFRS 13 "Fair Value Measurement" • IAS 16 "Property, Plant and Equipment" • IAS 24 "Related Party Disclosures" • IAS 38 "Intangible Assets"
Various IAS and IFRSs	December 2013	January 1, 2015	December 2014	Annual improvements to the IFRSs – Cycle 2011 – 2013 This concerns the following standards: • IFRS 1 "First-time Adoption of International Financial Reporting Standards" • IFRS 3 "Business Combinations" • IFRS 13 "Fair Value Measurement" • IAS 40 "Investment Property"
Various IAS and IFRSs	September 2014	July 1, 2016	Pending	Annual improvements to the IFRSs – Cycle 2012 – 2014 This concerns the following standards: • IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" • IFRS 7 "Financial Instruments: Disclosures" • IAS 19 "Employee Benefits" • IAS 34 "Interim Financial Reporting"

BASIS OF CONSOLIDATION

The HUGO BOSS Group's basis of consolidation includes HUGO BOSS AG, Metzingen, Germany and the following entities that it controls (100% share in capital in each case, unless otherwise indicated):

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 Belgium BVBA	Diegem, Belgium
HUGO BOSS Belgium Retail BVBA	Diegem, Belgium
HUGO BOSS Benelux B.V.	Amsterdam, Netherlands
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 Cleveland, Inc.	Cleveland, OH, U.S.A.
HUGO BOSS Dienstleistungs GmbH	Metzingen, Germany
HUGO BOSS do Brasil Ltda.	São Paulo, Brazil
HUGO BOSS Fashions, Inc.	Wilmington, DE, U.S.A.
HUGO BOSS Finland OY	Helsinki, Finland
HUGO BOSS France SAS	Paris, France
HUGO BOSS Guangdong Trading Co. Ltd.	Guangzhou, China
HUGO BOSS Hellas LLC	Athens, Greece
HUGO BOSS Holding Netherlands B.V.	Amsterdam, Netherlands
HUGO BOSS Holding Sourcing S.A.	Coldrerio, Switzerland
HUGO BOSS Holdings Pty. Ltd.	Preston, Australia
HUGO BOSS Hong Kong Ltd.	Hong Kong
HUGO BOSS International B.V.	Amsterdam, Netherlands
HUGO BOSS International Markets AG	Zug, Switzerland
HUGO BOSS Internationale Beteiligungs-GmbH	Metzingen, Germany[3]
HUGO BOSS Ireland Ltd.	Dublin, Ireland
HUGO BOSS Italia S.p.A.	Milan, Italy
HUGO BOSS Japan K.K.	Tokyo, Japan
HUGO BOSS Licensing, Inc.	Wilmington, DE, U.S.A.
HUGO BOSS Lotus Hong Kong Ltd.	Hong Kong
HUGO BOSS Magazacilik Ltd. Sirketi	Izmir, Turkey
HUGO BOSS Mexico Management Services S.A. de C.V.	Mexico City, Mexico
HUGO BOSS Mexico S.A. de C.V.	Mexico City, Mexico
HUGO BOSS Nordic ApS	Copenhagen, Denmark
HUGO BOSS Portugal & Companhia	Lisbon, Portugal
HUGO BOSS Retail, Inc.	New York, NY, U.S.A.
HUGO BOSS Rus LLC	Moscow, Russia

[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 Secs. 264 (3) and 264b HGB ["Handelsgesetzbuch": German Commercial Code].

HUGO BOSS Scandinavia AB	Stockholm, Sweden
HUGO BOSS Shoes & Accessories Italia S.p.A.	Morrovalle, Italy
HUGO BOSS Shoes & Accessories Poland Sp. z o.o.	Radom, Poland
HUGO BOSS South East Asia Pte. Ltd.	Singapore
HUGO BOSS Switzerland Retail AG	Zurich, Switzerland
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 Trade Mark Management Verwaltungs-GmbH	Metzingen, Germany
HUGO BOSS UK Ltd.	London, Great Britain
HUGO BOSS USA, Inc.	New York, NY, U.S.A.
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG	Metzingen, Germany[3]
Lotus Concept Trading (Macau) Co., Ltd.	Macau
Lotus (Shenzhen) Commerce Ltd.	Shenzhen, China
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG	Grünwald, Germany[2,3]
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 Secs. 264 (3) and 264b HGB [“Handelsgesetzbuch”: German Commercial Code].

Effective July 4, 2014, the HUGO BOSS Group established a new subsidiary in South Korea, known as HUGO BOSS Korea Ltd., South Korea. The HUGO BOSS Group has a 100% shareholding in this company. On grounds of immateriality for the Group, HUGO BOSS Korea Ltd. is not included in the consolidated financial statements as of December 31, 2014.

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]

[1] Investments with a 100% share in capital and 20% of voting rights, head office Filderstadt.
[2] Investments with a 100% share in capital and 15% of voting rights, head office Metzingen.

CHANGES IN BASIS OF CONSOLIDATION

In the reporting period from January 1 to December 31, 2014, the number of consolidated companies increased from 55 to 56 in comparison to the consolidated financial statements as of December 31, 2013. Overall, the number of companies included in the consolidated financial statements was as follows in fiscal year 2014:

	2014	2013
January 1	**55**	**54**
Newly founded/consolidated companies	1	3
Merged companies/disposal	0	(1)
Derecognized due to loss of control	0	(1)
December 31	**56**	**55**

The new company HUGO BOSS Finland OY, Helsinki, Finland, which was founded in fiscal year 2013, was not included in the consolidated financial statements as of December 31, 2013, on the grounds of immateriality. The subsidiary was consolidated for the first time on May 1, 2014.

As was the case on December 31, 2013, two companies were included in the consolidated financial statements using the equity method in fiscal year 2014.

DISCLOSURE ON THE LARGEST GROUP OF CONSOLIDATED COMPANIES

As of December 31, 2014 Red & Black Lux S.à r.l., Luxembourg, held 31.82% of the voting rights in HUGO BOSS AG. The consolidated financial statements of HUGO BOSS AG are included in the consolidated financial statements of Red & Black Lux S.à r.l., Luxembourg, as the largest group of consolidated companies.

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. Control exists if HUGO BOSS AG as the parent company has the power of decision over a subsidiary based on voting rights or other rights, if it participates in positive and negative variable returns from a subsidiary, and if it can affect these returns by its power of decision. The subsidiary is deconsolidated as soon as the control by the parent company ceases.

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 sales, earnings and total assets on aggregate 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. Structured entities are entities which have been designed in such a way that voting or similar rights are not relevant in deciding who controls the entity. This is the case, for example, if voting rights relate to administrative tasks only and the relevant activities are governed by contractual arrangements.

Entities whose business activities are jointly controlled by the Group and one more party (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.

The financial statements of subsidiaries are prepared using uniform accounting policies.

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.

BUSINESS COMBINATIONS

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

When a company obtains control over another company, this constitutes a business combination within the meaning of IFRS 3. In accordance with IFRS 3, business combinations must be accounted for using the acquisition method, which entails the performance of a purchase price allocation.

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.

ELIMINATION OF INTERCOMPANY PROFITS

The HUGO BOSS distribution companies generally source finished goods and merchandise solely from the Group's in-house production and procurement units. Gains on intercompany deliveries of merchandise still in stock as of the reporting date are eliminated.

If the carrying amount in the books of the distribution company has been written down locally below the cost recognized at Group level, no intercompany profits are eliminated.

Any difference between the carrying amount of the merchandise at the level of the distribution company following the local recognition of write-downs and the cost recognized at Group level is eliminated.

In addition, merchandise carried at cost at Group level is tested for impairment from the perspective of the HUGO BOSS Group. If the cost recognized at Group level exceeds the expected recoverable sales proceeds, an impairment loss is charged. The expected recoverable sales proceeds from the Group's perspective are determined by reference to the Group's own sales channels worldwide, particularly its warehouse and outlet capacity.

CURRENCY TRANSLATION

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. 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 =	**2014**	2013	**2014**	2013
Australia	AUD	1.4726	1.3764	1.4829	1.5423
China	CNY	8.1977	8.1636	7.5358	8.3491
Great Britain	GBP	0.8067	0.8492	0.7789	0.8337
Hong Kong	HKD	10.3179	10.2989	9.4170	10.6933
Japan	JPY	140.2427	129.5244	145.2300	144.7200
Switzerland	CHF	1.2149	1.2310	1.2024	1.2276
Turkey	TRY	2.9085	2.5228	2.8272	2.9344
U.S.A.	USD	1.3305	1.3278	1.2141	1.3791

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. Sales from the Group’s own retail business are recognized when transactions with customers are completed. Claims from returned goods agreements and return rights are deducted from income if their occurrence is sufficiently certain. Provisions for returned goods are determined based on historical rates of goods returned for each sales channel.

License 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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

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 IFRSs and for certain consolidation entries. Deferred tax assets and deferred tax liabilities are recognized using the liability method.

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 measured at the tax rates that are expected to apply when the temporary differences reverse. Deferred tax liabilities are recognized on the retained earnings of foreign subsidiaries to the extent that it is likely that these will be distributed in the future.

Deferred tax assets and deferred tax liabilities are presented on a net basis to the extent that the Group companies have a right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity. Deferred taxes relating to items recognized directly in equity are likewise recognized directly in equity.

INTANGIBLE ASSETS

Acquired and internally generated 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. Borrowing costs are expensed as incurred to the extent that the criteria for recognition in the carrying amount of an asset are not satisfied. Purchased and internally generated intangible assets with finite useful lives are amortized using the straight-line method over their useful life. The average useful life of software and licenses remains unchanged at six years. Rights to use the HUGO BOSS brand name which were reacquired in connection with business combinations and the acquisition of other business units ("reacquired rights") are also recognized under intangible assets and amortized over the contractual useful life. Key money is also considered to be an intangible asset. These are one-off payments made to the previous tenant when leases are entered into for own retail stores in prime locations. The distinction between finite and indefinite useful life is made by reference to the actual circumstances in the countries in which the retail stores are located. Key money with a finite useful life is written down on a straight-line basis over the term of the lease agreement, seven years on average. At present, key money with indefinite useful lives is recognized in France and Denmark.

Intangible assets with an indefinite 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. Borrowing costs are expensed as incurred to the extent that the criteria for recognition in the carrying amount of an asset are not satisfied. The underlying useful lives correspond to the expected useful lives within the Group.

A useful life of 30 years is generally set for buildings. 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 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.

Property, plant and equipment are generally depreciated using the straight-line method. Technical equipment and machinery has a useful life ranging between 5 and 15 years, while other equipment, operating and office equipment has a useful life of between 2 and 15 years.

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 to the lower of the recoverable amount or the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods. The impairment loss is reversed through profit or loss. Reversals of impairment losses recognized on goodwill are not permitted.

ENTITIES UNDER JOINT CONTROL ACCOUNTED FOR USING THE EQUITY METHOD

Companies in which HUGO BOSS and one more party have joint control are accounted for using the equity method and initially recognized at cost. The carrying amounts of investments accounted for using the equity method are increased or decreased annually by the Group's share of the net profit or loss, dividend distributions or other changes in equity. If the losses incurred by the investment accounted for using the equity method are equal to or exceed the carrying amount, no additional shares in losses are recognized since no loss compensation obligations exist vis-à-vis the investments accounted for using the equity method.

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.

NON-CURRENT ASSETS HELD FOR SALE

Individual non-current assets or disposal groups are classified as “held for sale” if their sale is highly probable and they are available for immediate sale in their present condition. Non-current assets held for sale are reported separately in the statement of financial position and are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation of the assets or disposal groups ceases when they are classified as non-current assets held for sale.

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 of the date on which the agreement is concluded 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.

A substantial number of rental agreements have been entered into within the HUGO BOSS Group which qualify as operating leases based on their substance, such that the leased asset is attributable to the lessor. This concerns in particular the rental agreements for the real estate used by the retail stores operated by the Group, warehouses and office space used by the Group companies, most of which are based on minimum lease payments. Lease arrangements are also in place that contain agreements on contingent rents (particularly rents linked to sales). Some agreements contain renewal options that are taken into account when determining the lease term and present value of the minimum lease payments, if it is reasonably certain at the inception of the lease that the option will be exercised.

FINANCIAL INSTRUMENTS

Pursuant to IAS 39, 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 encompass cash and cash equivalents, trade receivables and other loans and receivables originated by the Group, derivative financial assets held for trading as well as other financial assets.

Financial liabilities comprise trade payables, liabilities due to banks, liabilities from finance leases, derivative financial liabilities held for trading and other financial liabilities.

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)

If there is no active market and fair value cannot be reliably determined, equity instruments are measured at amortized cost.

Financial assets and liabilities are designated to the above categories upon initial recognition. If permitted and necessary, any reclassifications are made at the end of the fiscal year.

FINANCIAL ASSETS

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset.

Financial assets are recognized initially at fair value. For all financial assets that are not measured at fair value through profit or loss, directly attributable transaction costs are also taken into account.

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 contain 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 initially measured at fair value less any directly attributable transaction costs.

Derivatives that are not designated to an effective hedging relationship are measured at fair value though 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 interest-bearing loans 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.

DERIVATIVE FINANCIAL 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 measured at fair value through profit or loss irrespective of the purpose or intention for which they were concluded. 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.

Fair value generally corresponds to the market value or quoted price. If there is no active market, fair value is determined using generally accepted valuation models and bank valuations. In the HUGO BOSS Group all financial instruments that are not quoted in an active market are measured using observable measurement parameters.

It is the Group’s policy to solely enter into effective derivatives for the purpose of hedging interest and currency risks. The substantive and formal requirements of IAS 39 for hedge accounting were satisfied both at the inception of the hedges and on the reporting date.

OWN SHARES

If the Group reacquires own equity instruments, those instruments are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if sold or reissued, is recognized as a share premium. The Group cannot exercise the voting rights of own shares. Moreover, they are not allocated dividends.

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 is the present value of the expenditures expected to be required to settle the obligation.

PROVISIONS FOR PENSIONS

Provisions for pensions are measured using the projected unit credit method required under IAS 19 for defined benefit 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 external funds 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 defined benefit liability by the discount rate underlying the net defined benefit obligation (DBO) is reported in the financial result. The difference between the actual return on plan assets and the anticipated return on plan assets obtained using the discount rate is posted to other comprehensive income. The service cost is reported in the operating result.

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.

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.

SEGMENT REPORTING

In accordance with the management approach, the HUGO BOSS Group's segment reporting is based on the internal organizational and reporting structure. The data used to determine the internal indicators are derived from the financial statements prepared in accordance with IFRSs.

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 assumptions are made to obtain a fair presentation of the Group's net assets, financial position and results of operations. The underlying assumptions are continually revised. However, actual amounts can deviate from the original estimates.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

OBLIGATIONS UNDER OPERATING LEASES

The Group has entered into leases for retail stores, warehouses and office spaces. 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 in question and the present value of the minimum lease payments. In this connection, it has been determined that the opportunities and risks arising from ownership of this floor space and real estate leased under operating leases remain with the corresponding property companies and lessors.

CONSOLIDATION OF STRUCTURED ENTITIES

Leasing companies are recognized in accordance with the guidance provided in IFRS 10 on structured entities. HUGO BOSS consolidates leasing entities if it has power over the entity's relevant activities and is thus able to affect the amount of the variable returns. In view of the leases which were already determined when two entities were established, HUGO BOSS assumes in its assessment that the decision-making rights with respect to the use of the leased assets during the term of the lease and with respect to the exercise of the call and renewal options provided for in the lease, which were calculated on the basis of the respective expected market value and are therefore unfavorable for HUGO BOSS as at December 31, 2014, do not constitute any decision-making powers with respect to the relevant activities of the entity in question.

The most important forward-looking assumptions and other key sources of estimation uncertainty as at the reporting date giving rise to a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are explained below.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Specific fundamental assumptions were made to determine the recoverable amount when assessing the recoverability of intangible assets (goodwill, brand rights with indefinite useful lives, key money with finite and indefinite useful lives) and property, plant and equipment of the Group's own retail business. In this context, the expected cash flows used in impairment testing are derived from budgets from medium-term planning for each respective CGU. Management assumes that the assumptions and estimates underlying the discounted cash flows 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.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 14.

Impairment losses of EUR 15,281 thousand (2013: EUR 13,881 thousand) and reversals of impairment losses of EUR 0 thousand (2013: EUR 2,248 thousand) were made. Further explanations are provided in Notes 10 to 12 and 14.

INVENTORY MEASUREMENT

Write-downs provide for inventory risks from slow-moving goods and the resulting decrease in the recoverability.

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 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. Impairment losses recognized to account for lower expected sales prices both at the level of the sales companies and from the perspective of the Group are anticipated through these write-down routines.

Inventories of EUR 80,575 thousand (2013: EUR 82,312 thousand) were recognized at net realizable value. In fiscal year 2014, impairment losses of EUR 11,259 thousand were recognized (2013:EUR 13,004 thousand). These are explained in Note 16.

INDIVIDUAL BAD DEBT ALLOWANCES

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.

Impairment losses of EUR 15,876 thousand (2013: EUR 15,126 thousand) were recognized as of the reporting date. Further explanations are provided in Note 17.

