HUGO BOSS

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BAUHAUS AND HUGO BOSS

No other cultural institution bears such kinship with the HUGO BOSS identity as Bauhaus. The style-defining movement shaped the Group's 2015 year – serving as a source of inspiration for the Womenswear collections, the fashion show set, the BOSS campaign themes and even the window displays.

HUGO BOSS additionally celebrated this creative affinity by partnering the Vitra Design Museum in Weil am Rhein to sponsor the exhibition "The Bauhaus #redefinedesign."

Inspiration, abstraction, clarity, aesthetics and structure constitute central Bauhaus principles, and they have retained their relevance to this day. The following photo gallery vividly illustrates how these qualities impact the form and language of design at HUGO BOSS.

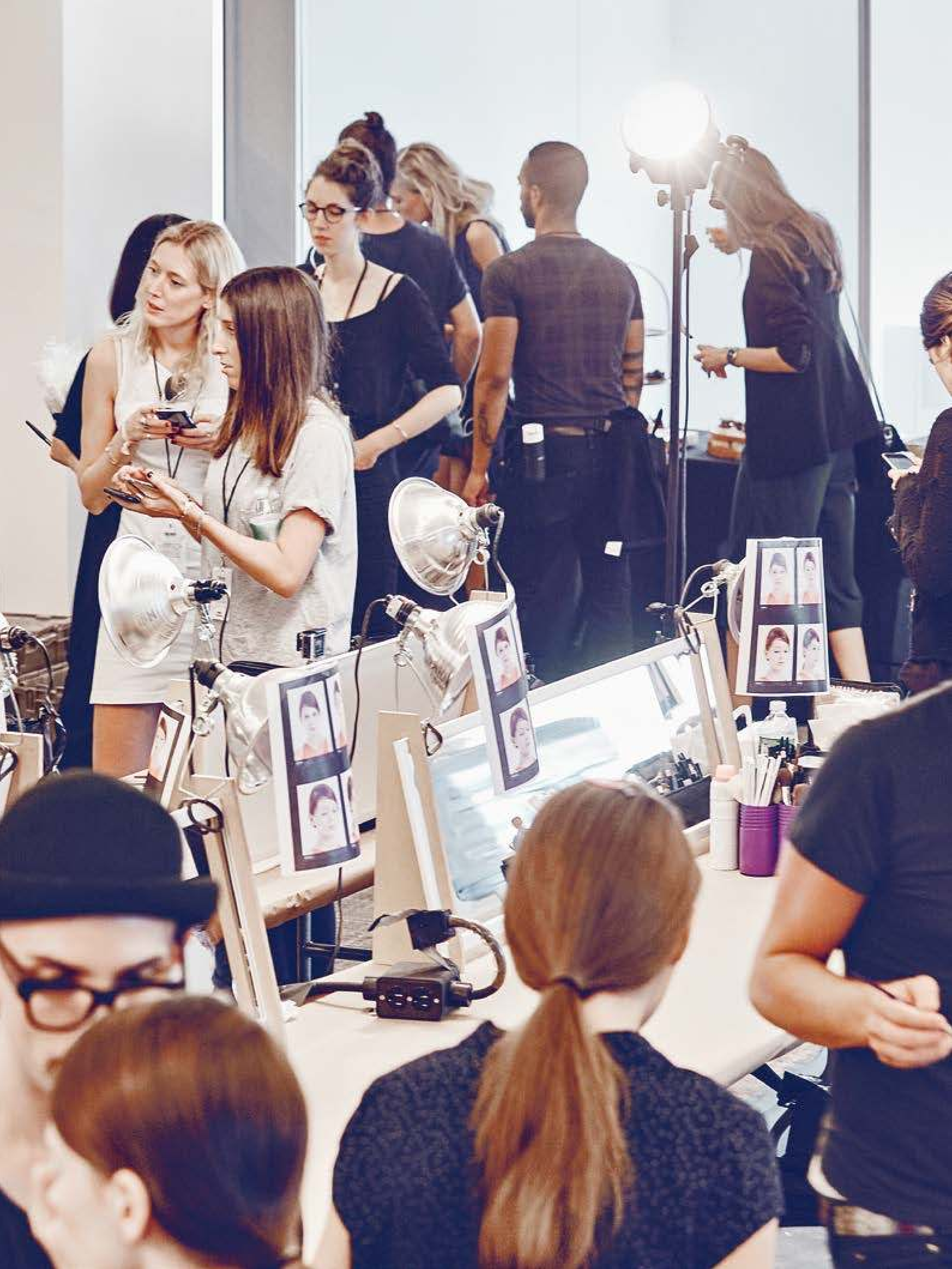
BAUHAUS / HUGO BOSS

INSPIRATION

"I've always been aware of the Bauhaus: I think it had such a pivotal impact on twentieth-century design across all disciplines that it's impossible to be a creative and not know the movement, or be influenced by it in some way. The appeal of the Bauhaus is its purity, its rigor and its precision – indeed, for me, those elements are the DNA of the house HUGO BOSS."

JASON WU
Artistic Director BOSS Womenswear

Designer Jason Wu and the artist Maripol at the BOSS Fashion Show in New York, Summer 2015



AB
STRAC
TION

HUGO BOSS display in the Bauhaus #redefinedesign exhibition at the Vitra Design Museum

Abstraction, Bauhaus-style: In this window display concept, the square becomes a cube, the circle a sphere

CLAR
ITY

Streamlined shapes, clean lines: HUGO BOSS AG headquarters in Metzingen

AESTHET ICS

BOSS Womenswear Show in New York, Summer 2015

A style-defining look: the Bauhaus exhibition at the Vitra Design Museum

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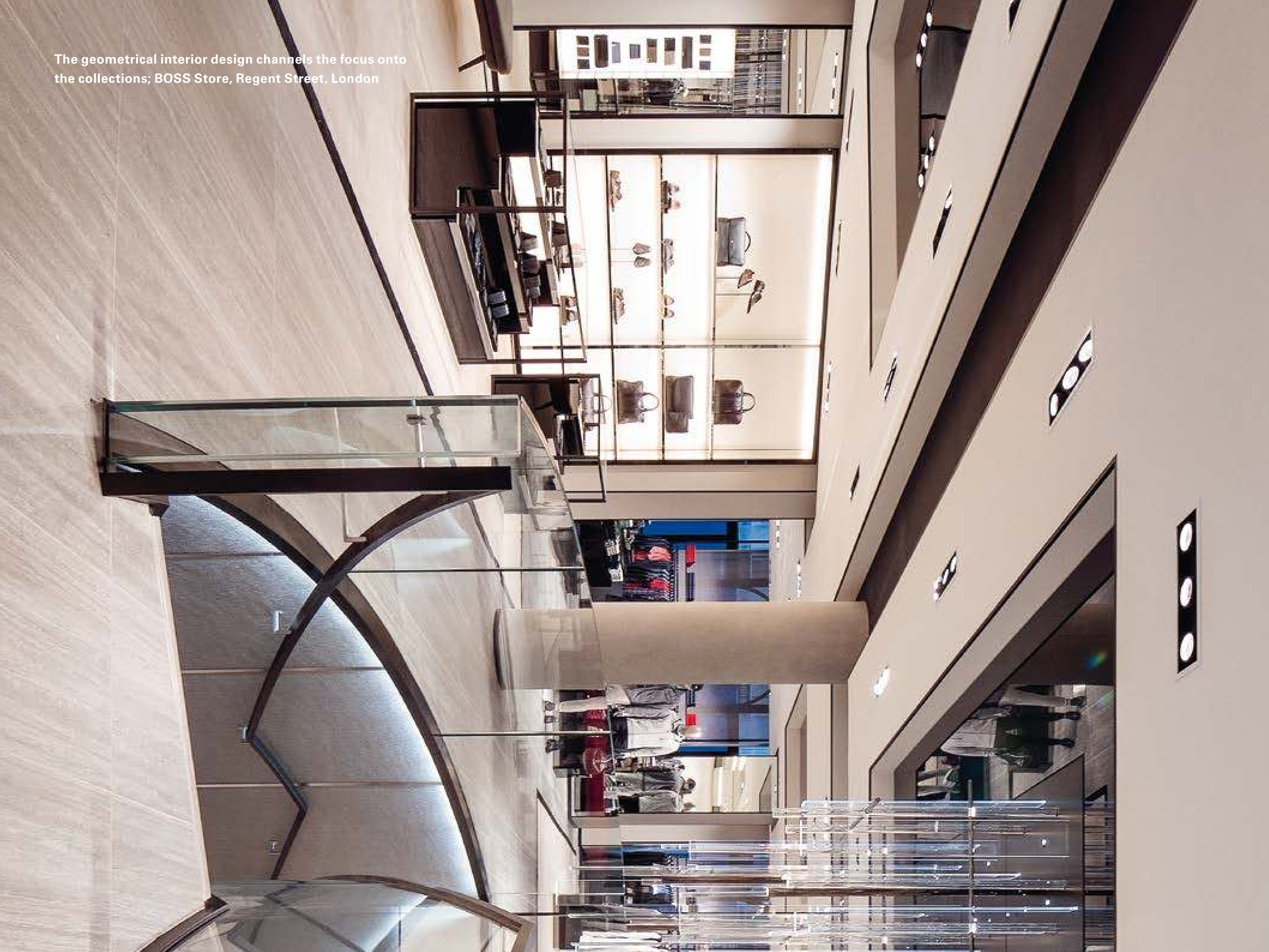

The geometrical interior design channels the focus onto the collections; BOSS Store, Regent Street, London


BOSS
HUGO BOSS

HUGO BOSS

group.hugoboss.com

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TO OUR SHAREHOLDERS

TO OUR SHAREHOLDERS

LETTER OF THE MANAGING BOARD

**Dear Shareholders,
dear Readers,**

2015 marked the sixth consecutive year of growth for HUGO BOSS. The Group increased sales by 9 percent to more than 2.8 billion euro. Excluding currency effects, growth amounted to 3 percent. Operating profit rose slightly to EUR 594 million. This represents new record levels on both metrics. However, trends slowed considerably over the course of the year. As a result of a challenging second half, financial results development over the last twelve months fell short of initial expectations. A difficult market environment contributed to this.

In Europe in particular, we delivered a strong performance against this backdrop. With sales up by 6 percent on a currency-adjusted basis, Europe remained the Group's stronghold in 2015 again. The transformation of our business model towards our own retail business yielded further good results. As part of this process, we asked our wholesale partners to distribute the BOSS core brand solely in shop-in-shops going forward. Instead of the BOSS core brand, the range in multibrand department stores is now entirely comprised of the HUGO and BOSS Green brands. Together with the expansion of the store network – take our new store on Regent Street in London as an example – this change has strengthened the homogeneity and value of the brand presentation.

2015 was also a good year for our womenswear business. Under the guidance of Artistic Director Jason Wu, BOSS Womenswear has further built on its core skills in high-quality tailoring to design sophisticated and desirable products combined with a feminine aesthetic. The brand's double-digit sales increase in 2015 underscores its growing acknowledgement among modern women, who are looking for versatile outfits addressing diverse occasions.

In 2016, we are facing difficult market conditions and rapid changes in consumers' purchasing behavior. In tackling these challenges, we are building upon what has made us strong: a globally recognized, powerful brand, a well-oiled operational platform and a passionate workforce. The past few years have been very successful for HUGO BOSS. The Company has followed a customer-centric strategy based on expanding brand control and the Group's global footprint. These elements will also remain cornerstones of our strategy going forward.

In the coming months, the improvement in the Group's market position in China and the U.S. as well as the customer-focused enhancement of retail management are at the forefront of our activities.

In China, we are focusing on the continued upgrade and optimization of our retail presence and the further strengthening of the brand's core in men's formalwear. In doing so, we are also building on what the brand stands for in the eyes of the Chinese customer: High quality, fine craftsmanship and perfect fit. Effective from the recently launched Spring 2016 collection, we have lowered prices by around 20 percent to ensure our presentation is consistent globally. Reception by Chinese customers has been very positive in the first few weeks.

In the U.S., some company-specific challenges are compounding the current weakness of the local premium apparel market. In the wholesale channel, the Company will be limiting the distribution of the BOSS core brand to shop-in-shops. HUGO BOSS has a strong interest in managing these shop-in-shops itself in order to improve the quality of presentation. Such an agreement was entered into with the department store chain Macy's at the beginning of the year. Besides, the Group is seeking to address the contemporary American consumer more effectively by expanding brand presence in digital channels and optimizing customer relationship management.

The hugoboss.com website as the key digital channel plays an important role in adapting retail management to the changing purchasing habits of our customers. It is our key tool for informing and inspiring our visitors and for animating them to buy our collections. We achieve this by facilitating the access to our physical retail world as far as possible. This includes omnichannel services which we will also be offering in Europe from the second half of the year onwards. The insourcing of online fulfillment in early summer will be an important prerequisite for this.

Our financial outlook reflects these challenges. In the current year, the Group expects low single-digit currency-adjusted sales growth and a decline in operating profit. Against this backdrop, we are reviewing our cost structure and planned investments. Strict inventory management will support free cash flow generation as well. Beyond our financial development, we are mindful of our responsibilities as a global corporation and are continuously striving for improvement along the entire value chain. To this end we have set ourselves clear goals and defined them in our Sustainability Report.

More than ever, the Group is building on the outstanding dedication of its employees, whom we would like to sincerely thank for their work in the past year. They constitute the core of HUGO BOSS and are the basis for our confidence that the Group will emerge stronger than before from a difficult year in 2016.

Sincerely yours,

The HUGO BOSS Managing Board

MANAGING BOARD

CLAUS-DIETRICH LAHRS
Stuttgart, Germany

Chairman of the Managing Board

Responsible for

Sales,
Own Retail,
Communications,
Licenses

Member of the Managing Board
until February 29, 2016

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,

Against the backdrop of a global economy with its complex developments which are frequently difficult to predict, the Supervisory Board's control and advisory functions arising from law, the Company's Articles of Association and the Bylaws assume particular importance. Accordingly, the Supervisory Board continued to perform its duties with the utmost care in fiscal year 2015, advising the Managing Board in close collaboration based on mutual trust and monitoring its management activities.