PROVISIONS

As the HUGO BOSS Group has operating activities in numerous countries, it is subject to many different legal conditions. Owing to the complexity of international requirements, differences arising between the actual events and the assumptions made or any adjustments to such assumptions could necessitate future adjustments to provisions recognized by the Group. 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.

Other provisions of EUR 140,573 thousand (2013: EUR 122,812 thousand) were recognized as of the reporting date. Further explanations are provided in Note 25.

Since 2012, a tax field audit is in progress for the assessment periods 2007 through 2011 at HUGO BOSS AG, which has not been completed yet. Based on the findings available so far and the audit notes of the ongoing tax field audit, the Company has identified potential tax risks from issues recognized and issues not recognized on the face of the statement of financial position as well as from structural changes. As the tax field audit had not been completed at the time of preparing the financial statements, new findings in connection with the tax field audit could lead to changes in the risks provided for as liabilities as of December 31, 2014.

Income tax liabilities of EUR 59,944 thousand (2013: EUR 63,372 thousand) were recognized as of the reporting date. These include provisions relating to risks from the tax field audit of HUGO BOSS AG for the years 2007 through 2011. Further explanations are provided in Note 7.

PROVISIONS FOR PENSIONS

The expense from defined benefit 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.

Provisions for pensions of EUR 45,628 thousand (2013: EUR 29,795 thousand) were recognized as of the reporting date. Please refer to Note 26 for further details.

DEFERRED TAXES ON UNUSED TAX LOSSES

Deferred tax assets are recognized on unused tax losses 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. In this regard, management exercises judgment as to the expected timing and the amount of the taxable profits and measures deferred tax assets on unused tax losses accordingly.

As of the reporting date, deferred taxes were recognized on unused tax losses amounting to EUR 10,662 thousand (2013: EUR 10,295 thousand). Please refer to Note 7 for further details.

ACCOUNTING TREATMENT OF BUSINESS COMBINATIONS/ACQUISITIONS OF OTHER BUSINESS UNITS

Goodwill is disclosed in the statement of financial position in connection with business combinations and the acquisition of other business units. This constitutes the difference between the consideration transferred and the amount of the non-controlling interest in the assets acquired and the liabilities assumed. Moreover, any reacquired rights are capitalized and amortized over their useful lives.

All identifiable assets and liabilities are recognized at fair value upon first-time consolidation. The fair values recognized constitute a significant estimate. If intangible assets are identified, the fair value is determined using appropriate valuation methods taking their nature into account. These measurements are based on various input factors and are partially associated with assumptions of management about the future development of the value of the respective asset and the discount rates used.

No companies or other business units were acquired during fiscal year 2014. Explanations on the acquisitions recognized in fiscal year 2013 can be found in the notes on business combinations/acquisitions of other business units.

BUSINESS COMBINATIONS/ACQUISITIONS OF OTHER BUSINESS UNITS

TAKEOVERS IN FISCAL YEAR 2014

No companies were acquired in the reporting period from January 1 to December 31, 2014.

TAKEOVERS IN FISCAL YEAR 2013

In fiscal year 2013, the HUGO BOSS Group acquired a total of ten stores and the associated assets in asset deals from former franchise partners in Australia, the United States and Singapore. In addition, one store was taken over in France as part of a share deal. The business acquisitions were made to support the expansion of the Group's own retail business.

The following overview shows the allocation of the purchase price to the acquired assets performed in fiscal year 2013 as well as the resulting goodwill:

(in EUR thousand)

	2013
Purchase consideration transferred	
Agreed purchase price	12,556
Liabilities incurred	(552)
Total purchase price	**12,003**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	8,532
Property, plant and equipment	2,875
Inventories	1,870
Cash and cash equivalents	92
Other assets	254
Total assets	**13,622**
Financial liabilities	933
Trade payables	530
Other liabilities	728
Total liabilities	**2,191**
Goodwill	**572**

Control over the assets in each case was achieved through payment of the agreed purchase price.
As not all of the information needed for complete recognition of the business acquisitions was available in fiscal year 2013, a purchase price allocation was performed on a preliminary basis.

As part of the purchase price allocations, intangible assets were identified on a preliminary basis 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.

Goodwill is attributable to Asia and contains non-separable intangible assets and expected synergy effects. The goodwill is not expected to be tax-deductible. In accordance with IAS 36, it is not amortized but is instead tested for impairment annually.

Total transaction costs amounted to EUR 301 thousand which were recognized immediately through profit or loss in the consolidated income statement in fiscal year 2013.

The purchase price allocations were finalized in fiscal year 2014 within twelve months of the acquisition date in each case. The finalization of the purchase price allocations had only an immaterial effect on the HUGO BOSS Group's net assets, financial position and results of operations in fiscal year 2014 and the comparable period in 2013.

If the business acquisitions had taken place as of January 1, 2013, Group sales would have been EUR 7,596 thousand higher in fiscal year 2013. The change in consolidated net income would have been immaterial.

The additional consolidated sales generated by the business acquisitions came to EUR 6,751 thousand in fiscal year 2013.

ACQUISITION OF NON-CONTROLLING INTERESTS WITHOUT CHANGE OF CONTROL

Effective from June 30, 2014, HUGO BOSS took over the remaining 40% share in the already fully-consolidated "joint venture" from its long-standing franchise partner Rainbow Group. The shares were acquired by HUGO BOSS International B.V., Amsterdam, the Netherlands, which therefore now holds 100% of the shares in HUGO BOSS Lotus Hong Kong Ltd., Hong Kong, and its subsidiaries in Macau and China. The agreed purchase price for the remaining 40% of the shares is HKD 198,872 thousand (EUR 18,839 thousand), which has already been paid in full. The carrying amount of the non-controlling shares acquired is EUR 27,539 thousand. This figure includes transaction costs in the amount of EUR 79 thousand. The difference of EUR 8,700 thousand between the purchase price and carrying amount of the assets has been recorded directly in equity.

(in EUR thousand)

	Dec. 31, 2014
Carrying amount of non-controlling interests acquired	27,539
Consideration paid to non-controlling interests	(18,839)
Excess of consideration paid recognized in Group's equity	**8,700**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1| SALES

(in EUR thousand)

	2014	2013
Sale of goods	2,513,952	2,374,270
Licenses	57,664	57,863
TOTAL	**2,571,616**	**2,432,133**

2| COST OF SALES

(in EUR thousand)

	2014	2013
Cost of purchase	755,406	737,734
Cost of conversion	117,117	114,849
TOTAL	**872,523**	**852,583**

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.

In fiscal year 2014, impairment losses on inventories and the reversal of impairment losses previously charged resulted in net income of EUR 655 thousand (2013: net income of EUR 9,509 thousand). This is included in the cost of sales.

Capitalized overheads allocated to production cost comprise the cost of technical product development in the third phase of the collection creation process and the overhead costs of the product implementation and procurement phase.

3| SELLING AND DISTRIBUTION EXPENSES

(in EUR thousand)

	2014	2013
Expenses for Group's own retail business, sales and marketing organization	764,042	694,410
Marketing expenses	163,003	137,498
Logistic expenses	67,816	59,680
TOTAL	**994,861**	**891,588**

The expenses for the Group's own retail business and the sales and marketing organization mostly relate to personnel and lease expenses for wholesale distribution and retail services. Moreover, selling expenses contain sales-based commission, freight-out and customs costs as well as credit card charges.

The marketing expenses comprise expenses of EUR 180,406 thousand (2013: EUR 154,283 thousand) and income from the allocation of marketing expenses of EUR 17,403 thousand (2013: EUR 16,785 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 2,501 thousand (2013: EUR 2,834 thousand).

4| ADMINISTRATION EXPENSES

(in EUR thousand)

	2014	2013
General administrative expenses	174,679	169,835
Research and development costs	61,525	58,683
TOTAL	**236,204**	**228,518**

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 of EUR 61,525 thousand (2013: EUR 58,683 thousand) breaks down as follows: personnel expenses of EUR 42,254 thousand (2013: EUR 40,447 thousand) amortization of EUR 2,083 thousand (2013: EUR 1,675 thousand), and other operating expenses of EUR 17,188 thousand (2013: EUR 16,561 thousand).

Significant income was generated in the area of administration expenses by cross-charging of other costs and services amounting to EUR 9,141 thousand (2013: EUR 6,629 thousand) and from the reversal of provisions EUR 3,138 thousand (2013: EUR 11,360 thousand).

In total, administration expenses contain other taxes of EUR 3,843 thousand (2013: EUR 2,677 thousand).

5| OTHER OPERATING EXPENSES AND INCOME

The net expense arising from other operating expenses and income of EUR 19,307 thousand in fiscal year 2014 resulted from special items which were essentially related to the early dissolution of the agreement with a trade agent in the Middle East and the closure of the production site in Cleveland, Ohio, which is scheduled for the first half of 2015. Net expense amounted to EUR 3,291 thousand in the previous year and was mainly related to organizational adjustments made in Europe.

Other operating expenses and income include income of EUR 2,600 thousand (2013: income of EUR 381 thousand). Of this, EUR 1,511 thousand were the result of the sale of a showroom in France. As in the prior year, the remaining income of EUR 1,089 thousand is largely attributable to the reversal of provisions.

6| FINANCIAL RESULT

(in EUR thousand)

	2014	2013
Interest income on bank deposit	429	539
Other interest income	1,198	1,455
Other interest and similar income	**1,627**	**1,994**
Interest expenses from financial liabilities	(4,474)	(10,013)
Other interest expenses	(1,671)	(6,409)
Interest and similar expenses	**(6,145)**	**(16,422)**
Net interest income/expenses	**(4,518)**	**(14,428)**
Exchange rat gains/losses from receivable and liabilities	357	(19,027)
Gains/losses from hedging transactions	(5,048)	10,449
Other financial expenses/income	(2,364)	319
Other financial items	**(7,055)**	**(8,259)**
Financial result	**(11,573)**	**(22,687)**

The interest expenses from financial liabilities contain expenses in connection with interest rate swaps amounting to EUR 1,134 thousand (2013: EUR 5,791 thousand). Other interest expenses contain the net interest amount from provisions for pensions and interest expenses from the measurement of other non-current provisions at present value amounting to EUR 1,384 thousand (2013: EUR 2,865 thousand). In addition, the other interest expenses item contains interest on non-financial liabilities such as tax liabilities.

The exchange rate gains and losses from receivables and liabilities comprise exchange rate gains of EUR 25,668 thousand (2013: EUR 21,468 thousand) and exchange rate losses of EUR 25,311 thousand (2013: EUR 40,495 thousand). The result from hedging transactions contains the effects from the fair value measurement of foreign exchange forwards and swaps.

7 | INCOME TAXES

(in EUR thousand)

	2014	2013
Current taxes	122,915	122,332
Deferred taxes	(20,247)	(22,225)
TOTAL	**102,668**	**100,107**

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 still comes to 28.0% (2013: 28.0%). As in the prior year, the tax rates abroad range between 0% and 40%.

In fiscal year 2014, current income taxes include expenses relating to other periods amounting to EUR 6,043 thousand (2013: EUR 16,181 thousand). These include expenses relating to the recognition of provisions for risks from the tax field audit for the years 2007 through 2011 including subsequent effects. This is counterbalanced by income relating to other periods of EUR 3,789 thousand (2013: EUR 760 thousand).

Deferred taxes are calculated based on the tax rates enacted or substantively enacted by the reporting date that apply or are expected to apply in the countries concerned at the time of realization.

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 28.0% (2013: 28.0%) 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% (2013: 15.8%) and a trade tax rate of 12.2% (2013: 12.2%).

(in EUR thousand)

	2014	2013
Pre-tax result	**437,148**	**433,466**
Anticipated income tax	122,401	121,371
Tax effect of permanent items	3,773	(4,107)
Tax rate-related deviation	(20,189)	(19,342)
Thereof effects of changes in tax rates	(4,543)	1,076
Thereof effects of addback deduction for local taxes	873	(6,993)
Thereof adjustment of tax amount to diverging local tax rate	(16,519)	(13,425)
Tax refund/back taxes	2,254	15,421
Deferred tax effects from prior years	255	(6,087)
Valuation allowance on deferred tax assets	(35)	(8,070)
Tax effects from distributable profit of subsidiaries	(4,824)	1,696
Other deviations	(967)	(775)
Income tax expenditure reported	**102,668**	**100,107**
Income tax burden	23 %	23 %

The income tax burden was reduced by tax-free income of EUR 11,332 thousand (2013: EUR 9,181 thousand). The opposite tax effects as a result of the non-deductible business expenses come to EUR 15,105 thousand (2013: EUR 5,074 thousand).

Tax effects from the add-back/deduction for local taxes amounting to EUR 873 thousand (2013: income of EUR 6,993 thousand) stem for the most part from the requirements on trade tax additions and deductions for the calculation of the trade tax assessment basis.

Additional deviations related to the tax rate amounting to EUR 16,519 thousand (2013: EUR 13,425 thousand) are attributable to the difference between the nominal income tax rate of 28.0% in Germany and the effective tax rates abroad.

In addition to the effects from the origination or reversal of temporary differences between carrying amounts in the consolidated financial statements and the tax bases, the deferred tax expense includes income from the impact of changes in tax rates of EUR 4,543 thousand (2013: expenses of EUR 1,076 thousand).

Deferred tax expense from prior years of EUR 255 thousand was recognized in fiscal year 2014 (2013: income of EUR 6,087 thousand). This is mainly attributable to the recognition of deferred tax liabilities and the derecognition of deferred tax assets attributable to corrections in prior years.

Other comprehensive income includes deferred taxes amounting to EUR 4,549 thousand (2013: EUR 924 thousand). Of this amount, EUR 700 thousand (2013: EUR 1,487 thousand) is attributable to the recognition directly in equity of fluctuations in the fair value of derivatives designated to hedging relationships and income of EUR 3,849 thousand (2013: income of EUR 563 thousand) from the recognition of actuarial gains and losses from provisions for pensions 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)

	2014		2013	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	44,938	(42,730)	33,375	(15,588)
Unused tax losses	20,923	0	23,070	0
Inventory measurement	42,374	(3,733)	39,835	(3,298)
Recognition and measurement of non-current assets	53,269	(14,392)	22,787	(16,878)
Receivables measurement	6,968	(2,478)	4,842	(2,153)
Market valuation of financial instruments	1,802	0	1,793	(2,497)
Retained earnings of subsidiaries	0	(2,768)	0	(7,334)
Other differences in recognition and measurement	442	(1,374)	132	(1,507)
	170,716	**(67,475)**	**125,834**	**(49,255)**
Impairments[1]	(12,991)	0	(13,348)	0
Netting	(57,343)	57,343	(31,793)	31,793
TOTAL	**100,382**	**(10,132)**	**80,693**	**(17,462)**

[1] Including unrecognized unused tax losses.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses and interest carryforwards, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and unused tax losses and interest carryforwards can be utilized.

Of the deferred tax assets, EUR 76,373 thousand (2013: EUR 41,976 thousand) are non-current, while EUR 60,369 thousand (2013: EUR 41,306 thousand) of the deferred tax liabilities are non-current. The full amount is reported as non-current in the statement of financial position.

If there is uncertainty as to their future recoverability, deferred taxes on unused tax losses and temporary differences are not recognized or are written down. Such write-downs are determined by taking into account all positive and negative factors influencing the generation of sufficient future profit.

Deferred taxes were written down by EUR 10,261 thousand (2013: EUR 12,775 thousand) due to unused tax losses that are not expected to be usable in the future and by EUR 2,730 thousand (2013: EUR 573 thousand) due to temporary differences.

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 1,200 thousand (2013: EUR 1,200 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. Deferred tax liabilities of EUR 1,568 thousand (2013: EUR 6,134 thousand) were recognized for these withholding tax expenses.

Further deferred tax liabilities were not recognized on distributable profits at subsidiaries amounting to EUR 381,013 thousand (2013: EUR 509,582 thousand) 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.

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

(in EUR thousand)

	2014	2013
Expiry within		
1 year	8,700	2,222
2 years	1,122	8,687
3 years	6,809	1,082
4 years	7,161	8,366
5 years	3,276	7,123
After 5 years	25,490	33,544
unlimited carryforward	19,170	14,844
TOTAL	**71,728**	**75,868**

As in prior fiscal years, a corresponding deferred tax asset of EUR 10,662 thousand was recognized on unused tax losses as of December 31, 2014 (2013: EUR 10,295 thousand). In fiscal year 2014, no deferred taxes were recognized on unused tax losses of EUR 32,249 thousand (2013: EUR 43,260 thousand).

8| NON-CONTROLLING INTERESTS IN CONSOLIDATED NET INCOME

The consolidated financial statements include companies in which HUGO BOSS AG has a shareholding that is less than 100%. In accordance with IFRS 10, non-controlling interests are reported in the statement of financial position within equity, separately from equity attributable to equity holders of the parent company. Net income attributable to non-controlling interests is likewise reported separately in the consolidated income statement.

9| EARNINGS PER SHARE

In accordance with IAS 33, earnings per share is determined by dividing net income attributable to the equity holders of the parent company by the weighted average number of shares outstanding during the fiscal year.

There were no shares outstanding that could have diluted earnings per share as of December 31, 2014, or December 31, 2013.

(in EUR thousand)

	2014	2013
Net income attributable to equity holders of the parent company	333,262	328,965
Average number of shares outstanding[1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR[2]	4.83	4.77

[1] Not including own shares.
[2] Basic and diluted earnings per share.

10| ADDITIONAL DISCLOSURES TO THE CONSOLIDATED INCOME STATEMENT

PERSONNEL EXPENSES

(in EUR thousand)

	2014	2013
Cost of sales	88,957	84,354
Selling and distribution expenses	283,093	267,817
Administration expenses	133,300	128,650
Other operating expenses/income	9,001	2,244
TOTAL	**514,351**	**483,065**

The special items included in other operating expenses and income in fiscal year 2014 amounting to EUR 9,001 thousand were essentially related to the closing of the production site in Cleveland, Ohio, which is scheduled for the first half of 2015 and organizational adjustments made in Europe and the Americas.

The special items included in other operating expenses and income in fiscal year 2013 amounting to EUR 2,244 thousand mainly relate to the organizational adjustments made in Europe.

(in EUR thousand)

	2014	2013
Wages and salaries	435,692	411,383
Social security	72,405	65,837
Expenses and income for retirement and other employee benefits	6,254	5,845
TOTAL	**514,351**	**483,065**

The average headcount for the year was as follows:

	2014	2013
Industrial employees	4,861	4,740
Commercial and administrative employees	9,652	8,934
TOTAL	**14,513**	**13,674**

AMORTIZATION AND DEPRECIATION

(in EUR thousand)

	2014	2013
Cost of sales	5,656	5,461
Selling and distribution expenses	96,237	78,799
Administration expenses	20,867	21,002
TOTAL	**122,760**	**105,262**

Amortization of intangible assets and depreciation of property plant and equipment amount to EUR 122,760 thousand (2013: EUR 105,262 thousand). A breakdown of amortization and depreciation to the corresponding positions of the statement of financial position is presented in the following notes to the consolidated statement of financial position.

COST OF MATERIALS

In the past fiscal year, the cost of materials came to EUR 715,081 thousand (2013: EUR 706,211 thousand).

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(in EUR thousand)

	Property, plant and equipment	Intangible assets	TOTAL
Cost of acquisition			
January 1, 2013	**806,920**	**238,028**	**1,044,948**
Change in the basis of consolidation	(55,567)	2,453	(53,114)
Currency translation effects	(20,390)	(4,253)	(24,643)
Additions	163,045	20,196	183,241
Disposals	(26,158)	(9,108)	(35,266)
Transfers	4,101	(8,363)	(4,262)
December 31, 2013	**871,951**	**238,953**	**1,110,904**
Change in the basis of consolidation	0	0	0
Currency translation effects	33,591	5,624	39,215
Additions	109,428	25,307	134,735
Disposals	(45,780)	(3,152)	(48,932)
Transfers	(15,798)	(1,218)	(17,016)
December 31, 2014	**953,392**	**265,514**	**1,218,906**
Amortization, depreciation and impairment			
January 1, 2013	**449,466**	**95,818**	**545,284**
Change in the basis of consolidation	554	0	554
Currency translation effects	(12,825)	(911)	(13,736)
Amortization and depreciation	76,160	17,469	93,629
Impairment	10,644	989	11,633
Disposals	(23,503)	(6,500)	(30,003)
Transfers	2,873	(7,135)	(4,262)
December 31, 2013	**503,369**	**99,730**	**603,099**
Change in the basis of consolidation	0	0	0
Currency translation effects	20,564	1,829	22,393
Amortization and depreciation	88,846	18,633	107,479
Impairment	15,022	259	15,281
Disposals	(43,096)	(1,717)	(44,813)
Transfers	(14,662)	(1,218)	(15,880)
December 31, 2014	**570,043**	**117,516**	**687,559**
Carrying amount December 31, 2014	**383,349**	**147,998**	**531,347**
Carrying amount December 31, 2013	**368,582**	**139,223**	**507,805**

11| INTANGIBLE ASSETS

(in EUR thousand)

	Software, licenses and other rights	Brand rights	Key Money	Internally developed Software	Goodwill	TOTAL
Cost of acquisition						
January 1, 2013	**146,547**	**14,992**	**31,925**	**5,603**	**38,961**	**238,028**
Change in the basis of consolidation	(525)	0	2,978	0	0	2,453
Currency translation effects	(1,208)	0	(1,045)	0	(2,000)	(4,253)
Additions	19,444	0	218	0	534	20,196
Disposals	(5,956)	0	(3,152)	0	0	(9,108)
Transfers	(8,515)	0	152	0	0	(8,363)
December 31, 2013	**149,787**	**14,992**	**31,076**	**5,603**	**37,495**	**238,953**
Change in the basis of consolidation	0	0	0	0	0	0
Currency translation effects	3,391	0	612	0	1,621	5,624
Additions	22,305	0	2,583	0	419	25,307
Disposals	(2,969)	0	(183)	0	0	(3,152)
Transfers	(1,715)	0	0	0	497	(1,218)
December 31, 2014	**170,799**	**14,992**	**34,088**	**5,603**	**40,032**	**265,514**
Amortization/impairment						
January 1, 2013	**76,149**	**0**	**12,886**	**5,603**	**1,180**	**95,818**
Change in the basis of consolidation	0	0	0	0	0	0
Currency translation effects	(495)	0	(369)	0	(47)	(911)
Amortizazion	15,554	0	1,915	0	0	17,469
Impairment	30	0	959	0	0	989
Disposals	(5,531)	0	(969)	0	0	(6,500)
Transfers	(7,071)	0	(64)	0	0	(7,135)
December 31, 2013	**78,636**	**0**	**14,358**	**5,603**	**1,133**	**99,730**
Change in the basis of consolidation	0	0	0	0	0	0
Currency translation effects	1,514	0	315	0	0	1,829
Amortization	16,873	0	1,760	0	0	18,633
Impairment	0	0	259	0	0	259
Disposals	(1,557)	0	(160)	0	0	(1,717)
Transfers	(1,218)	0	0	0	0	(1,218)
December 31, 2014	**94,248**	**0**	**16,532**	**5,603**	**1,133**	**117,516**
Carrying amount December 31, 2014	**76,551**	**14,992**	**17,556**	**0**	**38,899**	**147,998**
Carrying amount December 31, 2013	**71,151**	**14,992**	**16,718**	**0**	**36,362**	**139,223**

SOFTWARE, LICENSES AND OTHER RIGHTS

The item software, licenses and other rights mainly contains software and software licenses as well as intangible assets identified in the course of purchase price allocations.

The Columbus IT project launched in fiscal year 2003 led to the acquisition of new software covering all areas of enterprise resource management. This affected systems for procurement, production management, logistics, distribution and financial systems (worldwide). Over the full duration of the project, intangible assets totaling EUR 76,318 thousand (2013: EUR 68,223 thousand) were capitalized in connection with Columbus for the ERP system, comprising the industry solution SAP AFS and SAP Retail for the company's own retail business. Of this total cost, EUR 49,531 thousand had already been amortized as of the reporting date (2013: EUR 42,883 thousand). As a result of investments in software and user rights in connection with the continuous enhancement of the ERP system, the remaining amortization period has increased to 4.0 years (2013: 3.0 years). Apart from the aforementioned software, other software licenses totaling EUR 33,471 thousand (2013: EUR 26,670 thousand) are included, whose remaining amortization period is 5.5 years (2013: 6.6 years). The disposals from the change in the basis of consolidation in fiscal year 2013 stemmed from the deconsolidation of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

In addition, the line item software, licenses and other rights contains intangible assets from purchase price allocations. As part of the acquisition accounting of the joint venture entities in fiscal year 2010, some of the items capitalized included business licenses and franchise agreements that had a net carrying amount of EUR 12,667 thousand as of December 31, 2014 (2013: EUR 12,475 thousand) and a remaining amortization period of 10.6 years (2013: 11.5 years). The franchise agreements identified as part of the purchase price allocation of the mono-brand stores of the franchise partner Moss Bros in Great Britain in 2011 are reported at a net carrying amount of EUR 833 thousand as of the reporting date (2013: EUR 1,760 thousand). The remaining amortization period is a further 0.6 years (2013: 1.1 years). When the purchase price allocation was finalized for franchise agreements identified in fiscal year 2013, an insignificant reclassification was effected within intangible assets.

BRAND RIGHTS

The reported brand rights amounting to EUR 14,992 thousand (2013: EUR 14,992 thousand), which are primarily attributable to the rights for the use of the brand names BOSS, HUGO and HUGO BOSS in the United States, are also classified as assets with indefinite useful lives.

KEY MONEY

Key money totaling EUR 17,556 thousand (2013: EUR 16,718 thousand) was recognized as of the reporting date. Of that amount, 6,353 thousand (2013: EUR 5,776 thousand) pertains to key money with an indefinite useful life and EUR 11,203 thousand (2013: EUR 10,942 thousand) to key money with a finite useful life. As of December 31, 2014, key money with an indefinite useful life only concerns DOS in France at EUR 6,353 thousand (2013: EUR 5,776 thousand). The key money with an indefinite useful life in Denmark had already been written off in full in fiscal year 2013. Key money with a finite useful life primarily concerns DOS in Switzerland, Great Britain and Brazil. An amortization period of 6.4 years remains (2013: 5.7 years).

Further information on the impairment losses can be found in Note 14.

12| PROPERTY, PLANT AND EQUIPMENT

(in EUR thousand)

	Lands and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	TOTAL
Cost of acquisition					
January 1, 2013	**252,872**	**87,077**	**442,233**	**24,738**	**806,920**
Change in the basis of consolidation	(17,849)	0	1,071	(38,789)	(55,567)
Currency translation effects	(5,400)	(413)	(14,464)	(113)	(20,390)
Additions	21,328	3,754	104,991	32,972	163,045
Disposals	(3,923)	(1,812)	(20,423)	0	(26,158)
Transfers	8,127	19	9,440	(13,485)	4,101
December 31, 2013	**255,155**	**88,625**	**522,848**	**5,323**	**871,951**
Change in the basis of consolidation	0	0	0	0	0
Currency translation effects	5,476	550	27,496	69	33,591
Additions	11,633	1,908	93,020	2,867	109,428
Disposals	(3,665)	(2,470)	(39,645)	0	(45,780)
Transfers	(3,093)	(8,594)	(1,102)	(3,009)	(15,798)
December 31, 2014	**265,506**	**80,019**	**602,617**	**5,250**	**953,392**
Depreciation/impairment					
January 1, 2013	**114,532**	**63,902**	**271,032**	**0**	**449,466**
Change in the basis of consolidation	0	0	554	0	554
Currency translation effects	(3,015)	(404)	(9,406)	0	(12,825)
Depreciation	13,196	5,084	57,880	0	76,160
Impairment	(380)	0	11,024	0	10,644
Disposals	(3,238)	(1,619)	(18,646)	0	(23,503)
Transfers	0	0	2,870	3	2,873
December 31, 2013	**121,095**	**66,963**	**315,308**	**3**	**503,369**
Change in the basis of consolidation	0	0	0	0	0
Currency translation effects	5,462	527	14,575	0	20,564
Depreciation	15,195	4,637	69,014	0	88,846
Impairment	0	0	15,022	0	15,022
Disposals	(3,544)	(2,468)	(37,084)	0	(43,096)
Transfers	(2,615)	(8,363)	(3,684)	0	(14,662)
December 31, 2014	**135,593**	**61,296**	**373,151**	**3**	**570,043**
Carrying amount December 31, 2014	**129,913**	**18,723**	**229,466**	**5,247**	**383,349**
Carrying amount December 31, 2013	**134,060**	**21,662**	**207,540**	**5,320**	**368,582**

Land charges in connection with land and buildings amount to EUR 42,043 thousand (2013: EUR 45,019 thousand).

Impairment losses of EUR 15,022 thousand (2013: EUR 10,644 thousand) were recognized on property, plant and equipment, which have been allocated to the corresponding functions in the consolidated income statement. Most of the impairment losses were recognized after impairment testing of property, plant equipment in connection with the Group's own retail business. No impairment losses (2013: EUR 1,868 thousand) or impairment reversals (2013: EUR 2,248 thousand) were recognized on land and buildings in fiscal year 2014. Transfers mainly relate to the reclassification as "non-current assets held for sale". Further information on the impairment losses can be found in Note 14.

The changes in the basis of consolidation in fiscal year 2013 concern from the deconsolidation of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG as well as the business combination in France.

13| NON-CURRENT ASSETS HELD FOR SALE

As part of the consolidation process for its production sites, HUGO BOSS reached and announced its decision in the fourth quarter of 2014 to close its site in Cleveland, Ohio, in the first half of 2015. As a result of the intent to sell in fiscal year 2015, property, plant and equipment and intangible assets relating to buildings, technical equipment and machines in the amount of EUR 1,136 thousand belonging to HUGO BOSS Cleveland, Inc., Cleveland, Ohio, USA, were classified as "non-current assets held for sale".

14| IMPAIRMENT TESTING IN THE HUGO BOSS GROUP

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"). 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 acquisition are tested for impairment annually. As of the reporting date December 31, 2014, the following non-current assets were tested for impairment in the course of annual impairment testing or in response to a triggering event:

- Depreciated property, plant and equipment and amortized intangible assets at the Group's own retail store level
- Other intangible assets with indefinite useful lives (key money)
- Brand rights with an indefinite useful life
- Goodwill

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 prepared annually in the company-wide budget planning process, taking account of the current business situation. For periods beyond the planning horizon of the budget, a long-term growth rate is set to project future cash flows. 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 local currency, while factoring 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, 2014, is based on a risk-free interest rate of 2.0% (2013: 2.75%) and a market risk mark-up of 5.5% (2013: 5.5%).

DEPRECIATED PROPERTY, PLANT AND EQUIPMENT AND AMORTIZED INTANGIBLE ASSETS AT THE GROUP'S OWN RETAIL STORES LEVEL

In the HUGO BOSS Group, **the directly operated 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 or changes to planning assumptions suggesting that the carrying amount of the assets is not recoverable. For this purpose, after preparing the annual budget planning, 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 based on a discounted cash flow method. The planned cash flows for the DOS from the bottom-up one-year budget approved by management of HUGO BOSS AG are used for this purpose. The forecast period is derived based on the expected useful lives for all DOSs 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 nominal, expected retail growth in each respective market for the corresponding planning year. Single-digit growth rates were thus determined for most DOSs. Low double-digit growth rates were determined for some emerging markets. At the end of the residual useful life, it is assumed that the respective DOS is wound up and that sales proceeds are obtained equivalent to the residual value of the operating assets. When calculating the value in use of the DOS, cash flows were discounted using a weighted average cost of capital of between 4.4% and 14.8% (2013: between 4.5% and 16.5%). This was based on a risk-free interest rate of 0.8% (2013: 1.3%) with an equivalent term.

DOS impairment testing in the past fiscal year resulted in impairment losses of EUR 15,281 thousand (2013: EUR 13,178 thousand), which were immediately recognized in the income statement under selling and distribution expenses. In response to negative developments in the profitability of individual locations, impairment losses had to be recognized on the non-current assets of certain DOSs following impairment testing. The increase is primarily attributable to retail store locations in the Americas and Asia/Pacific. Impairment losses in Europe, on the other hand, were lower than the prior year.