In written and oral reports, the Managing Board informed us regularly, with minimum delay and comprehensively on all matters of relevance for HUGO BOSS AG and the Group companies pertaining to strategy, planning, business performance, the risk situation and compliance and fulfilled its disclosure obligations. In this connection, monitoring and control duties particularly focused on the relevant key performance indicators. Developments leading to any deviations in the actual course of business from forecasts and targets were explained in detail to the Supervisory Board and reviewed on the basis of the documents presented. The Chairman of the Audit Committee and I maintained close and regular dialog with the Managing Board and were kept informed of material developments and decisions on which reports were submitted at the following Supervisory Board and Committee meeting at the latest. In addition, the Managing Board and the Supervisory Board coordinated the Company's strategic orientation.

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

COMPOSITION OF THE SUPERVISORY BOARD

Regular elections for the Supervisory Board of HUGO BOSS AG were held at the Annual Shareholders' Meeting on May 12, 2015. The previous shareholder representatives on the Supervisory Board, Dr. Hellmut Albrecht, Dr. Martin Weckwerth, Dr. Klaus Maier and Damon Marcus Buffini, did not stand for re-election. Luca Marzotto and Gaetano Marzotto were re-elected to the Supervisory Board. In addition, Michel Perraudin, Kirsten Kistermann-Christophe, Axel Salzmann and Hermann Waldemer were elected for the first time. The employee representatives had already been elected in March in separate elections and accepted their mandates after the Annual Shareholders' Meeting at the constitutive meeting. The regular period of office for the newly elected Supervisory Board expires at the end of the Annual Shareholders' Meeting that decides on the exoneration of the Supervisory Board for fiscal year 2019.

Michel Perraudin was elected Chairman and Antonio Siminia Deputy Chairman at the constitutive meeting of the Supervisory Board held immediately after the 2015 Annual Shareholders' Meeting.

MAIN TOPICS OF THE SUPERVISORY BOARD MEETINGS IN 2015

In the 2015 reporting year, a total of nine Supervisory Board meetings were held in March, May, June, August, September, October and December. The meeting in September extended over two days. With the exception of the ordinary meeting of the Supervisory Board on May 12, 2015 and the constitutive meeting on the same day at which one member was absent due to illness but was still able to participate in voting, all members of the Supervisory Board attended all meetings in 2015.

The meeting of the Supervisory Board in March 2015 concentrated on the annual financial statements of HUGO BOSS AG and of the HUGO BOSS Group as at December 31, 2014, the audit report prepared by the auditors and the dependent company report. At this meeting, the annual financial statements of HUGO BOSS AG as at December 31, 2014 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 the review of the independence of the newly proposed auditor for fiscal year 2015 – the proposals for the adoption of resolutions at the Annual Shareholders' Meeting of HUGO BOSS AG on May 12, 2015.

On September 23 and 24, the Supervisory Board held a two-day meeting for extensive discussion of the corporate strategy up to 2020, a detailed presentation of the Group's organizational structure and the development of its sustainability activities.

At its meeting in December 2015, the Supervisory Board discussed in detail the results of its efficiency review, deliberated on and approved the declaration of compliance with the German Corporate Governance Code for 2015, discussed the 2016 budget and approved the internal audit planning for 2016.

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 the Group's own retail activities and forthcoming investments, compliance issues and the Corporate Governance Code.

COMMITTEES OF THE SUPERVISORY BOARD AND THEIR WORK IN 2015

The Supervisory Board has set up a total of five committees in order to improve the efficiency of its work: an Audit Committee, a Working Committee, a Personnel Committee, a Nomination Committee and a Mediation Committee as required by law. They prepare proposals and matters for discussion by the full Supervisory Board. To the extent permitted by law, the Supervisory Board's decision-making authority was transferred to the Committees. The Committee chairpersons reported in detail on the work of their respective Committee at the following meeting of the Supervisory Board.

The **Audit Committee** met four times in fiscal year 2015. 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 ten 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 four meetings in the fiscal year at which it discussed the development of sales and womenswear activities, the employment pact and preparations for the Annual Shareholders' Meeting.

The **Mediation Committee** established in accordance with Sec 27 (3) MitbestG ["Mitbestimmungsgesetz": Codetermination Act] held one meeting in the past fiscal year and concerned itself with the appointment of members of the Managing Committee.

It was not necessary for the **Nomination Committee** to be convened in the year under review.

01|01 ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD AND BOARD COMMITTEES IN 2015

	Number of members	Number of meetings	Attendance rate
Working Committee	6	4	100%
Nomination Committee	2	0	n/a
Personnel Committee	4	10	100%
Audit Committee	4	4	100%
Mediation Committee	4	1	100%
Full Supervisory Board	12	9	98%
TOTAL			**100%**

PARTICIPATION OF SUPERVISORY BOARD MEMBERS IN MEETINGS IN FISCAL YEAR 2015

01|02 PARTICIPATION IN MEETINGS OF THE FULL SUPERVISORY BOARD AND ITS COMMITTEES

Member	Attendance rate[1]
Michel Perraudin, Chairman (from May 12, 2015)	100%
Dr. Hellmut Albrecht, Chairman (till May 12, 2015)	100%
Antonio Simina, Deputy Chairman	100%
Gert Bauer (till May 12, 2015)	100%
Helmut Brust (till May 12, 2015)	86%
Damon Marcus Buffini (till May 12, 2015)	100%
Tanja Silvana Grzesch (from May 12, 2015)	100%
Anita Kessel (from May 12, 2015)	100%
Kirsten Kistermann-Christophe (from May 12, 2015)	100%
Fridolin Klumpp (from May 12, 2015)	100%
Monika Lersmacher	100%
Dr. Klaus Maier (till May 12, 2015)	100%
Gaetano Marzotto	100%
Luca Marzotto	100%
Sinan Piskin	100%
Axel Salzmann (from May 12, 2015)	100%
Bernd Simbeck (till May 12, 2015)	100%
Hermann Waldemer (from May 12, 2015)	89%
Dr. Martin Weckwerth (till May 12, 2015)	100%

[1] Attendance rate = Visited meetings ./. Meetings to which the member was invited.

CORPORATE GOVERNANCE

Last year, the Supervisory Board also dealt with new developments in the corporate governance regulations at the Company. In December 2015, 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 and the Corporate Governance Declaration can be found on page 17. As in previous years, the annual 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 10, 2015, where the Supervisory Board came to a positive conclusion.

There were no conflicts of interest in 2015 relating to any members of the Managing Board or Supervisory Board members 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 2015 and the combined management report for HUGO BOSS AG and the Group for fiscal year 2015 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 May 12, 2015. 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. 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. The auditors were furthermore required to inform the Supervisory Board or note in the audit report any facts that were ascertained during the audit resulting in any errors in the declaration submitted by the Managing Board and the Supervisory Board in accordance with Sec. 161 (1) Sentence 1 AktG. The auditors did not issue any such reports in the reporting year. In addition, the Supervisory Board obtained the auditors' declaration of independence in accordance with No. 7.2.1 of the German Corporate Governance Code and verified the auditor's independence. The possibility of engaging the auditors to perform non-audit services was also discussed.

The 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 issued 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 issued 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 9, 2016, 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 2015. The financial statements of HUGO BOSS AG for fiscal year 2015 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 9, 2016, 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.

On behalf of the Supervisory Board, I wish to thank all the members of the Managing Board, the employees around the world and the employee representatives at HUGO BOS AG for their great commitment and constructive work in fiscal year 2015.

Metzingen, March 9, 2016

The Supervisory Board

Michel Perraudin
Chairman

SUPERVISORY BOARD

MICHEL PERRAUDIN (from May 12, 2015)
Hergiswil, Switzerland

Management Consultant
Chairman of the Supervisory Board

DR. HELLMUT ALBRECHT (till May 12, 2015)
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 (till May 12, 2015)
Reutlingen, Germany

First Authorized Representative of the German Metalworkers´ Union (IG Metall),
Reutlingen/Tübingen, Germany
Employee representative

HELMUT BRUST (till May 12, 2015)
Bad Urach, Germany

Senior Head of Corporate Culture,
Health & Safety
HUGO BOSS AG,
Metzingen, Germany
Employee representative

DAMON MARCUS BUFFINI (till May 12, 2015)
Surrey, Great Britain

Managing Director
Permira Advisers LLP,
London, Great Britain

TANJA SILVANA GRZESCH (from May 12, 2015)
Sonnenbuehl, Germany

Deputy Chairperson and Treasurer
of the German Metalworkers´ Union (IG Metall),
Reutlingen/Tübingen, Germany
Employee representative

ANITA KESSEL (from May 12, 2015)
Metzingen, Germany

Administrative Employee
HUGO BOSS AG,
Metzingen, Germany
Employee representative

KIRSTEN KISTERMANN-CHRISTOPHE
(from May 12, 2015)
Oberursel, Germany

Managing Director
Société Générale S.A.,
Frankfurt/Main, Germany

FRIDOLIN KLUMPP (from May 12, 2015) Caslano, Switzerland	Senior Vice President Global Human Resources HUGO BOSS AG, Metzingen, Germany Employee representative
MONIKA LERSMACHER Kornwestheim, Germany	Secretary of the German Metalworkers´ Union IG Metall Area Headquarters Baden-Württemberg, Stuttgart, Germany Employee representative
DR. KLAUS MAIER (till May 12, 2015) 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
AXEL SALZMANN (from May 12, 2015) Großhansdorf, Germany	Chief Financial Officer Bilfinger SE, Mannheim, Germany
BERND SIMBECK (till May 12, 2015) Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative
HERMANN WALDEMER (from May 12, 2015) Blitzingen, Switzerland	Consultant
DR. MARTIN WECKWERTH (till May 12, 2015) Frankfurt/Main, Germany	Partner Permira Beteiligungsberatung GmbH, Frankfurt/Main, Germany

SUPERVISORY BOARD COMMITTEES

Working Committee	**Michel Perraudin (Chairman) (from May 12, 2015)** **Dr. Hellmut Albrecht (Chairman) (till May 12, 2015)** Helmut Brust (till May 12, 2015) Anita Kessel (from May 12, 2015) Luca Marzotto Sinan Piskin Antonio Simina Hermann Waldemer (from May 12, 2015) Dr. Martin Weckwerth (till May 12, 2015)
Nomination Committee	Michel Perraudin (from May 12, 2015) Damon Marcus Buffini (till May 12, 2015) Gaetano Marzotto (from May 12, 2015) Dr. Martin Weckwerth (till May 12, 2015)
Personnel Committee	**Michel Perraudin (Chairman) (from May 12, 2015)** **Dr. Hellmut Albrecht (Chairman) (till May 12, 2015)** Helmut Brust (till May 12, 2015) Luca Marzotto (from May 12, 2015) Sinan Piskin (from May 12, 2015) Antonio Simina Dr. Martin Weckwerth (till May 12, 2015)
Audit Committee	**Hermann Waldemer (Chairman) (from May 12, 2015)** **Dr. Klaus Maier (Chairman) (till May 12, 2015)** Dr. Hellmut Albrecht (till May 12, 2015) Gert Bauer (till May 12, 2015) Fridolin Klumpp (from May 12, 2015) Michel Perraudin (from May 12, 2015) Antonio Simina
Mediation Committee	**Michel Perraudin (Chairman) (from May 12, 2015)** **Dr. Hellmut Albrecht (Chairman) (till May 12, 2015)** Monika Lersmacher Gaetano Marzotto (from May 12, 2015) Antonio Simina Dr. Martin Weckwerth (till May 12, 2015)

CORPORATE GOVERNANCE REPORT INCLUDING THE CORPORATE GOVERNANCE STATEMENT

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 Company'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 2015, 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 2015, which is included in this report (page 26) 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 June 24, 2014 and, since its entering into effect, as amended May 5, 2015, published in the Bundesanzeiger [German Federal Gazette] on June 12, 2015. Details are contained in the following report by the Managing Board and Supervisory Board.

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 also be accessed at **www.group.hugoboss.com/Investor-Relations/Corporate-Governance**.

CORPORATE GOVERNANCE PRACTICES

As an international Group with around 7,600 points of sale in 125 countries around the globe, HUGO BOSS is aware of its corporate responsibility to its employees, society, and the environment. Handling the core business responsibly is an important prerequisite for ensuring competitiveness and long-term success. In other words: our employees not only apply the very highest quality standards to our products and brands, but also consider social and ecological factors at every point along the value chain. Our corporate responsibility is divided into the key areas stakeholders, environment, employees, partners, products and society. HUGO BOSS always acts in compliance with the current regulatory frameworks as well as with the HUGO BOSS internal guidelines.

Further information can be found in the "Sustainability" section of our corporate website.

Good corporate governance is one of the fundamental principles of the HUGO BOSS Group and a crucial component for long-term success. In addition to responsible management of the Company for the benefit of employees, shareholders, and customers, good corporate governance also means appreciating and strengthening the confidence placed in the Company. For this reason, business activities focus on sustainably increasing enterprise value.

CORPORATE COMPLIANCE

HUGO BOSS AG and the Group companies operate in many different countries and regions and therefore in different legal systems. Corporate compliance comprises measures to ensure adherence to legal and official regulations, the Company's internal guidelines as well as codes which the Group has undertaken to observe. Corporate compliance and its observance by Group companies is seen as a major responsibility of the Managing Board at HUGO BOSS. This includes antitrust and anti-corruption regulations as well as provisions under capital market laws. HUGO BOSS AG expects all employees to act in a legally unobjectionable way in day-to-day business operations.

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 or persistent infringements of the code of conduct.