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

The following table presents the main assumptions underlying the calculation of the value in use or fair value less costs to sell of the goodwill and intangible assets with indefinite useful lives assigned to each group of CGUs:

(in EUR thousand)

	Carrying amount		Assumptions	
	Goodwill	**Intangible assets with indefinite useful life**	**WACC**	**Long-term growth rate**
2014				
Europe	**277**	**6,353**	**6.9–8.1%**	**3.2–3.3%**
Sales unit UK	277	0	8.1%	3.2%
DOS within the sales unit France	0	6,353	6.9%	3.3%
Asia/Pacific	**232**	**0**	**8.0%**	**3.8%**
Sales unit USA	232	0	8.0%	3.8%
Asia/Pacific	**19,680**	**0**	**7.8–8.3%**	**3.6–5.0%**
Sales unit Shenzhen	4,746	0	8.2%	5.0%
Sales unit Macau	5,935	0	7.8%	3.9%
Sales unit Australia	8,587	0	8.3%	4.9%
Sales unit Singapore	412	0	8.1%	3.6%
Licenses	**0**	**14,992**	**8.0–8.3%**	**2.4–3.8%**
Brand rights U.S.A.	0	13,615	8.0%	3.8%
Brand rights Italy	0	1,377	8.3%	2.4%
Corporate Units	**18,710**	**0**	**8.3%**	**2.0%**
Production unit shoes and leather accessories Italy	18,710	0	8.3%	2.0%
TOTAL	**38,899**	**21,345**	**6.9–8.3%**	**2.0–5.0%**
2013				
Europe	**259**	**5,776**	**8.1–8.6%**	**2.8–4.1%**
Sales unit UK	259	0	8.6%	4.1%
DOS within the sales unit France	0	5,776	8.1%	2.8%
Asia/Pacific	**17,399**	**0**	**8.0–9.8%**	**4.1–6.0%**
Sales unit Shenzhen	4,219	0	9.8%	6.0%
Sales unit Macau	5,214	0	8.0%	4.1%
Sales unit Australia	7,782	0	9.4%	4.9%
Sales unit Singapore	184	0	8.2%	4.2%
Licenses	**0**	**14,992**	**8.4–10.7%**	**1.6–4.1%**
Brand rights U.S.A.	0	13,615	8.4%	4.1%
Brand rights Italy	0	1,377	10.7%	1.6%
Corporate Units	**18,710**	**0**	**10.7%**	**1.9%**
Production unit shoes and leather accessories Italy	18,710	0	10.7%	1.9%
TOTAL	**36,368**	**20,768**	**8.0–10.7%**	**1.6–6.0%**

In the table, **goodwill** was allocated to Europe, the Americas and Asia/Pacific and linked to the corporate units and the relevant CGU. The takeover of the mono-brand stores in fiscal year 2011 gave rise to goodwill that is allocable to the sales unit UK. Goodwill stemming from the acquisition of stores from a former franchise partner in 2013 is allocable to the sales unit USA. In Asia/Pacific, goodwill acquired from the acquisition of the shares in the sales units Lotus (Shenzhen) Commerce Limited and Lotus Concept Trading (Macau) Co., Ltd., in fiscal year 2010. Goodwill from the acquisition of shares in the Australia sales unit in 2002 as well as the takeover of a retail store operated by a franchise partner in 2013 are allocated to the Australia sales unit. Goodwill also arose in fiscal year 2013 from the takeover of a franchise partner in Singapore. The goodwill allocated to the corporate units results from the acquisition of shares in the companies of the shoes and leather accessories business unit in fiscal year 2004.

The table presents the combined **intangible assets with indefinite useful lives** for all countries in Europe. The key money with an indefinite useful life is allocable to various retail locations in the markets France and Denmark; viewed individually, these are not material. Brand rights for the use of the brands, mainly for the U.S. and Italian markets, are allocated to the licenses segment. Brand rights are tested for impairment at country level.

The procedure used to assess the recoverability of goodwill and intangible assets with indefinite useful lives at CGU level is presented below:

OTHER INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE (KEY MONEY)

Key money with an indefinite useful life paid in connection with the conclusion of a rental agreement is tested for impairment once a year or if there are indications of impairment. The recoverable amount of the CGU is determined with the assistance of external appraisals that calculate either the fair value less costs to sell or the value in use using discounted cash flow models.

For DOS to which key money with an indefinite useful life was allocated, no impairment losses were recognized in fiscal year 2014 (2013: EUR 605 thousand). In fiscal year 2013, the impairment losses mainly concern the key money of two DOS in France, caused by the change in the local real estate market.

BRAND RIGHTS WITH AN INDEFINITE USEFUL LIFE

The brand rights with an indefinite useful life are primarily attributable to rights acquired in 1997 for the use of the brands BOSS, HUGO and HUGO BOSS in the United States and the brand rights acquired in Italy. The indefinite useful life stems from the estimate of an indefinite use of the registered brand name.

The recoverable amount of brand rights with an indefinite life is determined based on fair value less costs to sell and classified as 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 2014 and 2013.

GOODWILL

The recoverable amount of the respective CGUs was derived from the value in use determined using cash flow projections based on medium-term financial budgets approved by management. Restructuring to which the Group has not yet committed to and investment to improve or enhance the earnings power of the tested CGU 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.

As in the prior year, no impairment losses were recognized on any goodwill in fiscal year 2014.

KEY ASSUMPTIONS USED TO CALCULATE THE VALUE IN USE AND FAIR VALUE LESS COSTS TO SELL

The following key assumptions, estimation uncertainty and judgments by management underlie the calculation of the value in use and fair value less costs to sell of the aforementioned assets:

- Nominal, long-term retail growth
- Gross profit margin
- Fixed cost development
- Discount rates
- Expected useful life of DOS

Estimation of growth rate – Growth rates are derived from published market research for the industry 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.

Estimating 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 various channels. A constant gross profit margin was assumed after the detailed planning phase.

Cost development – The cost development is 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. Country-specific costs of capital are taken into account for individual CGUs, which factor in sovereign risk and a currency risk mark-ups. The after-tax weighted average cost of capital (WACC) takes into account both debt and equity. In addition, the beta factor, the cost of borrowed capital and the capital structure are derived by reference to a peer group in accordance with IAS 36 and calculated based on publicly available market data.

Useful life of DOS – The forecast period underlying the impairment testing of non-current assets at DOS level amortized or depreciated on a systematic basis is based on the average remaining terms of the lease agreements. These are determined and reassessed annually. Prolongation options are taken into account when determining the average remaining terms if management can exercise the option without incurring significant costs.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

As of December 31, 2014, 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 determined. Management of the HUGO BOSS Group considers it plausible for the discount rate to increase by 10.0% on average in relative terms. In addition, for the DOS under review and the CGUs to which goodwill is allocated, an annual relative divergence in growth rates of 15.0% in the detailed planning phase is deemed plausible. Furthermore, for the CGUs to which goodwill is allocated, a 15.0% decrease in the relative sales growth rates underlying the extrapolation of cash flows after the detailed planning phase is deemed plausible.

A 10.0% increase in the discount rate would result in an additional impairment of EUR 372 thousand (2013: EUR 102 thousand) for the DOS under review. Under the above assumption, the value of use of all items of goodwill would exceed their respective carrying amounts.

In the event of a 15.0% reduction of the annual growth rates in the detailed planning phase, it would be necessary to recognize an additional impairment loss of EUR 1,645 thousand (2013: EUR 923 thousand) for the DOS under review; by contrast, the value in use of all items of goodwill would exceed their carrying amounts.

In the event of a 15.0% reduction in the growth rate of sales used to extrapolate the cash flow forecast after the detailed planning period, the value in use of all items of goodwill would exceed their carrying amounts (2013: 15.0%).

15| FINANCIAL AND OTHER ASSETS

(in EUR thousand)

	2014			2013		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	42,181	22,528	19,653	40,685	23,323	17,362
Tax refund claims and prepayments	13,520	12,353	1,167	11,437	9,743	1,694
Other assets	78,242	70,669	7,573	63,612	59,659	3,953
Other financial assets	130	0	130	38	0	38
TOTAL	**134,073**	**105,550**	**28,523**	**115,772**	**92,725**	**23,047**

Financial assets include positive market values of currency hedges amounting to EUR 3,908 thousand (2013: EUR 5,026 thousand), interest hedges of EUR 0 thousand (2013: EUR 1,252 thousand) and rent deposits for the Group's own retail stores of EUR 13,714 thousand (2013: EUR 12,956 thousand). Financial assets also include receivables from credit card companies amounting to EUR 15,924 thousand (2013: EUR 16,302 thousand).

The tax refund claims and tax prepayments are mostly VAT receivables.

Other assets contain refund claims from returns in the amount of EUR 17,353 thousand (2013: EUR 13,692 thousand), bonus receivables from supplier arrangements and prepayments for service agreements and leases.

Impairment losses of EUR 457 thousand were recognized on other assets in the past fiscal year (2013: EUR 266 thousand).

Other financial assets contain the investment carried at amortized cost in the subsidiary HUGO BOSS Korea Ltd., South Korea, which was founded in fiscal year 2014 but not consolidated. In the prior year, other financial assets contained shares in the subsidiary HUGO BOSS Finland OY, Helsinki, Finland, which was not consolidated.

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 amounts to EUR 35 thousand. The maximum default risk is equal to this capital contribution.

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 associates and not to the Group's share of those associates.

(in EUR thousand)

	Dec. 31, 2014	Dec. 31, 2013
Non-current assets	124,470	102,005
Current assets	9,115	29,513
Liabilities	137,253	134,658

(in EUR thousand)

	Dec. 31, 2014	Dec. 31, 2013
Sales	6,355	1,909
Depreciation and amortization	(4,279)	(1,077)
Other interest and similar income	40	59
Interest and similar expenses	(2,450)	(628)
Net income/(loss)	(633)	(823)

The financial information is based on financial statements prepared in accordance with local gaap. IFRS financial statements are not prepared for reasons of materiality.

16| INVENTORIES

(in EUR thousand)

	2014	2013
Finished goods and merchandise	448,245	379,600
Raw materials and supplies	52,817	54,025
Work in progress	6,346	7,212
TOTAL	**507,408**	**440,837**

Inventories carried at fair value less costs to sell amount to EUR 80,575 thousand (2013: EUR 82,312 thousand). In fiscal year 2014, impairment losses of EUR 11,259 thousand (2013: EUR 13,004 thousand) were recognized, mainly on finished goods and raw materials, and reported within cost of sales. This was counterbalanced by reversals of impairment losses of EUR 11,914 thousand (2013: EUR 22,513 thousand), following the sale of finished goods and raw materials on which impairment losses had previously been recognized.

17| TRADE RECEIVABLES

(in EUR thousand)

	2014	2013
Trade receivables, gross	266,408	241,330
Accumulated allowance	(15,876)	(15,126)
Trade receivables, net	**250,532**	**226,204**

Trade receivables are non-interest-bearing and are generally due between 30 and 90 days.

All recognizable risks are provided for by appropriate valuation allowances. Actual default leads to derecognition of the receivables in question.

Valuation allowances on doubtful debts developed as follows:

(in EUR thousand)

	2014	2013
Allowances for doubtful accounts as of January 1	**15,126**	**16,628**
Additions	7,021	4,632
Use	(2,647)	(1,829)
Release	(3,793)	(4,009)
Currency differences	169	(296)
Allowances for doubtful accounts as of December 31	**15,876**	**15,126**

Any expenses and income from allowances on trade receivables are reported under selling and distribution expenses.

As at December 31, the ageing analysis of trade receivables is as follows:

(in EUR thousand)

	2014	2013
Trade receivables, net	**250,532**	**226,204**
Thereof neither overdue, nor impaired	**192,007**	**160,287**
Thereof overdue, but not impaired	**51,779**	**56,489**
≤ 30 days	32,467	34,793
30 to 60 days	14,726	14,658
60 to 90 days	4,586	7,038
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	**6,746**	**9,428**

As regards receivables that were neither overdue nor impaired, there were no indications as of the reporting date that the debtors would not settle their payment obligations. Specific valuation allowances ranging between 1% and 100% are recognized on trade receivables.

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.

18| CASH AND CASH EQUIVALENTS

(in EUR thousand)

	2014	2013
Balances with banks and other cash items	121,055	108,890
Checks/ec-cash	590	863
Cash in hand	6,986	9,489
TOTAL	**128,631**	**119,242**

Apart from liquid assets in the narrow sense – i.e. checks, cash in hand, balances with banks – cash and cash equivalents contain short-term deposits that can be converted to cash and cash equivalents at any time and are only subject to insignificant fluctuations in value.

As of the end of the reporting date, the line item balances with banks and other cash items contains short-term deposits of EUR 10,000 thousand (2013: EUR 25,000 thousand).

19| SUBSCRIBED CAPITAL

The fully paid in share capital of HUGO BOSS AG is unchanged and amounts to EUR 70,400 thousand as of December 31, 2014. 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). Generally, shareholders have a subscription right.

CAPITAL MANAGEMENT

Equity comprises the equity attributable to the equity holders of the parent.

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.

To increase the enterprise value, the Group focuses on maximizing free cash flow over the long term. Maintaining positive free cash flow on a lasting basis secures the Group's financial independence and its solvency at all times. The main levers for improving free cash flow are increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made to the objectives, policies and methods as of December 31, 2014, and December 31, 2013.

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)

	2014	2013
Liabilities due to banks	164,294	176,250
Cash and cash equivalents	(128,631)	(119,242)
Net financial liabilities	**35,663**	**57,008**
Operating profit	**590,789**	**564,706**
Financing strength	**0.1**	**0.1**

Total leverage improved further year on year driven by the positive development of the operating result and the improvement in net financial liabilities. As in the prior year, the ratio was at 0.1 on the reporting date and thus substantially lower than the maximum permissible value pursuant to the covenant agreed as part of the refinanced syndicated loan agreement from fiscal year 2013.

20| OWN SHARES

The number of own shares remains unchanged compared to the prior year:

	2014	2013
Shares	1,383,833	1,383,833
Share of subscribed capital in %	2.0	2.0

At the Annual Shareholders' Meeting of June 21, 2010, a resolution was passed to authorize the Managing Board until June 20, 2015 to redeem registered ordinary shares and/or registered preferred shares without voting rights of the Company up to 10% in total of the current share capital.

21| CAPITAL RESERVE

The capital reserve contains premiums on the issue of shares.

22| RETAINED EARNINGS

Retained earnings contain profits that have not been distributed and that were generated in the past by the entities included in the consolidated financial statements, effects on earnings from consolidation entries in prior periods and effects from the revaluation of provisions for pensions.

23| ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income contains the differences without effect on income arising from translation of the financial statements of foreign subsidiaries amounting to EUR 15,320 thousand (2013: EUR –16,699 thousand) and the effects of the measurement of cash flow hedges after tax without effect on income. Deferred taxes on the measurement of cash flow hedges recognized directly in equity amount to EUR 387 thousand (2013: EUR –313 thousand).

Reference is made to the consolidated statement of comprehensive income for the income and expenses recognized directly in equity.

24| DIVIDEND

Pursuant to the AktG ["Aktiengesetz": German Stock Corporation Act], the dividend that can be distributed to the shareholders is measured based on the unappropriated surplus reported in the financial statements of HUGO BOSS AG amounting to EUR 254,848 thousand. The net retained profit of HUGO BOSS AG for 2014 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 249,839 thousand. This corresponds to EUR 3.62 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 5,009 thousand be carried forward to new account.

In 2014, a dividend of EUR 230,514 thousand was paid out for shares outstanding for fiscal year 2013 (in 2013 for 2012: EUR 215,330 thousand). This corresponds to EUR 3.34 per share for 2013 (2012: EUR 3.12 per share).

25| PROVISIONS

(in EUR thousand)

	2014	2013
Provisions for pensions	45,628	29,795
Other non-current provisions	24,917	22,944
Non-current provisions	**70,545**	**52,739**
Current provisions	**115,656**	**99,868**
TOTAL	**186,201**	**152,607**

Other provisions of EUR 140,573 thousand (2013: EUR 122,812 thousand) comprise current provisions of EUR 115,656 thousand (2013: EUR 99,868 thousand) and other non-current provisions of EUR 24,917 thousand (2013: EUR 22,944 thousand).

In fiscal year 2014, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2014	**Currency differences**	**Compounding**	**Addition**	**Use**	**Release**	**Balance on Dec. 31, 2014**
Provisions for personnel expenses	53,381	1,064	89	32,308	(36,213)	(5,091)	45,538
Refund for goods	20,164	494	0	24,856	(18,210)	(1,749)	25,555
Provisions for rebuild obligations	9,102	677	212	3,468	(365)	(810)	12,284
Costs of litigation, pending legal disputes	8,508	83	0	2,498	(2,141)	(1,478)	7,470
Miscellaneous provisions	31,657	1,062	0	33,524	(9,660)	(6,857)	49,726
TOTAL	**122,812**	**3,380**	**301**	**96,654**	**(66,589)**	**(15,985)**	**140,573**

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.

Overall, it is expected that the provisions for personnel expenses of EUR 11,317 thousand (2013: EUR 12,562 thousand) will be paid out in more than 12 months.

Provisions for goods returned, which are largely expected to be completed within 12 months, are determined based on historical rates of goods returned.

Non-current provisions for rebuild obligations relate to Group-operated retail stores, warehouses and office space used by the Group companies.

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.

Miscellaneous provisions also contain provisions for the potential ramifications of legal and tax issues and provisions for expenses related to the decision to close the production site in Cleveland, Ohio, which has already been communicated.

The risk-free interest rates used to discount non-current provisions range between 0.5% and 4.5% (prior year: between 1.1% and 4.9%) depending on the term and currency zone in question.

26| 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, Switzerland and Turkey. The characteristics of these plans are described in the following.

DEFINED BENEFIT PLANS

GERMANY

Since 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 retirement benefit in the form of an old-age pension, an early-retirement benefit or a disability benefit or a surviving dependents' benefit in the form of a dependent child benefit. The retirement benefits, early-retirement benefits and dependent child benefits have been indirectly granted through a welfare fund, while HUGO BOSS has granted the disability benefit directly. The general benefits previously granted via the welfare fund were transferred to HUGO BOSS AG as the sponsoring company in fiscal year 2014 in return for waiver of the plan assets granted as a loan. Active employees were subsequently offered a cash settlement of the vested benefits or, alternatively, transfer of the vested benefits to the Company's direct insurance scheme (plan settlement). The remaining general pension commitments have been retained as HUGO BOSS AG's direct pension commitments.

Individually agreed benefits are only granted to active and former members of the Managing Board. Benefits can take the form of retirement benefits as old-age pensions or disability annuities and take the form of surviving dependents' benefits as a surviving spouse or child benefit.

In addition, the HUGO BOSS Group offers the Managing Board and executives 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 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.

TURKEY

In Turkey, severance payment commitments have been made to employees, which have to be recognized as defined benefit plans in accordance with IAS 19. The severance payment that must be paid by HUGO BOSS complies with the legally required benefits of up to one month per year of service and is granted upon retirement, in the event of employment termination by the employer without due cause, upon marriage, in the event of death or conscription to military service. Employees are entitled to benefits after one year of service. The monthly salary used as a basis to calculate the obligation is capped at an amount set by the Turkish authorities. Obligations in Turkey are funded by provisions.

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**	
	2014	2013	**2014**	2013	**2014**	2013
Germany	81,711	73,996	56,633	58,068	25,078	15,928
Switzerland	36,055	28,252	22,333	19,428	13,722	8,824
Turkey	4,146	2,868	0	0	4,146	2,868
Others[1]	2,682	2,175	0	0	2,682	2,175
TOTAL	**124,594**	**107,291**	**78,966**	**77,496**	**45,628**	**29,795**

[1] Additional defined benefit plans are in place in Italy, France and Mexico.

The amount of the pension obligations was determined using actuarial methods in accordance with IAS 19 “Employee Benefits”.

In fiscal year 2014, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2014	2013
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	107,291	100,374
Currency differences	689	(1,241)
Service cost	5,686	5,804
Interest expense	3,613	3,227
Payments from settlements	(3,932)	0
Remeasurement of the carrying amount		
Actuarial gains/losses	21,218	(2,341)
Experience adjustments	(3,182)	398
Benefits paid	(10,567)	(3,361)
Contribution by participants of the plan	2,928	4,296
Past service cost	967	0
Other changes in benefit obligation	(117)	135
Present value of benefit obligation on December 31	**124,594**	**107,291**
Changes in plan assets		
Fair value of plan assets on January 1	77,496	69,137
Currency differences	406	(284)
Offsetting with plan assets	0	0
Expected return on plan assets	2,621	2,254
Expected return on plan assets (without interest income)	(373)	(160)
Benefits paid	(9,990)	(2,647)
Contribution by the employer	3,048	6,846
Contribution by participants of the plan	2,928	4,296
Asset ceiling pursuant to IAS 19.58	2,830	(1,946)
Other changes in benefit obligation	0	0
Fair value of plan assets on December 31	**78,966**	**77,496**
Funding status of the benefits funded by plan assets	**45,628**	**29,795**

As of December 31, 2014 EUR 115,201 thousand (2013: EUR 96,164 thousand) of the present value of the defined benefit obligations was funded through employer's pension liability insurance and foundation assets, while the remaining EUR 9,393 thousand (2013: EUR 11,127 thousand) was unfunded.

ACTUARIAL ASSUMPTIONS UNDERLYING THE CALCULATION OF THE PRESENT VALUE OF THE PENSION OBLIGATION AS OF DECEMBER 31, 2014

The following premises were defined:

Actuarial assumptions	**2014**	2013
Discount rate		
Germany	2.25%	3.50%
Switzerland	1.40%	2.20%
Turkey	8.50%	10.50%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Turkey	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	3.50%	4,00%
Turkey	5.00%	5.00%

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. The pension obligations in Turkey are determined using the CSO 1980 mortality tables.

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, 2014.

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.

Actuarial assumptions	**2014**	2013
Discount rate		
December 31,		
Increase of 75 basis points	(11,943)	(12,407)
Decline of 75 basis points	14,883	15,188
Future pension increases		
December 31,		
Increase of 25 basis points	2,069	1,980
Decline of 25 basis points	(970)	(1,178)
Future salary increases		
December 31,		
Increase of 50 basis points	2,246	1,675
Decline of 50 basis points	(2,184)	(1,564)
Life expectancy		
December 31,		
Increase of 10 percent	(2,502)	(1,349)
Decline of 10 percent	2,810	1,199

BREAKDOWN OF THE PENSION EXPENSES IN THE PERIOD

The pension expenses recognized in the consolidated income statement comprise the current service cost and the net interest expense. In addition, remeasurement effects from the change in financial assumptions and experience adjustments together with the return on plan assets that is not included in interest expenses and interest income are recognized in other comprehensive income in the consolidated statement of comprehensive income. The net effect from the asset ceiling is also recognized in other comprehensive income in accordance with IAS 19.58.

(in EUR thousand)

	2014	2013
Current service costs	5,686	5,804
Past service costs	967	0
Net interest costs	992	973
Recognized pension expenses in the comprehensive statement of income	**7,645**	**6,777**
Expense from plan assets (without interest effects)	373	160
Recognized actuarial (gains)/losses	18,037	(1,943)
Asset ceiling (without interest effects of asset ceiling)	(2,929)	1,695
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**15,480**	**–88**

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 2015, the Group expects employer contributions to plan assets of EUR 3,010 thousand (2014: EUR 2,296 thousand).

DURATION

The duration of the defined benefit plans of the HUGO BOSS Group on December 31 stood at:

(Duration in years)

	2014	2013
Germany	20	18
Switzerland	19	17
Turkey	13	12

DEFINED CONTRIBUTION PLANS

Employer contributions to defined contribution plans totaled EUR 16,173 thousand in the fiscal year (2013: EUR 17,093 thousand) and are reported under personnel expenses in the income statement. The HUGO BOSS Group's main defined contribution plans are in Germany, the United States, the Benelux countries, Scandinavia and Hong Kong. Significant components of the amounts recognized in the income statement are contributions to statutory pension insurance and the employer's contribution to employer-funded direct insurance in Germany.

27| 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)

	2014	2013
Non-current financial liabilities	153,643	164,768
Current financial liabilities	18,256	14,653
TOTAL	**171,899**	**179,421**

(in EUR thousand)

	2014	**With remaining term up to 1 year**	2013	With remaining term up to 1 year
Financial liabilities due to banks	164,293	15,137	176,250	13,889
Other financial liabilities	7,606	3,119	3,171	764
TOTAL	**171,899**	**18,256**	**179,421**	**14,653**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 7,546 thousand (2013: EUR 3,051 thousand). As in the prior year, there were no liabilities from finance lease agreements.

The following tables show the terms and conditions of financial liabilities:

LIABILITIES DUE TO BANKS

	2014		2013	
Remaining term	**Weighted average interest rate**	**Carrying amount EUR thous.**	Weighted average interest rate	Carrying amount EUR thous.
Up to 1 year	4.01%	15,137	3.84%	13,889
1 to 5 years	1.30%	116,948	1.45%	135,861
More than 5 years	2.97%	32,208	3.54%	26,500

The majority of financial liabilities due to banks are classified as non-current following the refinancing of the syndicated line of credit in fiscal year 2013.

OTHER FINANCIAL LIABILITIES

	2014		2013	
Remaining term	**Weighted average interest rate**	**Carrying amount EUR thous.**	Weighted average interest rate	Carrying amount EUR thous.
Up to 1 year	0.90%	3,640	4.16%	764
1 to 5 years	3.60%	2,967	5.10%	1,722
More than 5 years	5.69%	999	5.48%	685

By contrast to the prior year, the share of non-interest-bearing financial liabilities has risen. As of the reporting date, they contain interest and 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)

2014		**Expected cash flows**			
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1 – 5 years**	**> 5 years**
Financial liabilities due to banks	164,293	179,029	17,010	137,092	24,927
Liabilities from finance leases	0	0	0	0	0
Derivative financial liabilities					
Undesignated derivatives	5,998	5,998	3,119	1,880	999
Derivatives subject to hedge accounting	1,548	1,548	521	1,027	0
Other financial liabilities	60	60	0	60	0
TOTAL	**171,899**	**186,635**	**20,650**	**140,059**	**25,926**

2013					
Non-derivative financial liabilities					
Financial liabilities due to banks	176,250	195,312	24,578	140,667	30,067
Liabilities from finance leases	0	0	0	0	0
Derivative financial liabilities					
Undesignated derivatives	3,051	3,170	765	1,636	769
Derivatives subject to hedge accounting	0	0	0	0	0
Other financial liabilities	120	120	0	120	0
TOTAL	**179,421**	**198,602**	**25,343**	**142,423**	**30,836**

28| OTHER LIABILITIES

(in EUR thousand)

	2014			2013		
		Thereof current	Thereof non-current		Thereof current	Thereof non-current
Other liabilities	134,747	96,876	37,871	112,889	81,922	30,967
From taxes	36,630	36,630	0	29,063	29,063	0
From social security	6,607	6,607	0	5,688	5,749	(61)

Apart from VAT liabilities and social security liabilities, other liabilities mainly contain accruals of rental obligations for the Group's own retail business as well as accrued vacation, wages and salaries.

29| TRADE PAYABLES

(in EUR thousand)

	2014	2013
Trade payables	254,959	235,286

Trade payables contain payments on account of EUR 6,237 thousand (2013: EUR 4,964 thousand).
Trade payables have a remaining term of up to one year.

30| ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

CARRYING AMOUNTS AND FAIR VALUES BY CATEGORY OF FINANCIAL INSTRUMENTS

(in EUR thousand)

		2014		2013	
Assets	IAS 39 category	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	LaR	128,631	128,631	119,242	119,242
Trade receivables	LaR	250,532	250,532	226,204	226,204
Other financial assets		42,276	42,276	40,688	40,688
Thereof:					
Available-for-sale investments	AfS	95	95	3	3
Undesignated derivatives	FAHfT	3,395	3,395	5,026	5,026
Derivatives subject to hedge accounting	n. a.	513	513	1,252	1,252
Other financial assets	LaR	38,273	38,273	34,407	34,407
Liabilities					
Financial liabilities due to banks	FLAC	164,293	169,578	176,250	179,492
Trade payables	FLAC	254,959	254,959	235,286	235,286
Other financial liabilities		7,606	7,606	3,171	3,171
Thereof:					
Undesignated derivatives	FLHfT	5,998	5,998	3,051	3,051
Derivatives subject to hedge accounting	n. a.	1,548	1,548	0	0
Other financial liabilities	FLAC	60	60	120	120
Total for categories of financial instruments according to IAS 39:					
Loans and Receivables	LaR	417,436	417,436	379,853	379,853
Available-for-Sale investments	AfS	95	95	3	3
Financial Assets Held for Trading	FAHfT	3,395	3,395	5,026	5,026
Financial Liabilities Measured at Amortized Cost	FLAC	419,312	424,597	411,656	414,898
Financial Liabilities Held for Trading	FLHfT	5,998	5,998	3,051	3,051

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties. 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.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Financial transactions with parties with a lower credit rating require the approval of the Managing Board and are concluded only to a limited degree. Derivatives valued using valuation techniques with observable market data are mainly interest rate swaps and forward exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the creditworthiness of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying base rates.

As of December 31, 2014, 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, 2014, 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 2014, 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. These were assigned to the categories FAHfT, FLHfT and derivatives used for hedging. The assets amounted to EUR 3,908 thousand and liabilities to EUR 7,546 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 110,916 thousand (2013: EUR 111,495 thousand) in variable interest finance liabilities were hedged. EUR 100,000 thousand (2013: EUR 100,000 thousand) thereof was designated as an effective hedging instrument. Moreover, as of the reporting date, future cash flows in foreign currencies of EUR 12,532 thousand (2013: EUR 0 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 –1,587 thousand (2013: EUR 4,460 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**	**2014**	2013
Derivatives (FAHfT and FLHfT)	0	(1,341)	0	0	(4,299)	(5,640)	11,736
Loans and Receivables (LaR)	1,617	0	2,831	(2,642)	0	1,806	(12,874)
Financial liabilities measured at amortized cost (FLAC)	(7,218)	0	(2,474)	0	0	(9,692)	(16,908)

Interest on financial instruments is reported in the interest result (cf. notes to the consolidated income statement, Note 6).

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.

31| 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
2014						
Cash and cash equivalents	128,631	0	128,631	0	0	128,631
Trade receivables	264,631	(14,099)	250,532	0	0	250,532
Other financial assets	42,276	0	42,276	(1,473)	0	40,803
Thereof available-for-sale	95	0	95	0	0	95
Thereof derivatives	3,908	0	3,908	(1,473)	0	2,435
Thereof other financial assets	38,273	0	38,273	0	0	38,273
TOTAL	**435,443**	**(14,099)**	**421,344**	**(1,473)**	**0**	**419,871**
2013						
Cash and cash equivalents	119,242	0	119,242	0	0	119,242
Trade receivables	239,006	(12,802)	226,204	0	0	226,204
Other financial assets	40,688	0	40,688	(126)	0	40,562
Thereof available-for-sale	3	0	3	0	0	3
Thereof derivatives	6,278	0	6,278	(126)	0	6,152
Thereof other financial assets	34,407	0	34,407	0	0	34,407
TOTAL	**398,933**	**(12,802)**	**386,131**	**(126)**	**0**	**386,005**

(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
2014						
Liabilities due to banks	164,293	0	164,293	0	0	164,293
Trade payables	259,791	(4,832)	254,959	0	0	254,959
Other financial assets	7,606	0	7,606	(1,473)	0	6,133
Thereof derivatives	7,546	0	7,546	(1,473)	0	6,073
Thereof other financial liabilities	60	0	60	0	0	60
TOTAL	**431,690**	**(4,832)**	**426,858**	**(1,473)**	**0**	**425,385**
2013						
Liabilities due to banks	176,250	0	176,250	0	0	176,250
Trade payables	241,898	(6,612)	235,286	0	0	235,286
Other financial assets	3,171	0	3,171	(126)	0	3,045
Thereof derivatives	3,051	0	3,051	(126)	0	2,925
Thereof other financial liabilities	120	0	120	0	0	120
TOTAL	**421,319**	**(6,612)**	**414,707**	**(126)**	**0**	**414,581**

The liabilities of EUR 14,099 thousand (2013: EUR 12,802 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 4,832 thousand (2013: EUR 6,612 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.

OTHER NOTES

32| CONTINGENT LIABILITIES

As in the previous year, there were no contingent liabilities towards external third parties as at the reporting date.

Contingent liabilities arising from the provision of collateral for third-party liabilities are valued at EUR 8,547 thousand as at December 31, 2014 (2013: 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.

33| OTHER FINANCIAL OBLIGATIONS

OPERATING LEASES

A substantial number of rental agreements have been entered into which qualify as operating leases based on their substance, such that the leased asset is attributable to the lessor.

Operating leases concern in particular the rental agreements for the real estate used by the retail stores operated by the Group, warehouses and office space used by the Group companies, most of which are based on minimum lease payments. The main real estate lease agreements (operating leases) for the use of buildings and associated land include purchase options and, in some cases, renewal options for the respective property. Lease arrangements that contain agreements on contingent rents (particularly rents linked to sales) are also in place.

Rental expenses under operating leases of EUR 318,442 thousand were recognized in fiscal year 2014 (2013: EUR 260,463 thousand). Contingent rental expenses amounted to EUR 90,876 thousand (2013: EUR 88,690 thousand).

The following minimum lease payments under operating leases fall due in subsequent periods:

(in EUR thousand)

2014	**Due 2015**	**Due 2016 – 2019**	**Due after 2019**	**TOTAL**
Sum of future minimum lease payments (operating lease)	232,091	667,004	409,003	**1,308,098**
Other obligations	2,054	3,210	353	**5,617**
TOTAL	**234,145**	**670,214**	**409,356**	**1,313,715**

2013	Due 2014	Due 2015 – 2018	Due after 2018	**TOTAL**
Sum of future minimum lease payments (operating lease)	188,973	588,737	373,573	**1,151,283**
Other obligations	1,526	2,824	522	**4,872**
TOTAL	**190,499**	**591,561**	**374,095**	**1,156,155**

The other obligations line item contains other service and maintenance agreements.

In fiscal year 2014, the Group earned income of EUR 164 thousand from subleases (2013: EUR 282 thousand). Total future minimum lease payments from subleases as of the reporting date December 31, 2014, which are expected to be received as they pertain to non-cancellable leases, amount to EUR 493 thousand (2013: EUR 1,871 thousand).

FINANCE LEASES

In the fiscal year 2014 and in the prior year, property, plant and equipment did not contain any land whose economic ownership would be attributable to the Group in accordance with IAS 17. Nor were there any items of operating and office equipment that qualify.

OTHER FINANCIAL OBLIGATIONS

The HUGO BOSS Group has entered into advertising and sponsorship agreements that result in other financial obligations. This leads to the following payments in subsequent years:

(in EUR thousand)

2014	**Due 2015**	**Due 2016–2019**	**Due after 2019**	**TOTAL**
Advertising and sponsorship contracts	9,507	17,058	0	**26,565**
TOTAL	**9,507**	**17,058**	**0**	**26,565**
2013	Due 2014	Due 2015–2018	Due after 2018	**TOTAL**
Advertising and sponsorship contracts	10,734	15,477	0	**26,211**
TOTAL	**10,734**	**15,477**	**0**	**26,211**

In addition, there are purchase obligations for investments amounting to EUR 1,401 thousand (2013: EUR 2,118 thousand). Of this amount, EUR 712 thousand is attributable to property, plant and equipment (2013: EUR 699 thousand) and EUR 689 thousand (2013: EUR 1,419 thousand) to intangible assets. The obligations as of December 31, 2014 fall due within one year.