Employees are familiarized on an ongoing basis with the rules of the code of conduct and the corporate guidelines and thus made aware of the importance of observing compliance rules. To this end, HUGO BOSS runs classroom training sessions 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 introduced at all HUGO BOSS subsidiaries.

Employees can obtain support and advice on issues concerning legally correct conduct from their superiors or the Compliance Officer. HUGO BOSS has also established a global ombudsman system as a supplementary reporting channel. Employees and third parties such as suppliers or customers can confidentially notify an ombudsman, whose contact details are given on the Company's website, if there are indications of fraud, 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 Company'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. The Group's investor relations activities include regular dialog with institutional investors, financial analysts and private shareholders. In addition to 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, the first half and the first nine months of the year are published. The Group's strategy and relevant developments are discussed in detail at an annual Investor Day. In addition to special information events at which the Group presents itself to private investors, the Annual Shareholders' Meeting offers the opportunity to obtain 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 there. Those interested can also subscribe to an electronic newsletter to receive up-to-date information about news from the Group.

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

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

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.

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 2015. The offices held by the Managing Board and Supervisory Board members in statutory supervisory boards or comparable oversight committees of commercial organizations in Germany and other countries are listed in the notes under "Supervisory and Managing Board" (page 256). No member of the Managing Board sits on more than three supervisory boards of listed companies that are not members of the Group. The same applies to members of the Supervisory Board who sit on the managing boards of other listed companies. Related party disclosures are provided in the notes to the consolidated financial statements on page 249 ff.

THE MANAGING BOARD

The Managing Board comprises the chairman and the members with equal rights, whose duties cover specific corporate functions. There are three members of the Managing Board.

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

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

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 will continue to do so in future. On September 22, 2015, the Managing Board acting in accordance with the statutory provisions set a target of at least 30% of women in each of the two management levels below the Managing Board to be achieved by June 30, 2017. → **Employees**

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. The Supervisory Board currently includes four women (one of whom represents the shareholders) in accordance with Sec. 96 (2) Sentence 1 AktG. 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.

Acting under Sec. 111 (5) AktG, the Supervisory Board has defined a target for the proportion of women on the Managing Board, which is to be achieved by June 30, 2017. In accordance with the recommendation of the German Corporate Governance Code, the Supervisory Board has also set specific targets for its own 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. 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. A standard maximum period of membership of the Supervisory Board has been dispensed with as HUGO BOSS takes the view that a predefined maximum period of membership is not appropriate as it may prevent the Company from benefiting from the expertise of long-standing members of the Supervisory Board.

In addition, the Supervisory Board examines the annual and consolidated financial statements and reports on the results of this audit to the Annual Shareholders' Meeting.

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

1. WORKING COMMITTEE

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

2. PERSONNEL COMMITTEE

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

3. AUDIT COMMITTEE

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

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

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

- To prepare the Supervisory Board's proposal to the Annual Shareholders' Meeting concerning the appointment of a statutory auditor, and in particular to satisfy itself of the statutory auditor's independence and to examine the additional services which it provides;

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

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

The Supervisory Board satisfied itself of the independence of the members of the Audit Committee representing the shareholders and of the Chairman of the Audit Committee, Mr. Hermann Waldemer. Mr. Waldemer also possesses particular knowledge of and experience in the application of accounting principles and internal control processes. For this reason, he is also a designated Financial Expert.

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

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

RISK MANAGEMENT AND RISK CONTROLLING

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 126.

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Since fiscal year 2001, HUGO BOSS AG's financial reports have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. 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 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.

PUBLICATIONS WITHIN THE MEANING OF SEC. 15A WPHG

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

As of December 31, 2015, 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, p. 115

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 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 May 5, 2015 was published in the Bundesanzeiger on June 15, 2015. Accordingly, the Managing Board and Supervisory Board issued the following declaration of compliance in December 2015:

"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 2014 the recommendations of the Government Commission "German Corporate Governance Code" initially as amended on June 24, 2014 – officially published in the Federal Gazette on September 30, 2014 – and since its effectiveness in the version as amended on May 5, 2015 – officially published in the Federal Gazette on June 12, 2015 – 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 is currently discussing with the D&O-insurance provider to include a deductible in the future although HUGO BOSS AG is still of the opinion that a deductible is no appropriate means for further improving the sense of responsibility.

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

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

- Deviating from the recommendation in section 4.2.5. sentence 5 and 6 GCGC, certain information on the compensation of Executive Board members has not been included, nor have the model tables provided for this purpose been utilized. It seems doubtful as to whether the largely repetitive provision of identical information in two additional tables contributes to the transparency or the understandability of the Compensation Report according to the German Corporate Governance Code).

- Deviating from the recommendation in section 5.4.1 sentence 2 GCGC, the Supervisory Board has not specified a regular limit of length of membership for the members of the Supervisory Board. The company can also benefit from the experience of long-term Supervisory Board members. A regular limit of length of membership which is specified in advance is therefore not appropriate.

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

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

Metzingen, December 2015”

HUGO BOSS – KEY SHARE DATA

01|03 HUGO BOSS – KEY SHARE DATA

	2015	2014
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)	76.60	101.70
High	120.00	113.55
Low	74.38	90.79
Market capitalization in EUR million (December 31)	**5,393**	**7,160**
Earnings per share in EUR	**4.63**	**4.83**
Price-earnings ratio [2]	**16.6**	**21.1**
Dividend per share in EUR	**3.62** [3]	**3.62**
Dividend yield in % [2]	**4.7** [3]	**3.6**
Amount distributed in EUR million	**249.8** [3]	**249.8**
Payout ratio in % [4]	**78** [3]	**75**

[1] Xetra.
[2] Based on closing price (December 31).
[3] 2015: Dividend proposal.
[4] Based on net income attributable to shareholders.

01|04 ISIN, WKN AND TICKER SYMBOL HUGO BOSS SHARE

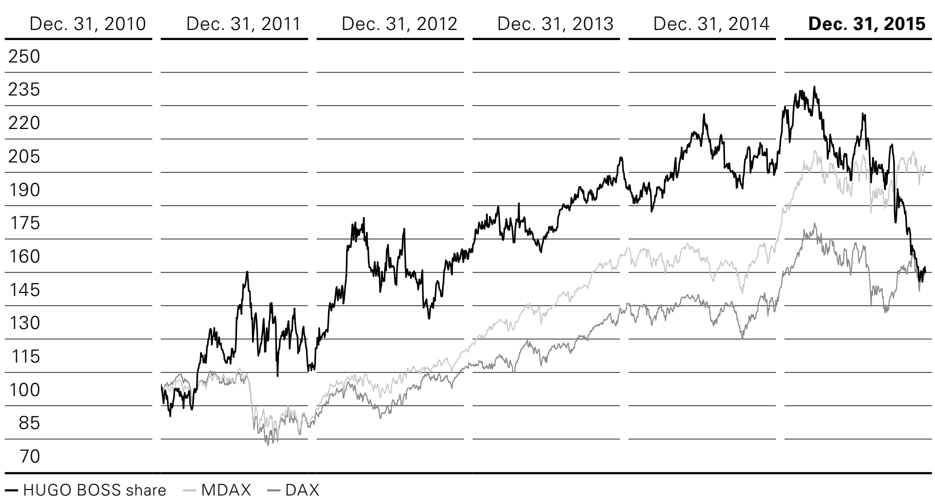
ISIN	DE000A1PHFF7
WKN	A1PHFF
Ticker symbol	BOSS

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

HUGO BOSS ON THE CAPITAL MARKET

After the German lead indices reached historical highs in a strong upward trend at the beginning of the year, the global stock markets came under pressure from increasing concerns over the economic outlook for China, turmoil in the Asian equity markets and the sharp decline in the price of oil. Although the DAX and the MDAX closed the year higher despite temporary substantial losses, volatility remained very strong in general. The HUGO BOSS share was unable to free itself from this uncertain market environment, experiencing additional strain from slower growth in the luxury goods industry.

01|05 SHARE PRICE PERFORMANCE (Index: December 31, 2010 = 100)



The German equity market entered the new year with substantial gains, reaching new historical highs in mid-April. This was driven by the ECB's decision to expand its bond-buying program, the resultant depreciation of the euro and improved economic indicators in the Eurozone. Market conditions deteriorated appreciably in the course of the second quarter due to persistent worries about the Chinese economy, the disappointing performance of the U.S. economy and uncertainty surrounding Greece's solvency. From mid-August, the Chinese government's unexpected devaluation of the renminbi, massive declines in the Asian equity markets as well as further evidence of slower growth in China exerted additional pressure on the equity markets in Germany. In addition to the ECB's continued commitment to its expansionary monetary policy, rate cuts by the Bank of China and the first moderate rate hike by the U.S. Federal Reserve in the fourth quarter triggered a recovery in the German equity markets. However, the backdrop of declining oil prices and increased global fears of terrorist attacks triggered sharp volatility.

Strong volatility in the German equity market triggered by concerns over the outlook for the global economy

The **DAX** closed the year 10% up on the final day of 2014. The **MDAX** advanced by 23% in the same period.

Deterioration in market environment for luxury goods companies exerted pressure on the HUGO BOSS share

During the first quarter of 2015, the **HUGO BOSS share** also benefited from the positive sentiment in the equity markets, reaching new highs. However, this upward trend was disrupted by the placement of the remaining share packages held by majority shareholder Permira and the financial outlook for 2015, which fell short of expectations. As the year continued, the share came under further pressure from the more muted outlook for growth in the premium and luxury goods industry particularly as a result of the slower momentum of the important Chinese market. In addition, industry growth softened in the U.S. market. The HUGO BOSS share was unable to shield itself from these developments and came under additional strain from the adjustment to the guidance for 2015 published by the Company in mid-October. At the end of the reporting period, the share was trading at EUR 76.60, down 25% on the end of the previous year (2014: EUR 101.70). Accordingly, the HUGO BOSS share declined more sharply than the industry average. The **MSCI World Textiles, Apparel & Luxury Goods Index,** which tracks the share price performance of companies operating in these sectors, retreated by 3% in 2015.

01|06 HUGO BOSS SHARE IN COMPARISON (Change in %)

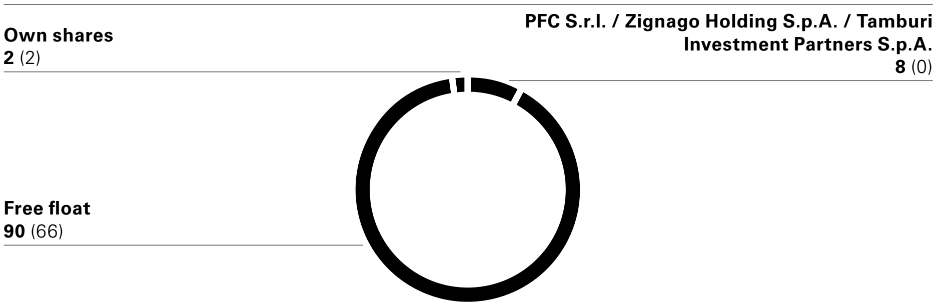
	1 year	3 years	5 years	10 years
HUGO BOSS share	(25)	(4)	56	151
DAX	10	41	55	99
MDAX	23	74	105	184
MSCI World Textiles, Apparel & Luxury Goods	(3)	16	40	139

Free float increases to 90%

Following the placement of a total of some 14 million shares on February 10, 2015, majority shareholder Permira sold its remaining holdings of around eight million shares via Red & Black Lux S.à r.l. on March 17, 2015. As a result, HUGO BOSS AG had the following shareholder structure as of December 31, 2015: 90% of the shares were in free float (December 31, 2014: 66%). 8% of the share capital was held by Zignago Holding S.p.A. and PFC S.r.l., two entities controlled by the Marzotto family, as well as Tamburi Investment Partners S.p.A. (December 31, 2014: 0%). The three companies have pooled their shares by way of a shareholder agreement. 2% of the capital was held by HUGO BOSS AG as own shares (December 31, 2014: 2%).

01|07 SHAREHOLDER STRUCTURE AS OF DECEMBER 31 (in % of share capital)

2015 (2014)[1]



[1] The share of 32% of the share capital held by Red & Black Lux S.à r.l. as of December 31, 2014 was reduced to 0% in 2015.

Number of own shares unchanged

At the Annual Shareholders' Meeting on May 12, 2015, a resolution was passed authorizing the Managing Board to acquire the Company's own shares. The authorization in existence up until that date expired on June 20, 2015. Under the resolution, the Managing Board is authorized until May 11, 2020 to buy shares in the Company representing no more than 10% of the share capital outstanding. However, no use was made of this authorization in the reporting year.

Consequently, HUGO BOSS AG still holds 1,383,833 of its own shares, which were bought back under earlier authorization between 2004 and 2007. This corresponds to a share of 1.97% or EUR 1,383,833 of the share capital. → **Legal disclosures**

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, 2015, 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 in accordance with Sec. 15a WpHG

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

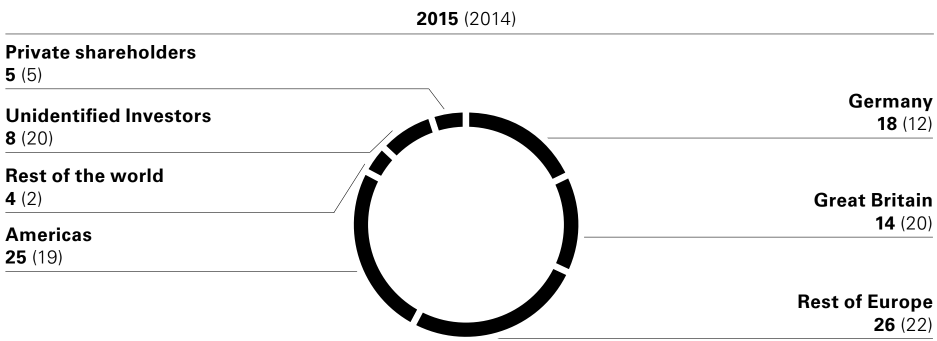
Four such notifications were given to the Group by the Managing Board and Supervisory Board in the period from January 1 to December 31, 2015. In total, members of the Managing Board and Supervisory Board hold less than 1% of the shares issued by HUGO BOSS AG.
→ **Corporate Governance Report**

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

Internationally balanced shareholder structure

In order to specifically address institutional investors holding shares in HUGO BOSS, the Company performs regular analyses of the ownership structure of the free float. In comparison to earlier analyses, the proportion of investors identified in the analysis has increased substantially. The analysis reveals the changes in the shareholder structure during the course of the year. Thus, the portion of shares held by institutional investors in the Americas declined to 25% (2014: 19%). On the other hand, the portion of shares held by investors in Great Britain shrank to 14% (2014: 20%). The weighting of investors based in Germany and the rest of Europe rose to 18% (2014: 12%) and 26% (2014: 22%), respectively.