34| HEDGING POLICY AND FINANCIAL DERIVATIVES

The following presentation shows the nominal amounts and the fair value of derivative financial instruments:

(in EUR thousand)

	2014		2013	
Assets	**Nominal-values**	**Fair values**	Nominal-values	Fair values
Currency hedging contracts	78,262	3,908	91,716	5,026
Interest hedging contracts	0	0	100,000	1,252
Liabilities				
Currency hedging contracts	(80,266)	(2,541)	(19,505)	(185)
Interest hedging contracts	(110,916)	(5,005)	(11,495)	(2,866)
TOTAL	**(112,920)**	**(3,638)**	**160,717**	**3,227**

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 –2,603 thousand (2013: EUR 1,975 thousand) stems from financial assets and liabilities that were classified as held for trading.

After deducting deferred taxes, negative effects from the fair value measurement of interest hedges of EUR –1,161 thousand (2013: EUR 939 thousand) were recognized in other comprehensive income as of December 31, 2014. Of the amount recognized in other comprehensive income, interest hedges of EUR –411 thousand after tax expenses were recycled through the income statement in fiscal year 2014 (2013: expenses of EUR –3,873 thousand). This breaks down into an interest expense of EUR –548 thousand (2013: EUR –5,164 thousand) and income from deferred taxes of EUR 137 thousand (2013: EUR 1,291 thousand). The fair value changes came to EUR –2,511 thousand (prior year: EUR 588 thousand) after deferred taxes.

Unlike in the prior year, positive effects from the fair value measurement of currency hedges after deferred taxes were recognized with EUR 513 thousand in other comprehensive income as of December 31, 2014 (2013: EUR 0 thousand). Of the amount recognized in other comprehensive income, no expenses were reclassified from equity into profit for the period due to initial recognition.

As a group with international operations, HUGO BOSS is exposed to risks from exchange rate and interest fluctuations in connection with its operating activities. Derivative financial instruments are used to mitigate such risks. Only marketable instruments with adequate liquidity are used. At HUGO BOSS, use of derivative financial instruments is subject to internal policies and control mechanisms.

In its use of derivative financial instruments, the HUGO BOSS Group is exposed to the risk of counterparty default. This risk is countered by only entering into contracts with banks that have excellent to good credit ratings.

CURRENCY RISKS

The disclosures required under IFRS 7 on currency risks and a corresponding sensitivity analysis are presented in detail in the risk report section of the management report. Currency risk is determined based on currency exposure already recognized and future cash flows, since the hedging strategy aims to mitigate accounting risks and risks arising from future cash flows.

INTEREST RATE RISKS

The disclosures required under IFRS 7 on interest risks and a corresponding sensitivity analysis are presented in detail in the risk report section of the management report.

35| 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.

Changes in the Group’s cash and cash equivalents are the result of the development of the individual cash flows after exchange rate effects.

The cash and cash equivalents presented in the statement of cash flows contain all cash and cash equivalents shown in the statement of financial position, i.e. apart from liquid assets in the narrow sense – checks, cash in hand, balances with banks – cash and cash equivalents contain short-term investments that can be converted to cash and cash equivalents at any time and are only subject to insignificant fluctuations in value. Cash and cash equivalents are measured at amortized cost.

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.

36| 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, 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
2014					
Sales	**1,566,538**	**586,606**	**360,808**	**57,664**	**2,571,616**
Segment profit	**536,130**	**151,084**	**112,158**	**49,128**	**848,500**
In % of sales	34.2	25.8	31.1	85.2	33.0
Segment assets	237,265	200,272	98,624	16,996	553,157
Capital expenditure	50,474	23,041	26,323	0	99,838
Impairments	(3,193)	(6,821)	(5,267)	0	(15,281)
Thereof property, plant and equipment	(2,934)	(6,821)	(5,267)	0	(15,022)
Thereof intangible assets	(259)	0	0	0	(259)
Depreciation/amortization	(33,024)	(23,808)	(18,969)	0	(75,801)
SAR expenses and hedging	0	0	0	0	0
2013					
Sales	**1,457,389**	**570,104**	**346,777**	**57,863**	**2,432,133**
Segment profit[2]	**490,227**	**152,013**	**117,291**	**49,301**	**808,832**
In % of sales[2]	33.6	26.7	33.8	85.2	33.3
Segment assets	209,729	143,200	79,360	17,623	449,912
Capital expenditure	53,013	39,110	33,603	1	125,727
Impairments	(9,125)	(2,661)	(2,095)	0	(13,881)
Thereof property, plant and equipment	(8,188)	(2,661)	(2,043)	0	(12,892)
Thereof intangible assets	(937)	0	(52)	0	(989)
Depreciation/amortization[2]	(28,022)	(17,687)	(16,709)	0	(62,418)
SAR expenses and hedging	0	0	0	0	0

[1] Including Middle East/Africa.
[2] Due to a reallocation of cost centers between Corporate Units and Europe, the amounts do not correspond to the figures reported in the prior year.

RECONCILIATION

SALES

(in EUR thousand)

	2014	2013
Sales – operating segments	**2,571,616**	**2,432,133**
Corporate units	0	0
Consolidation	0	0
TOTAL	**2,571,616**	**2,432,133**

OPERATING INCOME

(in EUR thousand)

	2014	2013
Segment profit – operating segments[1]	**848,500**	**808,832**
Depreciation/amortization – operating segments[1]	(75,801)	(62,418)
Impairments – operating segments	(15,281)	(13,881)
Special items – operating segments	(9,884)	(3,010)
Operating income (EBIT) – operating segments[1]	**747,534**	**729,523**
Corporate units[1]	(287,104)	(277,934)
Consolidation[1]	(11,709)	4,564
Operating income (EBIT) HUGO BOSS Group	**448,721**	**456,153**
Net interest income/expenses	**(4,518)**	**(14,428)**
Other financial items	**(7,055)**	**(8,259)**
Earnings before taxes HUGO BOSS Group	**437,148**	**433,466**

[1] Due to a reallocation of cost centers between Corporate Units and Europe, the amounts do not correspond to the figures reported in the prior year.

SEGMENT ASSETS

(in EUR thousand)

	2014	2013
Segment assets – operating segments	**553,157**	**449,912**
Corporate units	204,783	217,129
Consolidation	0	0
Current tax receivables	8,291	10,781
Current financial assets	22,528	23,323
Other current assets	83,022	69,402
Cash and cash equivalents	128,631	119,242
Non-current assets held for sale	1,136	0
Current assets HUGO BOSS Group	**1,001,548**	**889,789**
Non-current assets	660,252	611,545
TOTAL assets HUGO BOSS Group	**1,661,800**	**1,501,334**

CAPITAL EXPENDITURES

(in EUR thousand)

	2014	2013
Capital expenditure – operating segments	**99,838**	**125,727**
Corporate units	34,898	59,577
Consolidation	0	0
TOTAL	**134,736**	**185,304**

IMPAIRMENTS

(in EUR thousand)

	2014	2013
Impairment – operating segments	**15,281**	**13,881**
Corporate units	0	(2,248)
Consolidation	0	0
TOTAL	**15,281**	**11,633**

DEPRECIATION/AMORTIZATION

(in EUR thousand)

	2014	2013
Depreciation/amortization – operating segments[1]	**75,801**	**62,418**
Corporate units[1]	31,678	31,211
Consolidation	0	0
TOTAL	**107,479**	**93,629**

[1] Due to a reallocation of cost centers between Corporate Units and Europe, the amounts do not correspond to the figures reported in the prior year.

SAR-EXPENSES AND HEDGING

(in EUR thousand)

	2014	2013
SAR-expenses and hedging – operating segments	**0**	**0**
Corporate units	0	(295)
Consolidation	0	0
TOTAL	**0**	**(295)**

GEOGRAPHIC INFORMATION

(in EUR thousand)

	Third party sales		**Non-current assets**	
	2014	2013	**2014**	2013
Germany	446,246	416,541	180,682	177,813
Other European markets	1,117,688	1,039,163	185,479	172,910
U.S.A.	464,496	447,504	58,790	54,191
Other North, Central and South American markets	123,971	123,162	13,581	14,527
China	215,695	211,761	36,456	38,823
Other Asian markets	145,856	136,139	50,200	40,180
Licenses	57,664	57,863	15,029	15,046
TOTAL	**2,571,616**	**2,432,133**	**540,217**	**513,490**

37| RELATED PARTY DISCLOSURES

In the reporting period from January 1 to December 31, 2014, the following transactions requiring disclosure were conducted with related parties:

PARENT COMPANY

In fiscal year 2010, HUGO BOSS AG and Red & Black Holding GmbH, Oberursel (Taunus), as the direct parent company of HUGO BOSS AG, concluded a service agreement. This service agreement, which expired in 2013, governed the preparation of quarterly and annual financial statements as well as the consolidated financial statements of Red & Black Holding GmbH, Oberursel (Taunus). In return, HUGO BOSS AG received an adequate annual fee at arm's length conditions amounting to EUR 50 thousand, for the last time in fiscal year 2013. Effective July 1, 2013, Red & Black Holding GmbH, Oberursel (Taunus) was merged into Red & Black Lux S.à.r.l., Luxembourg. As of December 31, 2014, the Group did not have any receivables from the business relationship which ended in 2013.

In the period from January 1 to December 31, 2014, as in the prior year, no legal transactions were conducted with Permira Holdings Limited, Guernsey, as the ultimate parent company of the HUGO BOSS Group, or with companies affiliated with this company. There were no open items relating to these business transactions as of December 31, 2014.

NON-CONSOLIDATED SUBSIDIARIES

No sales were generated with the non-consolidated subsidiary HUGO BOSS Korea Ltd. in fiscal year 2014. In the prior year no transactions were conducted with the subsidiary HUGO BOSS Finland OY, which was not consolidated at the time. The company has been included in the basis of consolidation since fiscal year 2014.

ENTITIES UNDER JOINT CONTROL

Within the scope of existing real estate lease agreements, rents in the amount of EUR 7,069 thousand were paid to companies under joint control in fiscal year 2014 (2013: EUR 2,579 thousand). There were no open liabilities relating to these business transactions as of December 31, 2014. 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 13 years at GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D–19 KG and 11 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. This encompasses the preparation, execution and monitoring 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 in connection with the establishment of a flat-packed goods distribution center in Filderstadt. For the provision of construction support services, HUGO BOSS AG received a fixed fee of EUR 250 thousand, which became due when the flat-packed goods distribution center went into operation in 2014, and EUR 10 thousand for continued construction support.

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 240 to 241.

Compensation of active members of the Managing Board

Compensation within the meaning of IAS 24 for active members of the Managing Board is as follows:

The expense for short-term employee benefits totaled EUR 4,434 thousand in 2014 (2013: EUR 4,321 thousand). In 2014, a service cost of EUR 2,148 thousand was incurred for company pension plans (2013: EUR 1,638 thousand). An expense of EUR 534 thousand was incurred for other long-term employee benefits reportable in 2014 (2013: EUR 1,596 thousand). As in the prior year, no expenses were incurred from termination benefits relating to members of the Managing Board active in the reporting year. There are no obligations to make share-based payments to active members of the Managing Board, nor were there any in the prior year.

By resolution of the Annual Shareholders' Meeting of June 21, 2010, the individual amounts paid to members of the Managing Board are not disclosed. Accordingly, the disclosures required under Sec. 285 Sentence 1 No. 9 a) Sentences 5 to 8 HGB and Sec. 314 (1) No. 6 a) Sentences 5 to 8 HGB are not being made for a period of five years. This applies to the fiscal year beginning on January 1, 2010 and the following four fiscal years, i.e. until December 31, 2014. As a consequence, the total compensation is disclosed as an aggregate amount and broken down into the individual compensation components.

Total compensation of the members of the Managing Board within the meaning of Sec. 314 (1) No. 6 a) Sentences 1 to 4 HGB came to EUR 4,434 thousand in fiscal year 2014 (prior year: EUR 5,211 thousand). Of this amount, EUR 3,682 thousand was attributable to fixed salary components including fringe benefits (2013: EUR 3,466 thousand).

The total compensation for fiscal year 2014 does not include any annual bonus (in contrast to the previous year). The annual bonus is omitted if the parameter used to measure it – trade net working capital – reaches or exceeds a certain percentage above the annual target. This percentage was exceeded in fiscal year 2014.

The total compensation for fiscal year 2014 contains an amount of EUR 752 thousand for short-term variable incentives. This is related to actual target achievement for the annual bonus for 2013 and constitutes the difference between the amount of EUR 1,607 thousand paid out in 2014 and the amount of EUR 855 thousand retained as a provision in the previous year. In contrast to the previous year, no long-term variable incentives (multi-year bonuses 2013–2015 and 2014–2016) are included in total compensation for the year due to the three-year measurement period. In the previous year, total compensation included an amount of EUR 890 thousand equaling the difference between actual target achievement for the multi-year bonuses 2010–2012 and the pro rata amount which had been retained as a provision in the previous year.

In fiscal year 2014, the Managing Board received an advance installment totaling EUR 2,844 thousand (2013: EUR 0) of the multiple-year bonus for fiscal year 2013, the final amount of which is calculated on the basis of target achievement for the multiple-year period 2013–2015.

Moreover, no loans were granted to nor contingent liabilities assumed in favor of members of the Managing Board in fiscal year 2014.

Compensation of former members of the Managing Board

In 2014, former members of the Managing Board and their surviving dependents received total compensation of EUR 197 thousand (2013: EUR 3,967 thousand). In the fiscal year just ended, the total compensation does not include any payments to former members of the Managing Board in connection with post-employment benefits or the exercise of outstanding participation rights from the stock appreciation rights program (2013: EUR 3,774 thousand).

There are pension obligations of EUR 27,700 thousand for former members of the Managing Board and their surviving dependents (2013: EUR 22,811 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 17,801 thousand (2013: EUR 17,390 thousand).

Compensation of the Supervisory Board

The Supervisory Board received remuneration for its activities in 2013 amounting to EUR 2,134 thousand. For fiscal year 2014, total compensation is expected to come to EUR 2,209 thousand. This figure includes a provision for the variable component of EUR 1,454 thousand (2013: EUR 1,408 thousand), which is calculated on the basis of the earnings per share in the consolidated financial statements. The total compensation of the Supervisory Board falls due in the short term.

Other related party disclosures

In total, the members of the Managing Board and Supervisory Board hold less than 1% (2013: less than 1%) of the shares issued by HUGO BOSS AG.

Members of the Managing Board and Supervisory Board purchase HUGO BOSS products 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.

In addition, a type of share-based payment was introduced in 2008 for members of the Managing Board and for second-tier executives with the management participation program (MPP). Under the MPP, managers could obtain an indirect investment in Red & Black TopCo S.à r.l., Luxembourg, which is a related party within the meaning of IAS 24.9. Reference is made to Note 38 as regards the framework conditions of the MPP.

38| SHARE-BASED PAYMENTS

STOCK APPRECIATION RIGHTS PROGRAM

In fiscal 2001, HUGO BOSS AG introduced a stock appreciation rights program for Managing Board members and executives.

Under the stock appreciation rights program executives of HUGO BOSS AG and its subsidiaries were granted a certain number of participation rights, which allowed them to benefit from increases in the value of HUGO BOSS AG shares. The participation rights can only be settled in cash and do not entitle the holder to any HUGO BOSS AG shares.

1) Program change 2009

In order to avoid additional expenses in connection with hedging instruments, management of HUGO BOSS AG decided in December 2009 to revise the general terms and conditions of the stock appreciation rights program. Effective December 14, 2009, all eligible executives were therefore offered the following revised program:

1 / Waiver of the participation rights and all rights from the tranches issued in the years 2005 through 2008 in exchange for cash compensation
2 / Adjustment of the exercise conditions for the tranche issued in 2009

The compensation payment for the waiver of the rights relating to tranches 5 to 8 corresponded to the sum of the option value of each tranche multiplied by the number of participation rights. The option value factored into the calculation was determined as of December 14, 2009 by external banks engaged by HUGO BOSS AG using a valuation model as is customary in the sector. The reference value used for the share price was the unweighted average closing price of preferred shares of HUGO BOSS AG in the Xetra index of the Frankfurt stock exchange on the five trading days immediately preceding December 14, 2009.

To limit upside and downside effects from extraordinary and unforeseeable share price developments, the revised program set floors and caps on the exercise premium possible per option for the participation rights in tranche 9. In effect, the remuneration granted corresponded to at least the difference between the imputed market capitalization allocable to a preference share of HUGO BOSS AG for the five trading days immediately preceding December 14, 2009, and the strike price of the preferred share, but no more than EUR 33.20. In addition, effective December 14, 2009, the revised program allowed eligible parties to exercise up to one third of the participation rights of tranche 9 early prior to the expiry of the vesting period. This was possible for the first time as of December 14, 2009. The exercise gain in such an event corresponded to the aforementioned minimum remuneration of EUR 11.77.