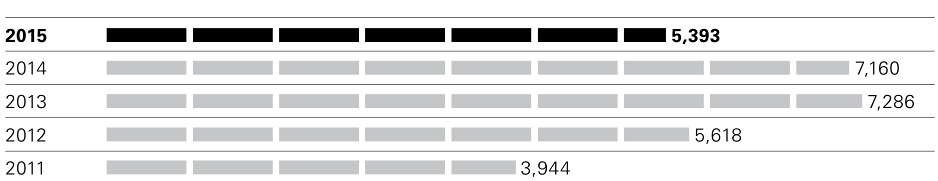
01|08 REGIONAL SPLIT OF INVESTOR BASE AS OF DECEMBER 31 (in % of free float)



Substantial increase in trading volumes in 2015

At the end of December 2015, 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: 8th place). This means that the increased free float offset the share's underperformance. It ranked 4th by trading volume (December 31, 2014: 4th place). The weighting of the HUGO BOSS share in the MDAX at the end of December came to 3.1% (December 31, 2014: 3.6%). On average, 245,293 shares per day were traded on Xetra in 2015 (2014: 153,578).

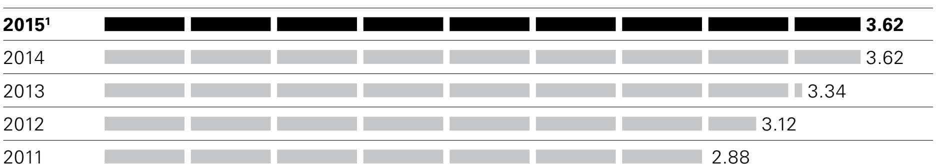
01|09 MARKET CAPITALIZATION AS OF DECEMBER 31 (in EUR million)



No corporate bonds issued

Neither HUGO BOSS AG nor any of its subsidiaries issued corporate bonds in 2015 meaning that no bonds were outstanding as of year-end 2015. The Group is also not rated by any external rating agency.

01|10 DIVIDEND PER SHARE (in EUR)



[1] 2015: Dividend proposal.

Dividend proposal makes no change to dividend per share

HUGO BOSS pursues a profit-based distribution policy that allows the shareholders to participate appropriately in the Group's earnings development. Between 60% and 80% of consolidated net income is to be distributed to shareholders on a regular basis. The Managing Board and the Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 19, 2016 an unchanged dividend of EUR 3.62 per share for fiscal year 2015 (2014: EUR 3.62). The proposal corresponds to a payout ratio of 78% of net income attributable to the equity holders of the parent company in 2015 (2014: 75%). This reflects the strength of the Company's balance sheet and its positive growth prospects for the coming years. Assuming that the shareholders approve the proposal, the dividend will be paid out on May 20, 2016, the day after the Annual Shareholders' Meeting. On the basis of the number of shares outstanding at year-end, the amount distributed will come to EUR 250 million (2014: EUR 250 million).

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 2015, the Managing Board and the Investor Relations department took part in an ongoing individual dialog with national and international institutional investors as well as 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 presents general information and key figures on the Group, current financial reports, company presentations and press releases as well as the financial calendar and the contact details of the Investor Relations department. In addition, it provides webcasts of the Managing Board's presentations of the interim and annual financial results, the Investor Day and the speech held by the Chief Executive Officer at the Annual Shareholders' Meeting. **:// group.hugoboss.com/Investor-Relations**

COMBINED MANAGEMENT REPORT GROUP PROFILE

2

35 – 80

COMBINED MANAGEMENT REPORT GROUP PROFILE

BUSINESS ACTIVITIES AND GROUP STRUCTURE

Since its establishment in 1924, HUGO BOSS has evolved into one of the leading companies in the premium and luxury segment of the global apparel market. Its aim now is to reinforce and expand its position. Headquartered in Metzingen, Germany, and with just under 14,000 employees, the Group generated sales of EUR 2.8 billion in fiscal year 2015 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 established as one of the market leaders in the premium and luxury segment of the global apparel market. It offers its customers around the world a comprehensive range of high-quality fashion as well as accessories in the womenswear and menswear segments. The Group's activities revolve around developing and marketing the BOSS core brand, the HUGO brand and the BOSS Green and BOSS Orange brand lines. HUGO BOSS is able to address and enthuse different and clearly defined target groups with its brand diversity, primarily thanks to a comprehensive product range encompassing classic yet modern tailoring, elegant evening wear and sportswear, shoes, leather accessories as well as licensed fragrances, eyewear, watches, children's fashion, home textiles and writing instruments.

Targeted brand communication

HUGO BOSS engages in targeted marketing activities to enhance its brand appeal and awareness, using classic forms of advertising such as print and out-of-home media. In addition, it reaches out to relevant target groups via digital channels. With the Group's sustained focus on expanding its own retail business, retail marketing has grown significantly in importance. Sports sponsorship activities focus on premium sports such as Formula 1, golf and sailing that symbolize brand values such as dynamism, perfection and precision. A further key area of the Group's brand communication is sponsorship of cultural events, where the Group focuses on the common ground that art and fashion share with respect to design, aesthetics and creativity. It also emphasizes these attributes with high-profile fashion events in the world's fashion capitals to further highlight 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 works with independent suppliers, mostly in Eastern Europe and Asia, to cover its sourcing requirements. In addition, the Group sources around 20% of its procurement volume internally. The collections are marketed in 125 countries around the world, with Europe as the largest market, accounting for 60% of sales, followed by the Americas (24% 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 is the most important sales channel

Over the past few years, HUGO BOSS has expanded the network of its own retail stores significantly. In fact, 60% of the Group's sales were generated in this channel in 2015, as a result of a net increase of 72 points of sale owned by the Group to make a total of 1,113 around the world. These include freestanding stores in exclusive retail locations, shop-in-shops operated by the Group in department stores and factory outlets. The e-commerce business also grew in importance in 2015, with customers from a total of 11 countries – Germany, Great Britain, France, Spain, Italy, the Netherlands, Belgium, Austria, Switzerland, the US and China – now able to order articles via the online store. Further expanding this sales channel and linking it to the bricks-and-mortar retail stores was one of the Group's most important projects in 2015, and should enable HUGO BOSS to offer its customers an even more convenient shopping experience in the future. The wholesale business contributed 38% to Group sales in fiscal year 2015. Wholesale partners include department stores, specialist retailers, which are frequently family-run, franchisees 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 environment. Franchise partners operate freestanding HUGO BOSS stores in accordance with the Group's specifications and operate mainly in small markets not addressed by the Group's own retail business. HUGO BOSS products can be bought at around 6,450 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: hugoboss.com 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. HUGO BOSS AG as a German stock corporation has a dual management and control structure. The Managing Board is responsible for the Group's strategy and its management, while the Supervisory Board advises the Managing Board and monitors its management activities. In addition to HUGO BOSS AG, the Group is made up of 56 consolidated companies that hold sole responsibility for local business activities. Of these, 34 subsidiaries are organized as distribution companies. Aside from a few exceptions, HUGO BOSS AG has complete control over all subsidiaries.

Regional alignment of organizational structure

The HUGO BOSS Group is organized by regions, with the business units assigned to three regional organizational units: Europe including the Middle East and Africa, the Americas and Asia/Pacific. The purpose of this structure is to tap market potential and to boost local business. In addition to these three regions, the Group's license business constitutes a fourth operating segment. Responsibility for the corporate functions is allocated to the individual members of the Managing Board and therefore concentrated at the Group's headquarters.

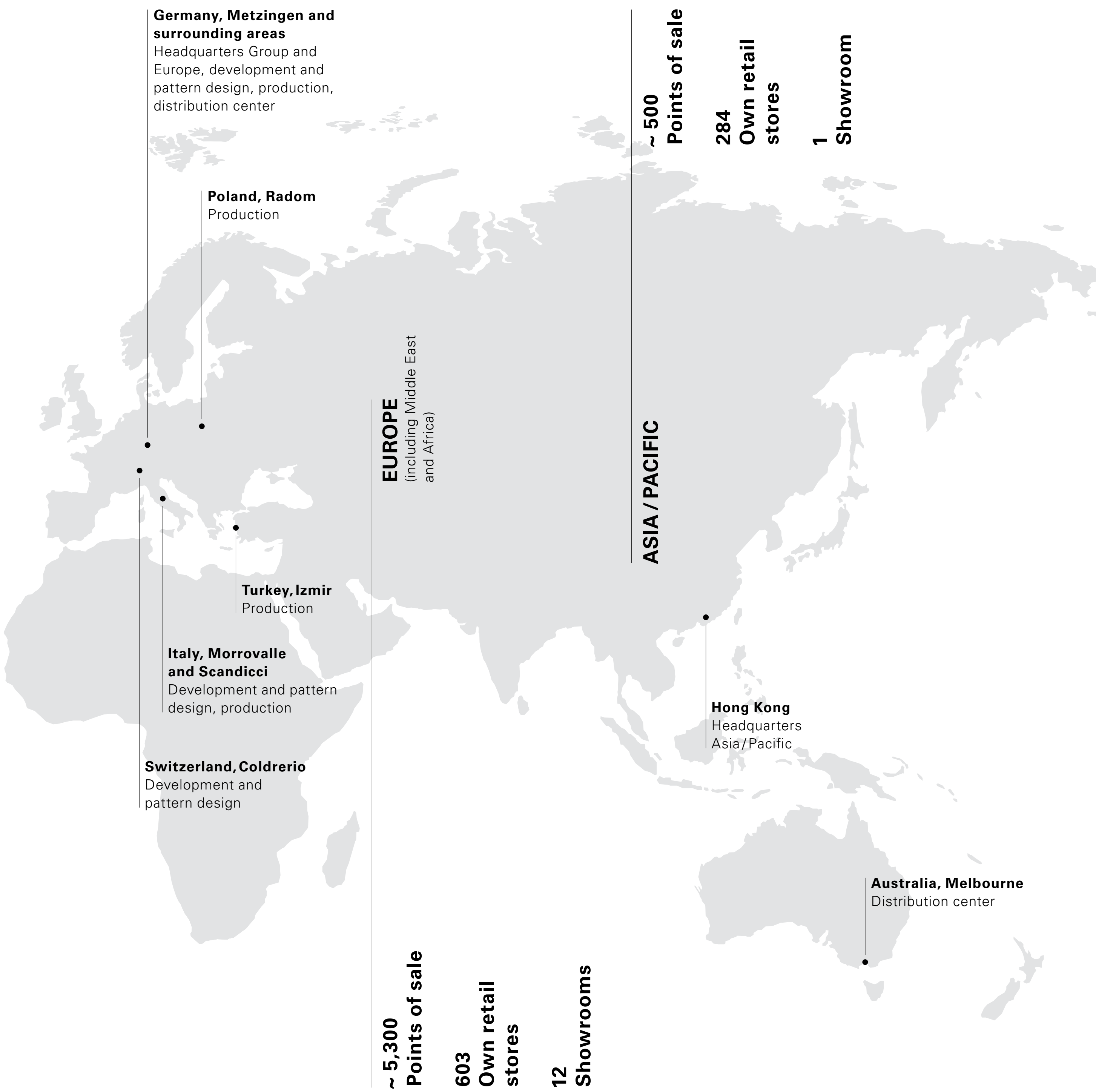
02|02 HUGO BOSS GROUP STRUCTURE

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

Regional organizations implement Group strategy

In each of the three regional organizational units, the regional director is responsible for implementing the Group's strategy in the applicable market. Within the regions they are heading, the directors are responsible in close cooperation with the country managers for the regional adaptation of the distribution strategy in the Group's own retail business and the wholesale business, as well as for the development of sales and earnings. These regional distribution structures strengthen the Group's proximity to customers, improve responsiveness to market trends and facilitate adjustment to market specifics. They also enable a fast exchange of knowledge through the close integration of the local companies.

02|03 KEY LOCATIONS/GLOBAL MARKET PRESENCE


Germany, Metzingen and surrounding areas
Headquarters Group and Europe, development and pattern design, production, distribution center
Poland, Radom
Production
Turkey, Izmir
Production
Italy, Morrovalle and Scandicci
Development and pattern design, production
Switzerland, Coldrerio
Development and pattern design
EUROPE
(including Middle East and Africa)
~ 5,300 Points of sale
603 Own retail stores
12 Showrooms
ASIA / PACIFIC
~ 500 Points of sale
284 Own retail stores
1 Showroom
Hong Kong
Headquarters Asia / Pacific
Australia, Melbourne
Distribution center

GROUP MANAGEMENT

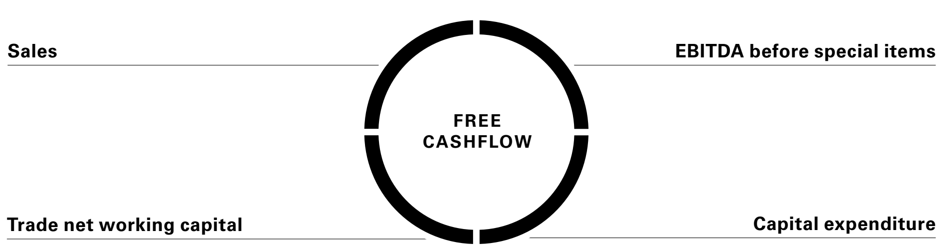
Management at HUGO BOSS aims to sustainably increase the enterprise value. The Company's internal management system helps the Managing Board and leadership at the level of individual business units focus all business processes on this objective.

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 CASHFLOW

	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. A specific approval process has been implemented for the collection-based purchase of inventories for the Group's own retail business in the interests of additional inventory optimization. In addition to future sales quotas, this process also takes account of projected discounting levels and future expected sales growth.

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)

	2015	2014	Change in %
Sales	2,808.7	2,571.6	9
EBITDA before special items	594.1	590.8	1
Trade net working capital	527.6	503.0	5
Capital expenditure	220.3	134.7	64
Free cash flow	207.6	268.4	(23)

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 goals of continued growth and further enhancement of its enterprise value. 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. All Group brands are characterized by a unique combination of high-quality craftsmanship and design precision. The Group's strategy focuses on elevating the BOSS core brand, expanding its market position in womenswear, developing its own retail business with the aim of integrating its bricks-and-mortar stores more closely with its online activities, and achieving global growth. Activities in all four fields of growth are underpinned by the ongoing digitization of the Group´s business model as well as the maximization of operating strength.

Growth strategy based on four pillars

HUGO BOSS has identified four main levers for achieving profitable growth. The BOSS core brand is to be elevated by means of product, distribution and communication measures. The brand strength acquired 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, online and particularly also offline. Finally, the Group is seeking more of a regional balance than before. The implementation of the various growth initiatives is supported by the ongoing digitization of the Group´s business model. This is being reflected in the fast-growing significance of digital brand communication and transaction offerings. In addition, the Group's operational strength, particularly related to supply chain management, the product development process and the IT and logistics infrastructure, will provide an important competitive edge.

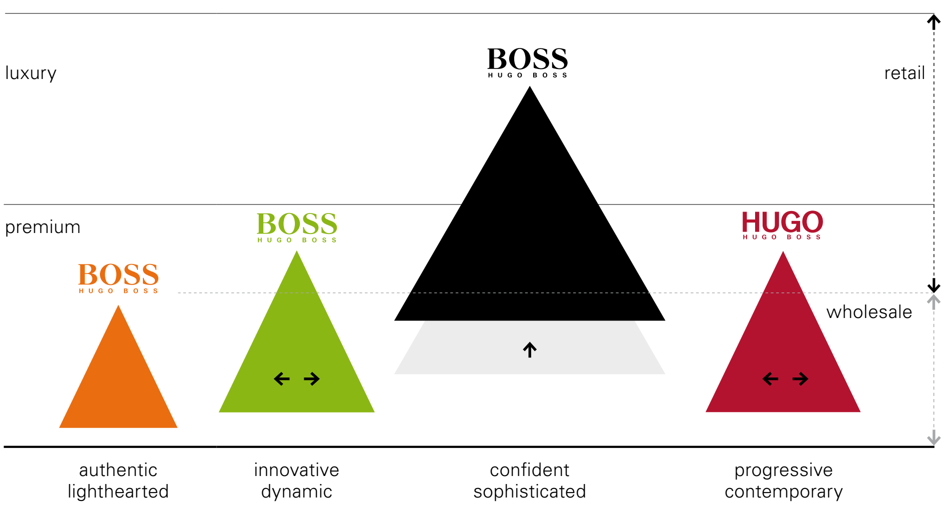
02|08 HUGO BOSS GROWTH STRATEGY 2020

ELEVATION OF THE BOSS CORE BRAND

The Group reaches out to consumers with its BOSS core brand as well as the HUGO brand. Whereas BOSS collections epitomize authentic and understated luxury, HUGO features progressive looks and a modern, urban flair. The BOSS Orange and BOSS Green lines are positioned beneath the BOSS core brand. BOSS Orange stands for trend-oriented casual wear expressing a laid-back approach to life. BOSS Green offers a collection of sportive elegant casual wear and sportswear characterized by high quality and functionality. With its brand portfolio, HUGO BOSS is able to respond to the diverse needs of different target groups, creating offerings for different occasions.

Nuanced brand portfolio addresses different customer needs

02|09 HUGO BOSS BRAND POSITIONING



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

HUGO BOSS is broadening its luxury offering to satisfy its customers' demand for attractive products in the top fashion and quality segments and thereby to increase its sales. In this way, the Group is adding a complement to its historically grown strength in the premium segment. With the elevation of its BOSS core brand, particularly in markets where the brand has historically been perceived predominantly in a multibrand setting and via its entry-price products, the consistency of the BOSS brand's global positioning is being reinforced. The Group assumes that it can more or less double the share of BOSS brand sales in the luxury segment, to around 20% by 2020. At the same time, BOSS is gradually withdrawing from entry-price points, which will in future be addressed particularly by HUGO and BOSS Green.

Expansion of BOSS luxury offering

BOSS is reinforcing its competence and credibility in the luxury segment by offering appropriate products and services. The Group benefits from its extensive expertise in craftsmanship by utilizing its own production facilities. Under BOSS Tailored, BOSS offers unique cuts, fabrics of the highest quality and exquisite designs. With the launch of series-produced full-canvas suits made in Metzingen, the brand is additionally highlighting tailoring capabilities of the highest quality. By doing so, it is providing a complement to its range of Made to Measure suits, shirts and, as of 2016, shoes, which mark the pinnacle of the collection in terms of both fashion and prices. In the sportswear segment, BOSS is investing in the quality of materials and workmanship in order to establish offers in the leading edge of fashion. Close alignment of the tailoring and sportswear collections ensures the creation of a uniform brand image and allows mixing and matching elements of both segments. → **Sourcing and Production**

Distribution of the BOSS core brand concentrated on controlled retail areas

The elevation of the BOSS brand is also reflected in the Group's distribution activities. The core brand is being given ever more space at the Group's own stores compared with the other brand concepts, so that it benefits from the exclusive setting and the quality of the advice and service provided. The Group is also intensifying its control of the brand in the wholesale business by requiring its partners to distribute the BOSS core brand solely in a mono-brand setting, i.e. in shop-in-shops. These shop-in-shops are either still managed by the partner or by the Group itself in the form of the concession model. Category business, i.e. business in product group-specific departments with offerings across multiple brands, is now being addressed solely by HUGO (clothing) and BOSS Green (casualwear). This transition was successfully completed in Europe in 2015 and is planned for the Americas in 2016.

Communication activities supporting emotional brand perception

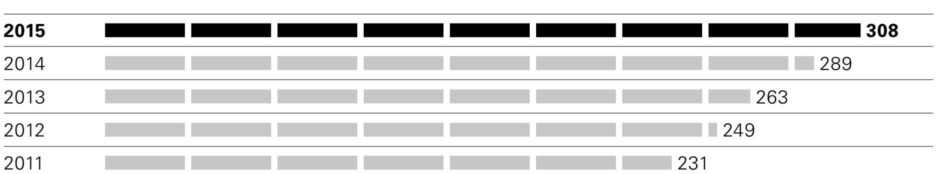
The reputation of the BOSS core brand shapes the global perception of the overall brand portfolio. Accordingly, the Group focuses its brand communication activities on its core brand, conveying the brand proposition of inspiring customers towards success in an emotional manner. HUGO BOSS focuses here on the quality of its products, fascinating sponsoring partnerships, its brand's tradition and its advisory competence in the field of fashion. In the digital segment, which accounts for around half of expenditure, the hugoboss.com website forms the core of these activities. In addition, classic print advertising, particularly for womenswear, retail marketing activities targeted at the established flagship store portfolio, fashion shows and sponsorships play important roles.

LEVERAGING BRAND POTENTIAL IN WOMENSWEAR

Clear brand proposition provides basis for future growth

The Group considers its BOSS core brand in particular to offer a good chance to meet womens' needs for timelessly modern fashion statements and thus to strengthen its position in womenswear. Under the guidance of Artistic Director Jason Wu it is building on its core skills in high-quality tailoring to design sophisticated and desirable products combined with a feminine aesthetic that express unpretentious luxury. In this connection, the focus is on apparel. In addition to their commercial importance, shoes and accessories play an important role in sharpening the brand's core and forging closer links between the individual collections. BOSS attaches great importance to diverse wearing opportunities to address all the needs in the life of a modern woman. Based on its core strength in modern businesswear, the brand is accordingly developing attractive offerings in luxury leisurewear, to appeal to customers who apply the same standards of quality and sophistication to the clothing they wear in their leisure time. Beyond the BOSS core brand, HUGO and BOSS Orange also feature womenswear matching their respective brand positioning.

02|10 SALES WOMENSWEAR (in EUR million)



Own retail floor space for womenswear growing

The continued growth in 2015 is strengthening the Group in its decision to selectively increase the visibility of the womenswear range in its own retail stores. In accordance with its overall strategy, it is concentrating on the BOSS core brand and has significantly increased its share of the own retail floor space compared with the other brand lines. In particular, womenswear is being given a more prominent position in new or extended stores, which tend to be larger. In these stores, womenswear often occupies around one-third of the total shop floor. At the end of 2015, customers were able to purchase HUGO BOSS womenswear from 300 of the Group's own retail stores. With the use of global look concepts, great importance is being attached to standardized presentation worldwide. In addition, intensive training for sales personnel reflects the exceptional importance of quality of service in this segment in particular. The development of a special store concept also aims to optimally address female customers' needs.

Communications activities boost brand awareness

Finally, HUGO BOSS has stepped up its communications activities to enhance awareness of its brand in the womenswear market and to position BOSS Woman as an attractive proposition for fashion-conscious female consumers. For example, the brand collections are presented twice a year at the New York Fashion Week. Print campaigns, predominantly placed in premium fashion magazines, and PR activities also help to communicate the unique core of the brand and to establish BOSS as a fashion authority.

Above-average growth expected

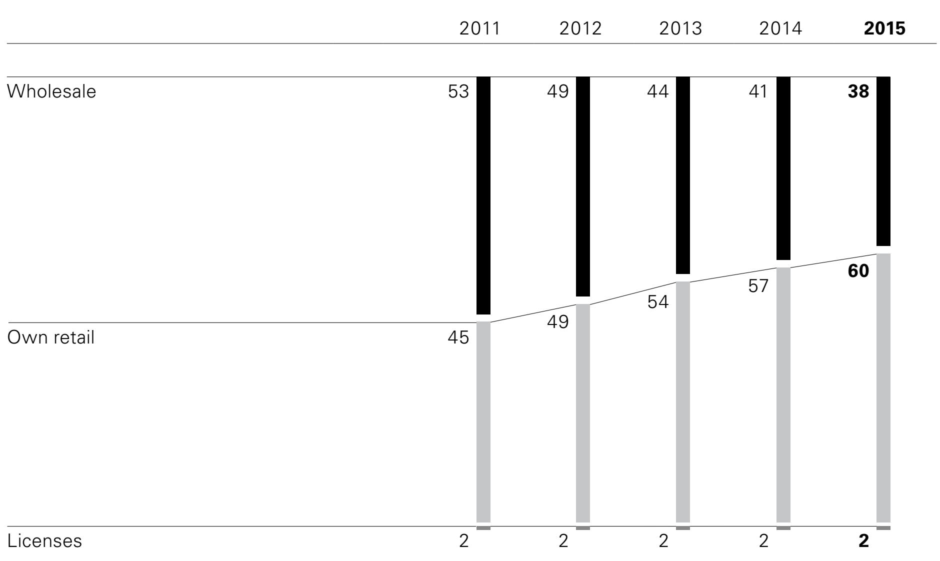
HUGO BOSS assumes that by implementing this strategy it will be able to increase the share of sales contributed by womenswear to at least 15% by 2020 (2015: 11%). This means that HUGO BOSS will further strengthen its share of the womenswear market, which is substantially smaller than the Company's menswear share.

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

Group's own retail business expanded by omnichannel offerings

Over the past few years, HUGO BOSS has comprehensively realigned its business model to the requirements of the Group's own retail business. By expanding this distribution channel, the Group is able to present and sell its brands and collections to optimum effect without sacrificing 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. The Group assumes that the share of sales accounted for by its own retail business will continue to increase. In particular, it plans to achieve an annual average increase in comp store sales in the mid single digits. On top of this, new openings and takeovers will help to ensure that the Group generates at least 75% of its sales from its own retail business in 2020 (2015: 60%).

02|11 SALES BY DISTRIBUTION CHANNEL (in %)



Further expansion of store network

The Group continues to see opportunities for increasing its global market penetration by opening about 10 to 15 new stores each year. Given the breadth and quality of its range, HUGO BOSS is confident of being able to manage larger stores than in the past profitably. In this connection, the main focus will be on expanding the portfolio in metropolitan regions, which shape brand perception and account for the bulk of the global luxury goods business.

Continuous elevation of store portfolio by takeovers and renovations

In addition to opening new stores, the Group is also considering taking over stores that are currently operated by franchise partners, depending on the attractiveness and growth prospects of the relevant market. The Group's own management of shop-in-shops currently run by wholesale partners also offers good opportunities to improve the attractiveness of the brand presentation and tap additional sales and earnings potential. However, the commercial significance of new openings and takeovers will decline compared with earlier years, while renovation of existing stores will become significantly more important. Stores are generally renovated after around five years, frequently leading to a substantial increase in economic performance. Retail areas which fall short of the Group's profitability targets in the medium or long term will be closed or, in the case of shop-in-shops, returned to the retail partner.