Under the revised program, the holding period was prolonged to a period of three years ending December 31, 2011, (a two-year period was set prior to the revision of the program); accordingly, the exercise period was shortened to a period of two years ending December 14, 2013 (a three-year exercise period was set prior to the revision of the program). The total term of the tranche 9 issued in fiscal year 2009 remained unchanged at five years.

Following the continuous increase in the share price, the maximum possible exercise gain per option for the participation rights of tranche 9 had already been reached in October of fiscal year 2010. Under the program revised in 2009, it was possible to fully exercise tranche 9 for the first time at the beginning of 2012.

2) Early termination of tranche 9

As the stock appreciation rights program causes a considerable administrative expense in both the HR and Finance departments of the HUGO BOSS Group, management of HUGO BOSS AG decided to terminate tranche 9 early and offered all holders of participation rights in tranche 9 a payout of the maximum exercise gain possible per option exercised as of December 15, 2010. Early termination of the program did not result in any additional expenses, provided the share price did not exceed EUR 45.00 at the end of 2011. The expenses from the pro rata additions to provisions for tranche 9 relating to 2011 were merely brought forward to 2010.

As of December 31, 2010, the share price of the preferred shares stood at EUR 56.50 and was thus significantly above the share price of EUR 45.00 that would entail the maximum possible exercise gain.

Following the program revision in 2010, it was still possible to exercise any remaining participating rights of tranche 8 under the rules of the original option conditions.

3) General terms and conditions of stock appreciation rights program

With the exception of the replaced tranche 9, the other tranches of the stock appreciation rights program had a term of six years. The four-year exercise period began upon expiry of the lock-in period of two years. Following the program revision in 2009, it was still possible to exercise any remaining participating rights of tranches 5 to 8 under the regulations governing the original option conditions.

If the development of the market capitalization of HUGO BOSS AG exceeded the development of the MDAX by 5 percentage points (exercise hurdle) at the end of the lock-up period or during the subsequent exercise period, it was possible to exercise participation rights in tranche 8. The remuneration payable was based on the difference between the market capitalization allocable to a preferred share of HUGO BOSS taking into account the average share price during the five trading days preceding the exercise date and the strike price of the preferred share pursuant to the underlying terms and conditions. The strike price corresponded to the average price of a preferred share of HUGO BOSS AG during the 20 trading days preceding the date of issue.

In order to limit the risk arising from share price fluctuations in connection with the stock appreciation rights program and hence the potential impact on the cash flow and earnings of HUGO BOSS AG, a corresponding hedging program was entered into at the end of 2007 with effect as of fiscal year 2008. Under the hedging program, in the first quarter of fiscal year 2008 HUGO BOSS AG purchased from independent banks U.S. call options for HUGO BOSS preferred shares with the same terms as the granted stock appreciation rights (SAR). The subscription right was 1:1, i.e., each option corresponded to one preferred share. The total investment volume was just under EUR 33 million.

If the corresponding call options were sold back to the issuing bank when the stock option rights were exercised by employees, the outflow of funds from the exercise of stock option rights was offset by an inflow of funds from the sale of call options.

The obligations arising from the SARs for HUGO BOSS AG which were recognized in the form of corresponding provisions and the call options used as hedging instruments were recognized at fair value though profit or loss as of each reporting date. The measurements of the call options and SAR obligations were based on the market values provided by the issuing banks. As the value of the call options and the corresponding SARs were identical at the reporting date, the resulting effects on earnings largely offset each other.

Changes in the value of SARs with effect on profit or loss within the exercise period together with the corresponding hedging transaction were netted against the personnel expenses of the function administration expenses and other operating expenses/income.

In fiscal year 2014, as in the prior year, the stock appreciation rights did not affect personnel expenses. Likewise, no expense was recognized in the financial result as a result of the measurement and derecognition of hedging transactions (2013: EUR 295 thousand).

As a result, no expenses were incurred in connection with stock appreciation rights for fiscal year 2014 (2013: EUR 295 thousand). No stock appreciation rights remained as of December 31, 2013. The provisions were utilized in full in connection with the amounts paid out in fiscal year 2013. Correspondingly, an intrinsic value and a fair value for the participation rights were no longer recognized. There were no derivatives used for hedging purposes left in the portfolio.

At the Annual Shareholders' Meeting of HUGO BOSS AG on May 8, 2008 a resolution was passed by majority vote to pay out a special dividend. The SAR parameters were adjusted to the EUREX conditions in line with the prevailing exercise conditions of the SAR program. An R-factor of 87.24% was used in this context, which means that the previous strike prices (100%) and quantities were adjusted by this factor. This resulted in the following adjusted strike prices:

	Tranche 7	**Tranche 8**
Date of issue	**January 2007**	**January 2008**
Strike price (EUR) pre special dividend	39.08	42.11
Strike price (EUR) post special dividend	34.09	36.74

The stock appreciation rights program developed as follows in 2014 and 2013:

	2014	**WASP 2014[1] (EUR)**	2013	WASP 2013[1] (EUR)
Number of SARs on Jan. 1	0	0.00	68,760	36.74
Newly granted SARs	0	0.00	0	0.00
Forfeited SARs	0	0.00	0	0.00
Exercised SARs	0	0.00	(68,760)	36.74
Expired SARs	0	0.00	0	0.00
Replaced SARs	0	0.00	0	0.00
Number of SARs on Dec. 31	0	0.00	0	0.00
Number of SARs exercisable on Dec. 31	0	0.00	0	0.00

[1] WASP = Weighted average strike price.

All remaining options were exercised in 2013. Derivatives held for hedging purposes were sold in connection with the exercise.

In fiscal year 2014, no payments were made to eligible executives in connection with the stock appreciation rights program (2013: EUR 3,774 thousand).

MANAGEMENT PARTICIPATION PROGRAM

Under the management participation program (MPP) introduced in 2008, members of the Managing Board and second tier executives were given the opportunity to invest indirectly in Red & Black TopCo S.à r.l. in exchange for a payment. Since the restructuring performed at the end of 2009, Red & Black TopCo S.à r.l. holds, through Red

& Black Lux S.à r.l., a direct 100% holding in Valentino Fashion Group S.p.A in addition to the indirect investment in HUGO BOSS AG. Management of HUGO BOSS has therefore invested not only in the HUGO BOSS Group, but also in the companies of the Valentino Fashion Group not controlled or influenced by HUGO BOSS.

The indirect investment in Red & Black TopCo S.à r.l. is held via a German partnership with the company Red & Black Management Beteiligungs GmbH & Co. KG ("MPP KG"). MPP KG holds a 0.07% investment in the voting capital of Red & Black TopCo S.à r.l. and holds Class D shares. The partnership agreement has been concluded for an indefinite period of time, but at least until the end of 2024. The legal position of the managers in MPP KG is governed by the partnership agreement. The maximum investment in MPP KG is set individually. The managers are limited partners in MPP KG entered in the commercial register.

At the end of 2010, the MPP was modified for managers who already held an investment (hereinafter "old managers"), and managers who did not yet hold an investment (hereinafter "new managers") were again offered the opportunity to invest in MPP KG.

The new managers acquired the limited partnership interests in MPP KG in December 2010 at the fair value at that time. The old managers continue to hold the shares in MPP KG they acquired in 2008. The shares in MPP KG held by the old managers are neither exchanged nor sold.

Following the restructuring of the MPP, in the event of an IPO or the sale of the HUGO BOSS Group (hereinafter "exit"), management of HUGO BOSS will participate through MPP KG only in the exit proceeds allocable to HUGO BOSS (hereinafter "HB AG proceeds"). All proceeds and costs allocable to Valentino Fashion Group S.p.A. would be eliminated in the process of determining the HB AG proceeds. The right to participate in these HB AG proceeds arose pro rata temporis over a multi-year vesting period ending on December 31, 2014.

In the context of the modification of the MPP, the subordination to the individual financial instruments and the ratchet of these class D shares no longer apply. With respect to the partnership agreement, the restructuring led to the creation of liquidity preferences. These give priority to certain capital before distribution of the HB AG proceeds to the limited partners and serve as financial compensation for investors for the decline in value of the class D shares in the interim compared to the current fair value.

If MPP shares attributable to managers are sold as part of an exit, the manager is entitled to a proportionate amount of the HB AG proceeds generated net of liabilities and liquidation preferences. The managers' entitlement to payouts of the proportionate residual sales proceeds is tied to the condition that the manager concerned has not left the HUGO BOSS Group at the time of the exit. The only restrictions on the entitlement to payouts of the proportionate exit proceeds pertain to managers who leave the Company before an exit. If a manager leaves the company prematurely, Red & Black TopCo S.à r.l. has the right in principle to acquire the interests held by the manger concerned. The manager leaving is classified as a "good leaver" or a "bad leaver" when determining the acquisition price.

If the planned exit is executed, future profit distributions and future gains on disposal are allocated to participating members of the Managing Board and executives based on their position as partners. In such cases HUGO BOSS would not incur any staff costs that would have to be posted to profit or loss.

As in the prior year, the MPP did not affect the profit or loss of the HUGO BOSS Group in 2014, as no exits or comparable transactions have been entered into since the introduction of the MPP that would have required measurement at fair value. No assets or liabilities were recognized in connection with the MPP as of December 31, 2010, and nor as of the reporting date.

39| SUBSEQUENT EVENTS

HUGO BOSS will take over the last stores in the Chinese market that are still operated under the franchise model. The agreement reached with the partner Wenzhou Noble on January 26, 2015 provides for control over all 21 BOSS stores to be transferred to HUGO BOSS on April 1, 2015. This will enable the Group to implement its strategy, which aims at enhancing the brand image and upgrading the retail network, in an even more targeted manner and consistently across all channels.

Between the end of fiscal year 2014 and the release for publication of this report on February 19, 2015 there were no further 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.

Finally, HUGO BOSS AG's shareholder structure changed on February 10, 2015 following two share placements by Red & Black Lux S.à r.l., an entity in which Permira Holdings Limited holds a majority interest. Prior to the placements, this entity had held 22.4 million shares, equivalent to 32% of the share capital, and was thus the largest single shareholder. Following the placement of 9 million shares with institutional investors and the sale of a further package of just under 5 million shares to PFC S.r.l. and Zignago Holding S.p.a., which are owned by the Italian Marzotto family, it now holds just under 8.5 million shares, equivalent to 12% of the share capital.

40| GERMAN CORPORATE GOVERNANCE CODE

In December 2014, 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.

41| GROUP AUDITOR FEES

(in EUR thousand)

	2014	2013
Audit services	388	384
Other assurance services	56	5
Tax advisory services	228	118
Other services	45	192
TOTAL	**717**	**699**

MANAGING BOARD

CLAUS-DIETRICH LAHRS
Stuttgart, Germany

Chairman of the Managing Board

Responsible for

Sales,
Own Retail,
Communications,
Licenses

MARK LANGER
Stuttgart, Germany

Responsible for

Finance & Controlling,
Investor Relations,
Legal, Compliance and
Risk Management,
IT,
Logistics,
Human Resources
Director of Labor Relations

CHRISTOPH AUHAGEN
Stuttgart, Germany

Responsible for

Creative Management,
Brand Management,
Sourcing and Production

SUPERVISORY BOARD

DR. HELLMUT ALBRECHT Munich, Germany	Management Consultant Chairman of the Supervisory Board
ANTONIO SIMINA Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chairman of the Supervisory Board Employee representative
GERT BAUER Reutlingen, Germany	First Authorized Representative of the German Metalworkers´ Union (IG Metall), Reutlingen/Tübingen, Germany Employee representative
HELMUT BRUST Bad Urach, Germany	Senior Head of Corporate Culture, Health and Safety HUGO BOSS AG, Metzingen, Germany Employee representative
DAMON MARCUS BUFFINI Surrey, Great Britain	Managing Director Permira Advisers LLP, London, Great Britain
MONIKA LERSMACHER Kornwestheim, Germany	Secretary of the German Metalworkers´Union IG Metall Area Headquaters Baden-Württemberg, Stuttgart, Germany Employee representative
DR. KLAUS MAIER Stuttgart, Germany	Management Consultant
GAETANO MARZOTTO Milan, Italy	Chairman of the Supervisory Board Gruppo Santa Margherita S.p.A., Fossalta di Portogruaro, Italy
LUCA MARZOTTO Venice, Italy	Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy
SINAN PISKIN Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
BERND SIMBECK Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative
DR. MARTIN WECKWERTH Frankfurt/Main, Germany	Partner Permira Beteiligungsberatung GmbH, Frankfurt/Main, Germany

ADDITIONAL DISCLOSURES ON THE MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGING BOARD

The members of HUGO BOSS' Supervisory Board are also members of an executive body at the following companies[1]:

Dr. Hellmut Albrecht	MME Moviement AG[2]	Berlin, Germany
Gert Bauer	ElringKlinger AG	Dettingen/Erms, Germany
Monika Lersmacher	Berthold Leibinger GmbH	Ditzingen, Germany
Dr. Klaus Maier	Diehl Stiftung & Co. KG[2] Titan X Holding AB Galeria Kaufhof GmbH	Nuremberg, Germany Mjällby, Sweden Cologne, Germany
Gaetano Marzotto	Zignago Holding S.p.A. Santa Margherita S.p.A.[2] Zignago Vetro S.p.A. Alpitour S.p.A.	Fossalta di Portogruaro, Italy Fossalta di Portogruaro, Italy Fossalta di Portogruaro, Italy Turin, Italy
Luca Marzotto	Zignago Holding S.p.A.[2] Santa Margherita S.p.A. H. Farm Ventures S.p.A. New High Glass Inc. Centervue S.p.A. Cà del Bosco Srl – Società Agricola Vetri Speciali S.p.A. Zignago Vetro S.p.A. Telecom Italia	Fossalta di Portogruaro, Italy Fossalta di Portogruaro, Italy Roncade, Italy Miami, FL, U.S.A. Padua, Italy Erbusco, Italy Trento, Italy Fossalta di Portogruaro, Italy Milan, Italy

[1] The members not named have no seats on executive or advisory bodies at other companies.
[2] Member holds position of Chairman.

The Managing Board is also member of an executive body at the following company[1]:

Claus-Dietrich Lahrs	Ravensburger AG	Ravensburg, Germany

[1] The members not named have no seats on executive or advisory bodies at 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 19, 2015

HUGO BOSS AG
The Managing Board

Claus-Dietrich Lahrs
Christoph Auhagen
Mark Langer

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 19, 2015

HUGO BOSS AG
The Managing Board

Claus-Dietrich Lahrs
Christoph Auhagen
Mark Langer

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of the Company:

"We have audited the consolidated financial statements prepared by HUGO BOSS, Metzingen, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statements of cash flows and changes in equity and the notes to the consolidated financial statements, together with the group management report, which has been combined with the management report of the Company, for the fiscal year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Stuttgart, February 19, 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Matischiok
Wirtschaftsprüfer
[German Public Auditor]

Biller
Wirtschaftsprüferin
[German Public Auditor]

5

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

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GENERAL INFORMATION

Our Company's performance is best reflected in the consolidated financial statements. Like many other organizations,we have refrained from including the figures from the separate financial statements of the parent company HUGO BOSS AG in this report for the sake of clarity of presentation. To receive a copy of these statements, which continue to be prepared in accordance with the German Commercial Code (HGB), please contact:

HUGO BOSS AG
Investor Relations
Dieselstraße 12
72555 Metzingen

Phone +49 (0) 7123 94 – 80903
Email investor-relations@hugoboss.com

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect management's current views with respect to future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should," and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties. If any of these or other risks or uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made.

GLOSSARY

B

BRAND

With its brand world including the core brand BOSS, the brand BOSS Green, the brand BOSS Orange and the brand HUGO, HUGO BOSS targets different, clearly differentiated groups.

C

CALL OPTION

A call option gives the buyer the right to acquire an underlying security at a price and quantity agreed in advance. The buyer generally only exercises the right if the price of the underlying security exceeds the strike price. The seller undertakes to deliver the underlying security in exchange for an option premium.

CASH FLOW STATEMENT

The aim of the cash flow statement is to create transparency regarding changes in a company's liquidity funds. It describes in detail the type, amount and sources of the cash flows.

CASH POOLING

Daily liquidity management uses efficient cash management systems to channel liquidity surpluses of individual Group companies to other companies with financial requirements (cash pooling). This intercompany financial balancing system reduces external financial requirements and optimizes net interest expenses.

CATEGORY BUSINESS

Form of retailing in which a multi-brand retailer's selling space is divided into different product groups. For example, the suit department contains different brands of suits. In this case, the individual brands are not differentiated by means of visual merchandising. This is the opposite of shop-in-shops which offer complete collections of individual brands.

COLLECTION COMPLEXITY

Collection complexity describes the number of color, shape, theme and fabric concepts that a collection comprises.

COMP STORE SALES DEVELOPMENT

Sales trend within the Group´s own retail business (cf. Group´s own retail business) for comparable areas, i.e. not including newly opened or recently closed points of sale.

COMPLIANCE

Compliance means to undertake all reasonable measures in order to ensure adherence to the laws, statutory regulations and the Company's internal policies and their observance by Group companies.