Omnichannel offerings increasingly make shopping a "noline" experience

Over the past few years, HUGO BOSS has boosted its sales significantly in both bricks-and-mortar retail and in its online business. Moving forward, it will link the two channels more closely to offer consumers a seamless and integrated brand and shopping experience. Following the takeover of the online store front end from the former fulfillment partner and the relaunch of the hugoboss.com website in 2014, the focus in 2015 was on improving services and features in order to optimize the online shopping experience and the ease of use of the store step by step. In the next twelve months, the Group will upgrade the content and look of the hugoboss.com website substantially and make it the central hub for all of the brand's digital activities. The purpose of this is not only to boost online sales, but also to emotionalize the brand and tempt customers into the stores. To this end, the Group plans to expand omnichannel offerings such as "click & collect" and the ability to order sold-out sizes or products online directly in-store. In order to make this happen, HUGO BOSS will take over substantial parts of the e-commerce value chain in Europe, notably in the areas of IT and logistics, in the early summer of 2016. The Company assumes that in the medium term insourcing will have a favorable impact on profitability.

02|12 MEASURES FOR IMPLEMENTING AN OMNICHANNEL BUSINESS MODEL

SPRING 2014	FALL 2014	TOTAL YEAR 2015	EARLY SUMMER 2016	END OF 2016	2017 AND BEYOND
Insourcing of online store frontend	Relaunch of hugoboss.com website online and mobile	Continuous improvement of user experience at hugoboss.com	Insourcing of online fulfillment in Europe	Launch of first omnichannel services in Europe	Continuous expansion of omnichannel services in more markets

A high-performance SAP-based IT structure supports retail management within the Group. Introduced in 2015, the retail merchandise planning (RMP) system provides a fully integrated view of stock flows, thus permitting system-based planning oriented directly to the demand of end consumers. The retail assortment planning (RAP) system used for the first time in the development of the Fall 2016 collection optimizes the product offering based on the capacity of individual stores, the characteristics of the location in question and the individual product life cycle. Finally, a powerful logistics infrastructure ensures timely and accurate delivery to the Group's own points of sale as well as wholesale partners. In operation since 2014, the flat-packed goods distribution center located close to the Group's headquarters has particularly boosted the speed of the supply chain in Europe and improved the efficiency of key handling processes.

Wholesale still an important distribution channel despite declining share of sales

Based on its established customer relationships in the premium and luxury apparel segment, built over decades, and its brand attractiveness, the Group is confident that it can continue to offer its department store partners a convincing product range, best-in-class service and a high level of delivery reliability in the future, and thereby increase its market share. In addition, the Group will expand its business with specialist online retailers selectively and setting the bar high for the quality of the brand presentation. This will leverage economies of scope and provide access to new consumer groups. However, takeovers will put pressure on sales growth in the wholesale business. Moreover, HUGO BOSS assumes that its business with specialist stores, which are frequently owner-operated, will contract. All told, it therefore expects a decline in the share of Group sales contributed by wholesale.

LEVERAGING GLOBAL GROWTH POTENTIAL

Global brand awareness offers growth opportunities

HUGO BOSS has become 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 Company sees substantial opportunities to exploit this brand perception even more extensively in the coming years than it has done in the past, and in particular to significantly increase its penetration in fast-growing markets where the Group's presence is still relatively weak. To this end, the Group will mainly continue to expand its own retail business. Overall, the share of non-European sales is expected to rise in the medium term.

02|13 SALES BY REGION (in %)

	2011	2012	2013	2014	**2015**
Asia/Pacific	15	15	14	14	**14**
Americas	22	24	24	23	**24**
Europe[1]	61	59	60	61	**60**
Licenses	2	2	2	2	**2**

[1] Including Middle East and Africa.

Business model transformation the key to continued growth in Europe

However, Europe will remain the Group's largest sales market in the future. To ensure this, the Group is driving the process-related, organizational and cultural transformation of its business model towards a stronger focus on own retail - both in bricks-and-mortar stores and online. By expanding its own stores and shop-in-shops, it is strengthening the homogeneity and perceived value of its brand presentation and increasing its attractiveness both to local consumers and to the growing number of non-European customers who visit the region as tourists. Comprehensive process changes, particularly in the areas of merchandise management, retail operations and customer service, are additionally strengthening the organization's retail competence. In addition, the change in the wholesale distribution strategy implemented in 2015 has enhanced the image of the BOSS core brand in particular. 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. HUGO BOSS will increase its direct control of brand image in the latter two markets in 2016.

Improvements to distribution aid sustained brand strength in the Americas

In the Americas, HUGO BOSS enjoys a positive perception associated with a European life style. In addition to a modern design characterized by slim cuts, HUGO BOSS is seen as being highly reliable with respect to fit and quality as well as offering an attractive value proposition. In order to safeguard the long-term appeal of its brands, HUGO BOSS pays particular attention to optimizing its distribution activities in the United States to reduce its exposure to structurally heavy discounting in the market environment as far as possible. In own retail, the Company is investing in improving the shopping experience, including launching omnichannel services and aligning core processes with Group-wide best practices. In the wholesale segment, the Group wants to operate more HUGO BOSS shop-in-shops itself to improve the quality of its brand presentation. Similarly, distribution of the BOSS core brand in the wholesale channel is to be confined to this format. Finally, in the course of improvements in inventory management, the Group is seeking to significantly scale back the presence of its brands in wholesale off-price channels and to largely confine the sale of goods from earlier seasons to outlets which it operates itself.

Asia offers major opportunities for growth

The steady growth of the middle class and the expected accompanying increase in purchasing power for premium and luxury goods offers HUGO BOSS substantial sales potential in Asia, particularly China. Notwithstanding the challenging market situation in China, the Group is therefore investing in the quality of its retail presence and brand perception. The quality of brand presentation will be further increased by the continuous elevation of its network of stores, with selective new openings, the renovation or relocation of existing stores and individual closures. Process improvements, the expansion of training activities and the implementation of structured, IT-based customer relationship management will also improve the shopping experience. In its merchandise offering and communication activities, HUGO BOSS is emphasizing the brand's core in men's tailoring, which accounts for a substantially lower share of sales in Asia than in other regions. In addition, there is further potential in luxury sportswear and in womenswear, which appeals to the fast-growing group of fashion-conscious professional women. HUGO BOSS is hoping to stimulate local demand successfully, particularly in China, by harmonizing its price structures step by step both within the region and in comparison with the European and American markets.

EMPLOYEES

The passion for fashion, the creativity and the skill set required to develop innovative technologies, processes and services demonstrated by the almost 14,000 employees working for the HUGO BOSS Group around the world are reflected in unique products and shopping experiences. This means that the employees make a decisive contribution to the success of the Company as a whole. For this reason, the Group positions itself as an attractive employer both for existing employees and for potential new ones. The main task of human resources management at HUGO BOSS is to attract employees, to develop them individually in an international context and to create a working environment which fosters initiative-taking, team spirit and the motivation to perform well. The HUGO BOSS corporate values of quality, passion, respect, cooperation and innovation set the framework.

Human resources work aligned with mission statement

The core task of global human resources management at HUGO BOSS is to create the environment and oversee the processes that permit employees to act goal-oriented and responsibly in accordance with the Company's mission statement – "HUGO BOSS inspires people towards success". This mission statement acts as a guide for employees in their daily work, which is oriented towards joint achievement of the Group's goals. The five corporate values – quality, passion, respect, cooperation and innovation – form the principles underlying daily working relationships and reflect the culture lived in the Company. Numerous initiatives in human resources management help employees to translate the mission statement into concrete action. For example, additional functions have enhanced the communications platform established in 2014 for sharing innovative ideas about employees' daily routines. Once again, awards were given in recognition of the best ideas submitted last year. Some of these ideas have already been fully implemented. One of the award-winning ideas entailed a reduction in the volume of waste in T-shirt packaging and received the "HUGO BOSS Sustainability Award 2015". → **Sustainability**

Employee satisfaction an important goal of human resources management

The employees play a crucial role in the achievement of the Company's goals. Accordingly, human resources management at HUGO BOSS seeks to create an environment that ensures that all employees can make the best possible contribution and develop their potential to the full. To enable this, it is very important to the Company to find out how individual employees view their employer, their working conditions and the duties assigned to them. With this in mind, an anonymous survey among employees at HUGO BOSS AG was conducted for the first time in 2014. The participation rate was 70% and with an overall score of 80%, satisfaction reachd a high level. Last year, workshops were held with all employees and executives to develop action plans aimed at further increasing employee satisfaction; individual measures have already been implemented. In this context, for instance, HUGO BOSS also overhauled its leadership principles. Group-wide workshops were held to ensure that these principles would be implemented in the daily routine. Based on the five defined corporate values, they will enable a uniform Group-wide culture for people management and development.

Branding activities enhance the Group's attractiveness as an employer

The personnel marketing activities with which HUGO BOSS positions itself as an attractive employer in the job market were continued and enhanced last year. Both the jobs website and the applicant management system were optimized with additional functions, a more intuitive user interface and a stronger international outlook: the HUGO BOSS jobs website now features ten languages, while 23 countries in total are linked to the applicant management system. At the same time, HUGO BOSS is making greater use of social networks to reach out to potential employees. As a result, the Group has been able to further optimize target-group-specific communications and substantially widen the circle of potential new recruits reached. ➔ **jobs.hugoboss.com**

Human resources work supports strategic focus on Group's own retail business

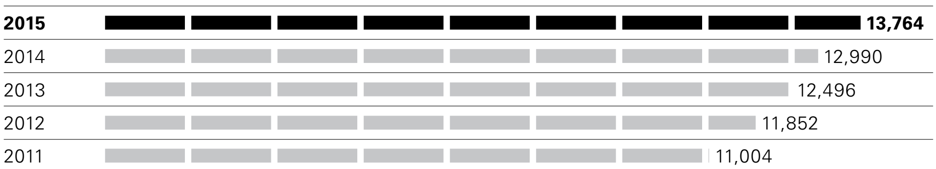
Last year, human resources management again helped to align employee structures with the Group's strategic orientation towards its own retail business. Further work on the content of the Group-wide manual for human resources management in the Group's own retail business additionally optimized processes for employee recruitment, development and motivation last year. As well as this, the Group stepped up the use of a human resources planning system at its own stores last year. Implementing the system results in a substantial improvement in organizational processes, and by means of a frequency-driven deployment system ensures that the ideal number of employees is available on the shop floor at any given time to maximize the quality of customer service.

In order to offer them clear prospects for their personal and professional development, a specialist career path was developed for the employees in the Group's own retail business and implemented at the first subsidiaries in 2015. Similarly to the specialist career path available for employees in the Group's corporate functions, it contains defined development steps within the Group's own retail business that will allow employees to specialize. This gives them an attractive alternative to a career in management, while retaining the employees within the Group's own retail business for even longer.

Employee numbers up by 774 in 2015

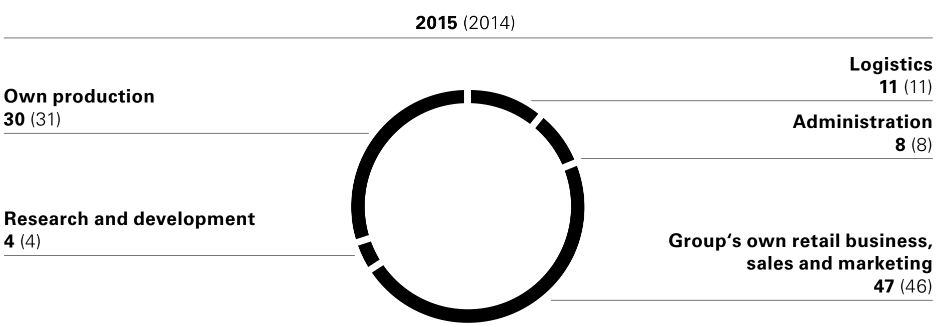
At the end of 2015, the HUGO BOSS Group had 13,764 employees around the world (2014: 12,990). This was an increase of 774 or 6% on the previous year and reflects last year's general business performance and the Group's growing focus on its own retail business.

02|14 NUMBER OF EMPLOYEES AS OF DECEMBER 31



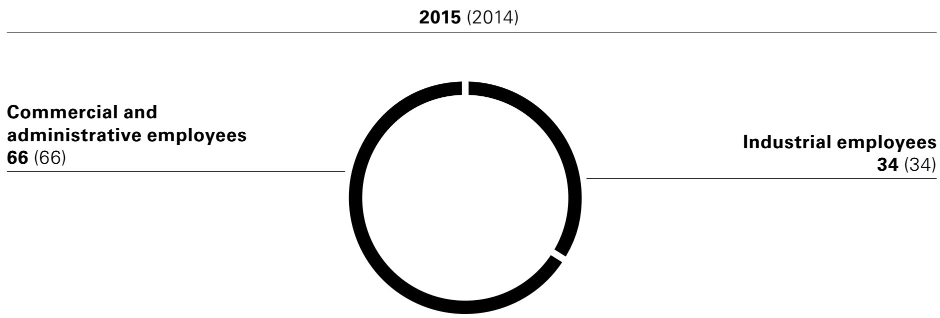
The number of employees in the Group's own retail business rose to 5,349 (2014: 4,965). Most of the new hires in this segment were in Europe. At the same time, the Group increased capacity for its omnichannel activities, particularly in digital marketing. With the expansion of its omnichannel activities, the Group is responding to customers' growing expectations of a consistent and seamless shopping experience embracing brick-and-mortar stores and digital retailing. → **Group Strategy**

02|15 EMPLOYEES BY FUNCTIONAL AREA AS OF DECEMBER 31 (in %)



The ratio between employees in commercial positions and employees in industrial functions remained unchanged year on year. At the end of 2015, 9,150 employees (2014: 8,562) or 66% of the total workforce were in commercial jobs, while 4,614 employees (2014: 4,228) or 34% of the total workforce were assigned to industrial activities. → **Notes to the Consolidated Financial Statements, Note 10**

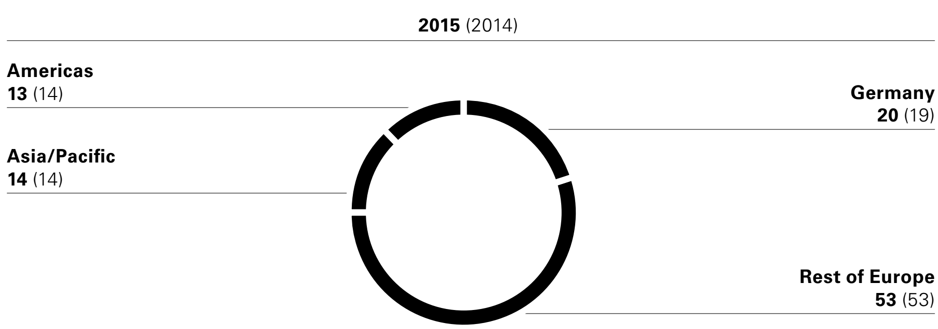
02|16 INDUSTRIAL, COMMERCIAL AND ADMINISTRATIVE EMPLOYEES AS OF DECEMBER 31 (in %)



Corporate culture shaped by international outlook, openness and diversity

HUGO BOSS' corporate culture is shaped by the international outlook, openness and diversity of its employees. This is reflected in the regional distribution of the workforce. 80% of the Group's employees were based outside Germany last year (2014: 81%).

02|17 EMPLOYEES BY REGION AS OF DECEMBER 31 (in %)



Continued high share of women in management

At 59%, women account for the majority of the HUGO BOSS Group's workforce (2014: 60%). Women held 45% of the positions across all four management levels at the end of December 2015 (2014: 45%). The Managing Board set a target of at least 30% of women in each of the two management levels below the Managing Board to be achieved by June 30, 2017. At the end of 2015, 28% (2014: 27%) of the positions in the first management level below the Managing Board and 45% (2014: 43%) of the positions in the second management level below the Managing Board were held by women. → **Corporate Governance Report**

02|18 EMPLOYEE STATISTICS (in %)

	2015	2014
Proportion of men in total workforce	**41**	40
Proportion of women in total workforce	**59**	60
Proportion of men in management	**55**	55
Thereof first management level	72	73
Thereof second management level	55	57
Proportion of women in management	**45**	45
Thereof first management level	28	27
Thereof second management level	45	43
Average age in years	**35**	35

HUGO BOSS committed to training skilled staff within the Company

HUGO BOSS invests in in-house vocational training to cover its long-term demand for skilled workers, offering a broad range of industrial/technical and commercial apprenticeships as well as combined degree and vocational training courses in collaboration with Baden-Württemberg Cooperative State University (DHBW). Great importance is attached to general and specialized training and development opportunities, incorporating an international dimension. For example, Cooperative State University students are offered international assignments at the Group's foreign subsidiaries or opportunities to attend one of the DHBW's partner universities.

The Company had 116 apprentices and Cooperative State University students last year (2014: 101). In 2015, 35 apprentices and Cooperative State University students successfully completed their apprenticeship or degree. At the same time, 25 new apprentices and students began their training.

In addition, a centrally organized trainee program was established last year to secure a pool of potential management talent. The graduates selected take part in specialized, internationally focused training programs in the Group's own retail business, human resources management or finance & controlling, for example.

HUGO BOSS reaches out to its talents early on

In order to identify and attract talent from outside the Company at an early stage, HUGO BOSS works closely with national and international universities. It reaches out to school and college students with numerous company presentations, workshops, tours of the headquarters in Metzingen and presentations at universities by employees from various departments. In this connection, the partnership with Parsons The New School for Design in New York was further intensified last year. The Group also maintains close contact with the faculty of fashion design at the Pforzheim University of Applied Science, the ESB Business School Reutlingen, Central Saint Martins College of Art and Design in London and Bocconi University in Milan. It often uses the contacts established in these initiatives to recruit young talents. In 2015, the Group also established initial contact with young potentials at 15 job fairs.

Internship as a possible career entry point

Over 400 interns had the opportunity to gain practical experience in nearly all HUGO BOSS departments last year. During their stay with the Group, interns also attend events especially organized for them where they have the chance to network and gain insights about the Group beyond their own departments. After the internship, particularly committed and talented interns are given the opportunity to complete their studies with final-year projects within the Group. In 2015, HUGO BOSS mentored almost 30 final-year papers.

HUGO BOSS enhances its appeal as an employer

The success of the Group's employer branding activities and intern mentoring is reflected in a further improvement in its position in various employer rankings. For example, the Group further improved its placing among the 100 most attractive employers in Germany in the business & economics and IT categories of the annual independent student survey Universum TOP 100.

Individual human resources development enhances organization's performance

HUGO BOSS helps its employees to continuously broaden their knowledge and skills with a systematic human resources training and development program based on a transparent competence model. This is a response to constantly changing market requirements which not only enhances the performance capabilities of the organization as a whole but also fosters the motivation and self-confidence of the individual employees.

In order to assess and clearly document the performance, competencies and development potential of each individual, all supervisors conduct annual feedback interviews with their employees. At these interviews, tasks and personal goals for the year ahead are set and training and development needs to meet these goals are defined. In addition, individuals' personal development is supported by transfers to other departments or functions either at the Group's headquarters or at a foreign subsidiary, by expanding their own areas of responsibility or promoting them to specialist or management positions. At HUGO BOSS, good leadership is seen as crucial for business success. For this reason, executives are supported by individual advice and by a broad range of training offerings which helps develop their personal, methodological, specialist and leadership capabilities.

By the introduction of a specialist career path that complements the management career path, HUGO BOSS has enabled particularly capable and talented employees to build their knowledge along transparent development stages on a specialist track. Clearly defined job descriptions and the use of external salary benchmarks ensure transparent and targeted development of the financial rewards. Employees following the specialist track are offered a Senior Excellence Program tailored to the requirements of specialist careers which provides them with ideal professional and methodological support in their new role. The Senior Excellence Program was also rolled out at subsidiaries outside Germany for the first time in 2015.

Employees in all departments are able to take part in needs-based continuing professional development through which they can improve their day-to-day performance and build their personal and professional skills beyond the requirements of their present position. For example, the Company offers a wide range of classroom training courses covering such matters as project management, negotiation skills and communication. The training concept for customer service in the Group's own retail business was fundamentally revised last year. In addition, a mystery shopping program is used to assess the practical application of the learnings, allowing the success of the training to be quantified. In addition to the classroom training courses, online training is increasingly being used in the Group's own retail business for self-managed and flexible professional development. This enables knowledge to be imparted on a standardized, market-oriented and sustainable basis in areas such as sales and customer service as well as product and finishing details, making a decisive contribution to first-class customer advice in HUGO BOSS stores around the world.

Last year, employees across the Group successfully completed just under 56,000 web-based training courses (2014: 46,000). The online training portfolio is available in 15 languages.

Supporting work-life balance through family support policies, flexible working hours, good nutrition and sport

HUGO BOSS attaches great importance to helping its employees find a healthy work-life balance. An extensive support program is available for young families. To make working hours more flexible, the conditions for a home office program were put in place last year. The program will be available to HUGO BOSS AG employees from 2016 onwards. Moreover, employees are able to take part in a wide range of different sporting activities including using the Group's own gym. Nutritionists, balanced menus at the campus restaurant and the annual Health Day also contribute to personal well-being and help improve each individual employee's performance capabilities. ➔ Sustainability

HUGO BOSS taking the health and safety of its employees seriously

In order to ensure its employees' safety at the workplace, HUGO BOSS has set itself the goal of defining a Group-wide health and safety standard. A permanent feature of health and safety management is that employees' workplaces and corporate processes are regularly examined and evaluated for potential risk and modified if necessary. Employees of HUGO BOSS AG also already attend regular training courses on occupational safety. A global health and safety standard was defined for the Group's own retail business last year, with employees in individual markets being given online training in the relevant subject matter. This training is to be rolled out across the Group's entire own retail business in 2016.

Employee remuneration based on transparent system

The HUGO BOSS Group's remuneration system is designed to ensure that employees receive fair and transparent compensation and promotes a culture of performance and dedication. Remuneration is based on clearly documented job descriptions. Employees in Germany with collectively negotiated wage agreements are remunerated on the basis of the collective agreements 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 linked to the achievement of service standards and guidelines defined as standard throughout the Group. In addition, reaching targets set for specific retail indicators creates shared incentives for the employees of the individual stores. Employees who do not have collectively negotiated wage agreements receive a basic salary plus a bonus, of which half is linked to Group targets and half to the achievement of qualitative and quantitative personal goals. In addition to financial components, the Group targets also include sustainability-related elements which are measured on the basis of sustainability rankings. The remuneration system for executives on the two levels below the Managing Board also include long-term Group targets based on sales and operating earnings over a period of three years, thus offering long-term incentives. All employees share in the Group's success through an annual employee bonus that is linked to the achievement of certain internally defined Group targets.

HUGO BOSS makes an important contribution to providing for its employees after retirement, offering them a wide range of company pension schemes. First, the Group takes out employer-funded direct insurance for all employees who have been with the Group for more than six months. In addition, it encourages employee-funded deferred compensation by providing an additional subsidy over and above that required under the collectively negotiated agreements.

In addition to the contractually defined salary components, employee benefits include a travel allowance and access to the art and cultural offerings sponsored by the Group.

RESEARCH AND DEVELOPMENT

Season for season, HUGO BOSS competes in the global apparel market, creating collections that meet customers' high demands on design, comfort, fit and craftsmanship. The members of the research and development teams make a decisive contribution to rendering the Group's innovativeness and design skills visible in modern, contemporary, high-quality products. With continuous improvements in production techniques, they also help to boost the efficiency and sustainability of the total manufacturing process. Innovation therefore plays a central role in the Company's success and is firmly anchored as one of five values in its mission statement.

R&D: Development of modern designs, innovative materials and sustainable production techniques

At HUGO BOSS, research and development (R&D) refers to the product development process, which involves the transformation of a creative idea into a marketable product. The Group's R&D activities comprise product design, pattern design and technical product development. The work of the R&D teams is particularly evident in the use of new types of materials, innovative patterns and production techniques that enhance both quality and efficiency. The focus of development activities at HUGO BOSS is on satisfying customers' exacting demands, not only on quality, fit and consistent brand management but also on excellent and innovative design.

Organizational structure permits efficient development process

Innovation and development work is organized at HUGO BOSS across the 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 to achieve 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, some of the BOSS womenswear collections have been created at a design studio in New York. The Coldrerio competence center is not only in charge of the development of the textile product groups shirts, ties and knitwear but 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.

The Group's organizational structure is geared towards very close coordination of the various steps of the product design and development process. This creates 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, ensuring direct communication between all those involved in product development and efficiency gains measured in terms of quality, speed and cost.

Creative management gathers inspiration from a wide range of different sources

Creative management marks the beginning of the production development process. The work of the design teams includes defining the collection statement, designing the color, theme, shape and farbric concepts and setting the targeted price points. The first step in the development process of a new collection entails defining the pieces of content required. To this end, HUGO BOSS analyses its points of sale on the basis of various shared characteristics such as local purchasing power, climate and the brand environment. The collection modules identified on this basis provide the framework for the development of a new collection. In addition to a sell-through analysis of the reference season, development is also influenced by new color and material trends as well as ideas for innovative production techniques which the design teams gather at specialist trade shows. They also seek inspiration, for example, from architecture, design and art but also from new technologies as well as social and economic trends. To detect fashion trends at an even earlier stage, the design teams also make limited use of external advisors such as trend scouts.

The BOSS Womenswear Spring/Summer 2016 collection has been inspired by the "form follows function" ideals of the Bauhaus movement. Materials with a wealth of contrasts, abstract prints in strong colors and asymmetrical cuts feature throughout the collection. In its Spring/Summer 2016 collection, BOSS Menswear is focusing on multifunction, merging formal and functional wear into a single modern look. With its precision-cut silhouettes, exclusive materials and versatile functions (e.g. high breathability and crease resistance), the specially designed "Traveler Collection" satisfies the demands of the modern man.

Pattern design and technical product development turn creative designs into prototypes

In a second step, the technical feasibility of the design teams' creative ideas is reviewed by the pattern design department. Technical product development then turns the models into prototypes and tests their suitability for the industrial production process. All this is done at the Group's own Technical Center in Metzingen, its largest development center. This is also where new production techniques are developed and tested. For example, the Company is increasingly using innovative welding and gluing technologies for hems and seams. In addition, HUGO BOSS gives its products a highly individual and modern look with specially developed dyeing techniques. Orange Dye involves the addition of orange peel to the dyeing process for jeans. In addition to the hand-made effect which this gives the products, Orange Dye is a particularly sustainable dyeing process due to the use of natural materials. In the Overdye process, suits manufactured in the Technical Center from materials specially developed for the Group are "overdyed" in a single piece. The dynamic surface which this process lends to the fabric because it does not fully absorb the dye gives the suit a particularly casual yet very high-quality look.

The prototyping stage is followed by sampling, which involves the production of a sample collection for presentation and sale to international wholesale customers. Finally, the articles are produced and shipped to wholesale customers and the Group’s own retail stores.

02|19 PRODUCT DEVELOPMENT PROCESS AT HUGO BOSS

Because the research and development process is right at the beginning of the value chain, it plays a decisive role in the collection’s later success.

Innovative 3D virtualization and 3D printing accelerate the development process

The far-reaching possibilities of 3D virtualization are already being used for most product categories to speed up and simplify the creative development processes within the Group. 3D technology is used for tasks ranging from the virtualization of the designers’ preliminary creative ideas to the presentation of the final collection. For example, color and fabric variations as well as trimmings can be displayed virtually as a basis for internal discussion. First prototypes and certain trimmings are made available here using 3D printing. The Group also uses virtual prototypes, digitally produced fabrics and modeled trimmings for the final presentation of the collections. This close cooperation between the development teams makes it possible to develop products not only more quickly but also less expensively and more sustainably due to the reduced need for physical samples.