CONCESSION MODEL

With the concession model, the Group directly operates HUGO BOSS shop-in-shops on the sales floor of retail partners. HUGO BOSS sells product in its own name and for its own account.

CORE RANGE

The core range is a pre-defined range developed in line with the requirements of each collection. The core range is at the heart of every collection and largely defines its fashion statement.

CORPORATE GOVERNANCE

Corporate Governance defines the principles and legal framework for management and monitoring at the Company. In Germany, these principles are set out in the Corporate Governance Code.

COVENANTS

Covenants are clauses in a loan agreement or contractual obligations given by a borrower for the term of a loan agreement. They generally relate to the observation of upper and/or lower limits for certain key financial performance indicators.

D

DAYS INVENTORY OUTSTANDING
Time between receiving goods as inventory and the sale of the finished product.

DAYS PAYABLES OUTSTANDING
Time between receiving an invoice and making payment on trade payables.

DAYS SALES OUTSTANDING
Time between issuing an invoice and receiving payment on trade receivables.

DERIVATIVES
A derivative is a financial instrument, whose change in value is linked to an underlying asset such as shares, bonds, currencies or commodities or to market indexes and which is settled at a future date. It does not require an initial net investment or a comparatively low initial net investment.

DIRECTLY OPERATED STORES (DOS)
Directly operated stores are monobrand stores (cf. monobrand sales format) and shops operated directly by HUGO BOSS.

DIVERSITY
Diversity refers to heterogeneity and differences among employees, executives and members of the Supervisory Board of HUGO BOSS AG. For example, diversity can relate to the nationality, gender or age of specific groups of people.

DOW JONES SUSTAINABILITY INDEX (DJSI)
The Dow Jones Sustainability Index (DJSI) is a stock index that lists the particularly sustainable companies in each industry. Listing is based on a thorough assessment of economic, environmental and social criteria for each company.

E

EBIT
Earnings **b**efore **i**nterest and **t**axes. EBIT is a key business performance indicator which shows a company´s operating profit in a certain period not including taxes and interest.

EBITDA BEFORE SPECIAL ITEMS
EBITDA before special items refers to **E**arnings **b**efore **i**nterest, **t**axes, **d**epreciation and **a**mortization not including special items. EBITDA is a key performance indicator which measures operating profitability before depreciation and amortization effects from investment activity. EBITDA before special items is the most important performance indicator for the HUGO BOSS Group.

(ADJUSTED) EBITDA MARGIN
The (adjusted) EBITDA margin describes the ratio of EBITDA (before special items) (cf. EBITDA before special items) to sales.

EMPLOYER BRANDING
Employer branding refers to a company’s strategic positioning as an appealing employer in the labor market. It draws on marketing concepts, particularly branding. The aim of employer branding is to establish an employer brand that make a positive contribution to employee recruitment and retainment.

F

FAIR LABOR ASSOCIATION (FLA)
Based in Washington D.C. (United States), the FLA is a group of universities, non-government organizations and companies united in their aim of improving employment law and working conditions all around the world.

FAIR VALUE
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FLAGSHIP STORE
Flagship stores are a particular type of directly operated stores. Because of their size and exclusivity, they have an effect beyond their respective locations on the HUGO BOSS brand image and provide sales incentives for other stores.

FLAT-PACKED GOODS
Articles such as jeans, T-shirts and ties which are transported flat or folded in boxes. Articles such as jackets or coats which are transported vertically on coat hangers are referred to as hanging garments.

FREE CASH FLOW
Free cash flow is calculated by adding up the cash flow from operating activities and the cash flow from investing activities. To increase its enterprise value, HUGO BOSS focuses on maximizing free cash flow.

FREE FLOAT
Shares of the HUGO BOSS AG in free float are continuously available for trading on the equity market. Shares that are held in order to pursue long-term strategic objections are not available for daily trading.

G

GLOBAL REPORTING INITIATIVE (GRI)
The Global Reporting Initiative (GRI) supports organizations' and companies' sustainability reporting. Companies can measure their economic, environmental and social performance on the basis of the principles published by the GRI.

GOODWILL
Goodwill resulting from a business combination constitutes the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest over the assets acquired and the liabilities assumed. Goodwill is recognized at cost and reviewed annually, as well as when indications of a potential impairment arise, for any evidence of impairment.

GREENHOUSE GAS PROTOCOL (GHG PROTOCOL)
The Greenhouse Gas Protocol (GHG Protocol) is an internationally recognized tool for the quantification and management of CO_2 emissions. The GHG Protocol helps businesses account for their CO_2 emissions within different scopes.

GROUP'S OWN RETAIL BUSINESS
In the Group's own retail business, sales of HUGO BOSS products are made directly to the end customer via directly operated stores (cf. directly operated stores), outlet stores and the HUGO BOSS online store, in contrast to sales in wholesale business (cf. wholesale).

I

INTEREST RATE SWAPS
An interest rate swap is an interest derivative. Under an interest rate swap, two contractual parties agree to exchange interest payments at a specified future point in time on a specified nominal amount. They are used to hedge against interest rate risks.

INTERNATIONAL ACCOUNTING STANDARDS (IAS)
IAS are international financial reporting standards which were issued from the predecessor institute of the International Accounting Standard Board (IASB), the International Accounting Standards Committee (IASC).They are still valid and will be expanded by IFRS (cf. IFRS).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
IFRS are international financial reporting standards for companies that are issued by the International Accounting Standards Board (IASB). They provide worldwide transparent and comparable accounting of consolidated financial statements, and make it easier to compare publicly traded companies.

INTERNATIONAL LABOR ORGANIZATION (ILO)

The ILO forms part of the United Nations and pursues the goal of promoting social justice as well as human and labor rights.

ISO 9001

ISO 9001 determines the criteria for a quality management system. It can be employed by any organization, regardless of size and sector.

ISO 14001

ISO 14001 defines globally acknowledged criteria for environmental management systems. It also stipulates various requirements affecting different aspects of environmental management such as life-cycle assessments and environmental performance indicators.

ISO 50001

ISO 50001 is an international standard to support organizations in establishing systematic energy management. Organizations can decide freely whether to implement this standard.

L

LICENSES

A license is the permission to use another's trademark for commercial purposes in exchange for the payment of a sum of money (royalty fee). Granting of licenses enables HUGO BOSS to benefit from the expertise and potentially different distribution structure of the licensee. Products manufactured for HUGO BOSS by licensees include fragrances, eyewear, watches, children's fashion, home textiles and mobile accessories.

M

MADE TO MEASURE

As part of the core brand BOSS, the Made to Measure line offers particularly high-quality bespoke suits. The Made to Measure line emphasizes the exclusivity of the core brand BOSS while focusing on the desire for individual style.

MONO-BRAND SALES FORMAT

Mono-brand sales formats are used to sell the products of only one brand at one particular point of sale.

MSCI WORLD TEXTILES, APPAREL & LUXURY GOODS INDEX

The MSCI World Textiles, Apparel & Luxury Goods Index is defined by Morgan Stanley Capital International (MSCI) and tracks the stock price of companies active in the apparel and luxury goods industry. It is a subcategory of the MSCI World Index that tracks the development of stocks worldwide.

MULTI-BRAND SALES FORMAT

Multi-brand sales formats are used to offer different brands at one point of sale.

MULTI-CHANNEL

Multi-channel refers to the customers' ability to buy goods via different distribution channels such as offline and online stores.

N

NET FINANCIAL LIABILITIES

Net financial liabilities comprise all interest-bearing financial and other liabilities less non-operating cash and cash equivalents and short-term investments.

O

OMNICHANNEL

A model for creating a seamless brand and shopping experience across multiple distribution channels. Consumers are intended to experience the brand as such rather than the individual distribution channel in which it is found. They are, so to speak, known to the brand consistently across all touch points, and can thus receive a consistently high level of service.

OUT-OF-HOME MEDIA

Out-of-home media refers to forms of advertising which reach customers outside their homes and offices. This includes traditionally for example advertising pillars and billboards, but also advertisement on busses, telephone boxes or at airports.

P

PLAIN VANILLA CURRENCY OPTION

A plain vanilla option is defined as a standard option in securities business without special features or product design.

POINT OF SALE (POS)

All businesses where HUGO BOSS products are sold – i.e. stores (cf. store), shop-in-shops (cf. shop-in-shop) and the online store – are points of sale. They can be operated directly by the Group (cf. Group's own retail business) or by wholesale partners (cf. wholesale).

PREORDER

Preorders are orders received for future deliveries. Wholesale partners place orders on a seasonal basis in the HUGO BOSS showrooms (cf. showroom) for the collection presented there. In addition, goods can be reordered irrespective of season using the HUGO BOSS replenishment (cf. replenishment).

PUBLICATIONS PURSUANT TO SECTION 15A GERMAN SECURITIES TRADING ACT

Publications pursuant to Section 15a WpHG are notifiable securities transactions, so called directors' dealings. Directors' dealings are own-account transactions entered into by members of the management with HUGO BOSS AG securities. Pursuant to Section 15a WpHG, members of the management are required to disclose such transactions.

R

REPLENISHMENT

Replenishment of goods which allows HUGO BOSS to react to short-time surges in demand from trading partners.

RESTRICTED SUBSTANCES LIST (RSL)

The RSL is valid worldwide and lists chemicals and other substances that a product may not contain or may contain only to a restricted degree.

S

SEASON

A collection is delivered and sold over a particular period of time (season).

SEGMENTS

Under IFRS 8 (cf. IFRS), a segment is a component of an entity that engages in non-derivative business activities from which it may earn revenues. The operating segment results (cf. EBITDA before special items) are regularly reviewed by a company's responsible governing body. The HUGO BOSS Group has defined the following segments: Europe, Americas, Asia/Pacific and Licenses (cf. licenses).

SHOP-IN-SHOP

A shop-in-shop is sales space in department stores designed according to the shop concept of the Group's own retail stores and in which only HUGO BOSS products are offered.

SHOWROOM

At the showroom the collection is presented and sold to the wholesale customers (cf. wholesale).

SPECIAL ITEMS

HUGO BOSS defines special items as expenses with no direct connection to the business activity. This includes for example expenses relating to strategic realignment or reorganization of individual business segments.

SPORTSWEAR

Alternative term for fashionable leisure or casual wear. This is the opposite of tailoring, i.e. garments such as suits or business shirts which are primarily worn for professional purposes or on formal occasions.

STORE

A store is a sale area with its own entrance, selling exclusively HUGO BOSS products via appropriate shop concept. Stores can be operated directly by the Group (cf. directly operated stores) or by a wholesale partner (cf. wholesale).

T

TRADE NET WORKING CAPITAL

Trade net working capital is calculated as the total of inventories and trade receivables less trade payables.

W

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

An indication of the cost of capital in terms of its weighted average based on the ratio of debt to equity. The cost of capital is calculated using a risk-free interest rate, a premium for market risk and a beta. The cost of debt is determined on the basis of the risk-free interest rate, the credit spread and the average tax rate.

WHOLESALE

In contrast to the direct sale of goods via the Group's own retail business (cf. Group's own retail business), sales in the wholesale business are made indirectly via retail partners' sales space. Wholesale purchases HUGO BOSS goods either through traditional preorder (cf. preorder) business or via replenishment (cf. replenishment) and sells them on to the end customer.

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FINANCIAL CALENDER 2015

12

MARCH
Press and Analysts' Conference

6

MAY
Publication of the
First Quarter Report 2015

12

MAY
Annual Shareholders' Meeting

4

AUGUST
Publication of the
First Half Year Report 2015

3

NOVEMBER
Publication of the
Nine Months Report 2015

HUGO BOSS TEN-YEAR-OVERVIEW

	2014	2013
Net sales (in EUR million)	2,571.6	2,432.1
Net sales by segments		
Europe incl. Middle East and Africa	1,566.5	1,457.3
Americas	586.6	570.1
Asia/Pacific	360.8	346.8
Licenses	57.7	57.9
Net sales by distribution channel		
Group's own retail business	1,471.3	1,314.1
Wholesale	1,042.6	1,060.1
Licenses	57.7	57.9
Results of operations (in EUR million)		
Gross profit	1,699.1	1,579.6
Gross profit margin in %	66.1	64.9
EBITDA	571.5	561.4
EBITDA before special items	590.8	564.7
Adjusted EBITDA margin in % [1]	23.0	23.2
EBIT	448.7	456.2
Net income attributable to equity holders of the parent company	333.3	329.0
Net assets and liabiltiy structure as of December 31 (in EUR million)		
Trade net working capital	503.0	431.8
Non-current assets	660.3	611.5
Equity	843.9	740.3
Equity ratio in %	50.8	49.3
Total assets	1,661.8	1,501.3
Financial position and dividend (in EUR million)		
Free cash flow	268.4	230.0
Net financial liabilities (as of December 31)	35.7	57.0
Capital expenditure	134.7	185.3
Depreciation/amortization	122.8	105.3
Total leverage (as of December 31) [2]	0.1	0.1
Amount distributed	249.8 [3]	230.5
Additional key figures		
Employees (as of December 31)	12,990	12,496
Personnel expenses (in EUR million)	514.4	483.1
Number of Group's own retail stores	1,041	1,010
Shares (in EUR)		
Earnings per share		
Ordinary share	4.83	4.77
Preferred share	–	–
Dividend per share		
Ordinary share	3.62 [3]	3.34
Preferred share	–	–
Last share price (as of December 31)		
Ordinary share	101.70	103.50
Preferred share	–	–
Number of shares (as of December 31)	70,400,000	70,400,000
Ordinary share	70,400,000	70,400,000
Preferred share	0	0

[1] EBITDA before special items/Sales.
[2] Net financial liabilities/EBITDA before special items and expenses for the stock appreciation rights program.
[3] Dividend proposal.
[4] Special dividend payment of EUR 345.1 million and EUR 5.00 per ordinary and preferred share.

3	2012	2011	2010	2009	2008	2007	2006	2005
1	2,345.9	2,058.8	1,729.4	1,561.9	1,686.1	1,632.0	1,495.5	1,309.4
3	1,378.0	1,245.4	1,073.2	1,041.3	1,170.0	1,151.1	1,056.8	925.8
1	558.7	454.8	380.7	312.2	307.0	298.0	273.1	233.2
8	352.7	309.3	230.4	164.7	162.1	134.0	122.5	109.0
9	56.5	49.3	45.1	43.7	47.0	48.9	43.1	41.4
1	1,149.7	924.2	691.1	510.3	455.8	416.1	358.2	285.9
1	1,139.7	1,085.3	993.2	1,007.9	1,183.3	1,167.0	1,094.3	982.1
9	56.5	49.3	45.1	43.7	47.0	48.9	43.1	41.4
6	1,444.1	1,252.0	1,022.4	836.2	891.0	845.0	759.8	644.5
9	61.6	60.8	59.1	53.5	52.8	51.8	50.8	49.2
4	523.9	468.0	340.1	226.5	235.8	284.2	235.3	207.9
7	528.1	469.5	353.7	269.2	272.2	271.8	235.3	207.9
2	22.5	22.8	20.5	17.2	16.1	16.7	15.7	15.9
2	432.0	394.6	267.9	157.4	174.8	216.8	186.3	166.6
0	306.5	284.9	188.9	105.5	112.0	152.0	130.3	110.8
8	408.5	399.6	322.7	295.6	458.3	421.7	339.6	329.6
5	587.7	503.2	454.5	435.0	463.0	400.5	397.9	360.6
3	631.6	517.3	361.2	205.5	202.9	550.7	499.9	467.8
3	40.0	36.4	26.9	19.3	17.5	53.0	53.0	54.8
3	1,577.2	1,419.6	1,342.8	1,065.4	1,161.6	1,039.3	943.1	854.0
0	220.6	194.9	246.3	299.5	48.1	33.0	76.1	115.0
0	130.4	149.1	201.1	379.1	583.2	168.2	112.1	102.5
3	165.8	108.5	55.6	48.3	118.8	84.7	98.5	76.6
3	91.9	73.4	72.2	69.1	61.0	67.4	49.0	41.3
1	0.2	0.3	0.6	1.4	2.1	0.6	0.5	0.5
5	215.3	199.1	139.7	66.6	94.9	100.4[8]	82.5	70.2
6	11,852	11,004	9,944	9,027	9,593	9,123	8,441	7,584
1	450.1	373.7	364.5	329.4	353.0	302.6	275.5	234.5
0	840	622	537	438	390	333	249	183
7	4.44	4.12	2.73	1.52	1.62	2.20	1.88	1.59
–	–	4.13	2.74	1.53	1.63	2.21	1.89	1.60
4	3.12	2.88	2.02	0.96	1.37	1.45[4]	1.19	1.00
–	–	2.89	2.03	0.97	1.38	1.46[4]	1.20	1.01
0	79.80	55.19	49.23	20.22	17.30	39.60	41.00	30.50
–	–	56.90	56.50	24.55	14.40	39.00	38.92	29.70
0	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000
0	70,400,000	35,860,000	35,860,000	35,860,000	35,860,000	35,860,000	35,860,000	35,860,000
0	0	34,540,000	34,540,000	34,540,000	34,540,000	34,540,000	34,540,000	34,540,000