Looking forward, the broad range of possibilities afforded by virtualization will be used beyond the creative design phase in the sale of the products to business partners and end consumer. For instance, when collections are presented at the global showrooms, 3D virtualization will make it possible to display virtual samples in addition to physical ones to demonstrate color and fabric variations, optimizing the use of resources.

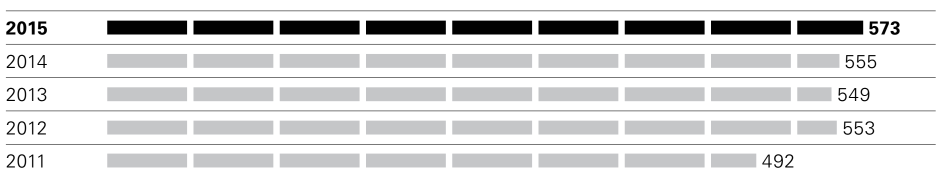
Ongoing technological enhancements a significant competitive advantage

Throughout all stages, seamless collaboration between 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 is in operation at the Metzingen Technical Center. By optically scanning the material properties, it is able to process the markers even of striped and checked fabrics precisely, quickly and completely automatically. As the material is cut on a firm felt base with this technique and no vacuum film is required to fix the fabric, savings can be achieved on materials such as paper and synthetic. At the same time, the markers are placed digitally on the fabric, resulting in greater precision and therefore reduced waste. HUGO BOSS is currently working with its suppliers on an innovative fabric printing process. Known as “re-engineered printing”, this process arranges decorative patterns or other motifs on the fabric during printing in such a way that the cutting patterns can be optimized during processing and placed on the material in such a way as to reduce waste.

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 2015, the head-count in research and development came to 573 employees (2014: 555). ➔ **Employees**

02|20 NUMBER OF EMPLOYEES IN R&D AS OF DECEMBER 31



R&D expenses moderately higher than in the previous year

Research and development expenses largely comprise personnel expenses and other operating expenses. In 2015, as in past 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 6% in the past fiscal year to EUR 65 million (2014: EUR 62 million). At 69%, personnel expenses made up the majority of research and development expenses (2014: 69%). The ratio of research and development expenses to consolidated sales remained unchanged at 2% in the past fiscal year (2014: 2%).

02|21 R&D EXPENSES (in EUR million)

2015	**65.4**
2014	61.5
2013	58.7
2012	56.7
2011	46.7

02|22 R&D EXPENSES (in % of sales)

2015	**2.3**
2014	2.4
2013	2.4
2012	2.4
2011	2.3

SOURCING AND PRODUCTION

The ability to produce high-quality articles in large quantities efficiently, swiftly and on an industrial scale and to ship them on time to retail partners and the Group's own stores is a key competitive advantage for the HUGO BOSS Group. The careful selection of suppliers, the most important criterion for which is adherence to strict labor, environmental and social standards, the establishment of strategic supplier relations and compliance with the highest possible technical production standards enables the Group to ensure zero-error, efficient and sustainable sourcing and production processes.

Expertise safeguarded through internal sourcing of key product groups

In addition to the high quality which customers around the world expect of the materials and craftsmanship of HUGO BOSS products, the timely availability of merchandise on the shop floor gives the Group a decisive competitive edge. As a company with international production activities and business operations, HUGO BOSS crucially relies on smooth-running, standardized and system-enabled sourcing and production processes. In terms of value, 20% of total sourcing volumes were produced by the Group's own facilities last year (2014: 20%). They cover a significant part of its classic tailored menswear and womenswear ranges, enabling the Group to safeguard and continuously build on crucial expertise, further develop quality standards and optimize merchandise availability. The remaining 80% of the total value of procurement in 2015 comprised products manufactured by independent contract suppliers or sourced as merchandise (2014: 80%).

The Group's own production plants are located in Izmir (Turkey), the Group's largest facility with 3,942 employees in 2015 (2014: 3,613), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). Production activities in Izmir primarily concentrate on the classic tailored range, which constitutes the Group's core competence. In the menswear segment, this chiefly comprises very high-quality articles such as coats, suits, jackets and shirts. Likewise, all womenswear product groups are produced in Izmir. The Metzingen site is used as both a development and a production facility. Located on the campus of the HUGO BOSS headquarters, the Technical Center primarily produces suits, jackets and trousers in small series in addition to prototypes, samples and individual orders. In particular, HUGO BOSS tailors its Made to Measure suits in Metzingen. The Radom and Morrovalle facilities mainly produce shoes.

The plant in Cleveland (USA), which previously mostly produced suits for the American market, was sold to another apparel manufacturer in the first half of 2015 on the basis of a detailed site analysis. This also included the transfer of all employees. Cleveland's production volume was relocated to the Group's own production facilities and existing Group suppliers. Consequently, the Group's sourcing activities are now concentrated on a smaller number of larger facilities. At the same time, it is able to secure important production expertise. In this context, capacity at the Group's own facility in Turkey was expanded by the construction of a new production hall, with additional employees recruited accordingly.

Stable supplier network a success factor

HUGO BOSS' sourcing activities cover a wide range of apparel products and accessories in the premium and increasingly also in the luxury segment. To ensure the excellent craftsmanship and optimum availability of its products, the Company works with a stable network of experienced, specialized suppliers. Last year, the HUGO BOSS Group had active supply relationships with 257 contract manufacturers and suppliers of merchandise (2014: 281). The number of these partners was reduced again by optimizing capacity utilization. In the interests of minimizing risk, the procurement volume is spread over a global network of suppliers to reduce exposure to individual procurement markets and production facilities as far as possible. Consequently, the largest independent supplier accounted for only 9% of the Group's entire procurement value (2014: 8%). → **Report on Risks and Opportunities**

Business relationships dependent on strict adherence to labor and social standards

HUGO BOSS works solely with carefully selected partners that satisfy its stringent requirements. Adherence to strict labor and social standards is the prerequisite for the establishment of a business relationship. These are verified either on the basis of disclosures made by the supplier itself or on-site audits of the production facilities. In addition, HUGO BOSS' social standards form a fixed element of the contracts signed with suppliers, compliance with which is reviewed in regular on-site audits. The results of the social audits are incorporated in the semi-annual supplier assessments and thus form the basis for the future collaboration with the partner in question. In addition to observance of strict social and labor standards, the ability to satisfy the high quality and craftsmanship requirements constitutes a further important criterion in the selection of suppliers. The supplier's reliability, technical equipment and innovativeness, financial strength and cost efficiency are also taken into account. → **Sustainability**

HUGO BOSS primarily uses fabrics and trimmings from Europe

HUGO BOSS differentiates its sourcing activities into raw materials, in-house production, contract manufacturing and purchased merchandise. The raw materials which it sources mainly comprise fabrics as well as trimmings such as lining, buttons, thread and zippers. Cotton, wool and leather are the most frequently used materials. The Group purchases most of the raw materials used in its own production or contract manufacturing from suppliers in Europe. Fabrics are predominantly sourced from long-standing partners in Italy.

For products made under contract manufacturing arrangements, HUGO BOSS provides suppliers not only with the patterns but also with the fabrics and trimmings required. Coats, sportswear jackets, suits, jackets and trousers are primarily made under contract manufacturing arrangements. These are product groups that demand particularly advanced production skills and technical facilities of the supplier. HUGO BOSS mainly works with companies in Eastern Europe in these segments.

Sportswear products are primarily sourced as merchandise and include items such as T-shirts, polo shirts and jeans. With this kind of sourcing, the suppliers are mostly based in Asia, Eastern Europe or North Africa and are provided with the necessary patterns by HUGO BOSS. However, they independently source their own raw materials, i.e. fabrics and trimmings.

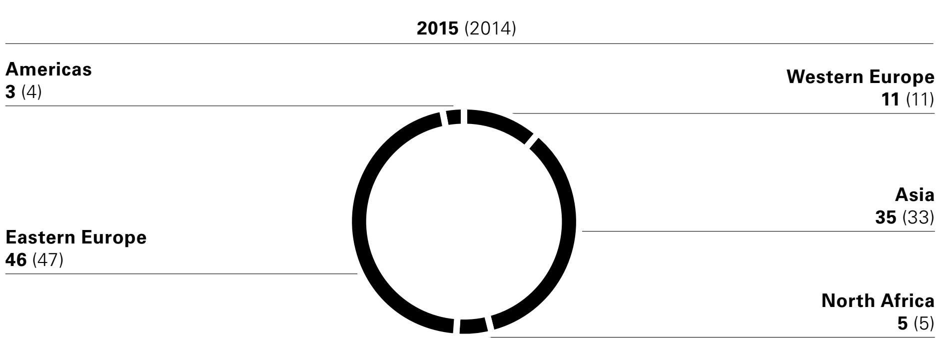
With the exception of the classic shoe collection that is produced at the Group's own factories in Italy and Poland, shoes and leather accessories are mainly sourced from business partners in Asia and Europe. Particularly high-quality leather accessories such as articles for the menswear "Signature" range or bags and accessories for the iconic "Bespoke" womenswear range are produced by leather specialists in Italy and finished with hand-made details.

HUGO BOSS products primarily manufactured in Eastern Europe

In value terms, Eastern Europe (including Turkey) accounts for 46% of the total procurement volume (2014: 47%) and thus remains the Group's most important procurement market. The Group's own factory in Izmir plays a key role here, accounting for 15% of the total volume sourced (2014: 15%). 35% of products are sourced from external suppliers in Asia (2014: 33%). Within Asia, China is by far the most important procurement market. The remaining goods are sourced from Western Europe (11%; 2014: 11%), North Africa (5%; 2014: 5%) and the Americas (3%; 2014: 4%).

The Group regularly reviews the regional optimization of its sourcing activities to respond effectively to any increase in costs in procurement processes, particularly as a result of higher wage expenses, and to react with optimum effect to any changes in industrial structures and production capabilities in individual markets.

02|23 REGIONAL SPLIT OF SOURCING AND PRODUCTION VOLUME (in %)



Continuous intensification of collaboration with strategic suppliers

The Group has a keen interest in maintaining long-term strategic relationships with its suppliers. Close consultation between producers and the HUGO BOSS Group's technical development department is crucial for ensuring a swift response to any market changes and for shortening lead times. Thus, suppliers' production capabilities are factored into the product development process at a very early stage. Feedback from suppliers on the fabrics and patterns used in past collections is taken into account in new designs. Innovative processing methods are repeatedly tested in close collaboration with production partners to ensure the excellent quality of craftsmanship for which HUGO BOSS products are known all over the world. In the event of positive test results and economic viability, these processes are then rolled out for standard use by the partner facilities.

The Group is also continuing to intensify its joint activities with its main suppliers in the area of sustainability management. For example, the first ever HUGO BOSS Supplier Day was held for strategic suppliers at the Izmir facility last year. At this event, the HUGO BOSS sustainability program, which is to be implemented in conjunction with the suppliers, was presented. The resultant requirements, e.g. in connection with ensuring social standards, establishing professional environmental management and minimizing the use of chemicals and other potentially hazardous substances in production, were outlined together with an elaboration of the possibilities which HUGO BOSS has for assisting its partners in the implementation of the program. ➜ **Sustainability**

System-side integration of suppliers to boost supply chain transparency and efficiency

In order to optimize the IT systems underpinning the planning, production and logistics processes, the HUGO BOSS Group's suppliers have been integrated via a uniform planning and collaboration portal. The web-based supplier platform simplifies communications and the exchange of data with the production partners, increasing the transparency of the flows of goods along the entire supply chain. Suppliers can also enter their production capacity in the system, making it possible to bundle orders according to needs and to reserve the required capacity with the supplier cost-effectively at an early stage. Real-time status reporting means that orders can be automatically managed according to urgency, so that goods can be delivered on schedule.

Quality management an integral part of the production process

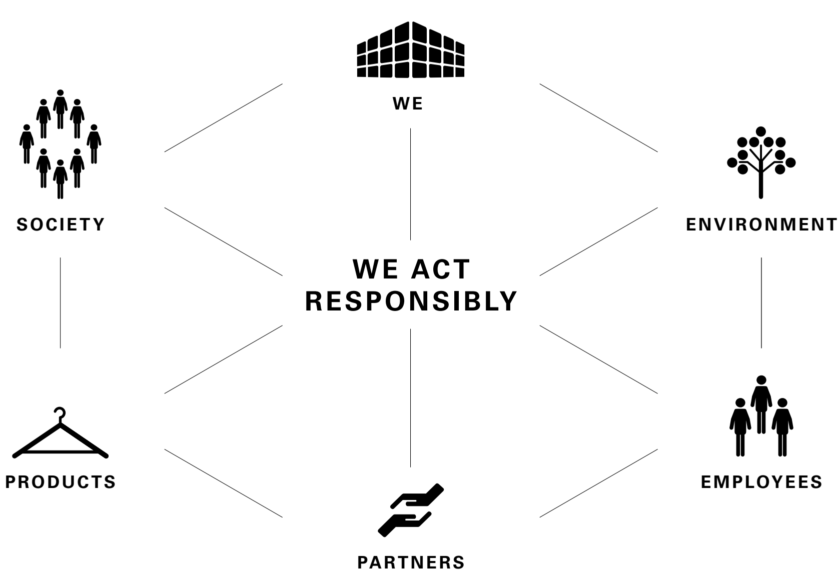
HUGO BOSS sets exacting standards for the quality and craftsmanship of its products. With their internal quality management, the production facilities make a decisive contribution to ensuring that these requirements are satisfied. The partners are furnished with standardized quality and production manuals clearly documenting these requirements to ensure that the quality assurance activities performed by suppliers meet the standards set by HUGO BOSS. In addition, the most important quality-related processes are described in a process manual for the Group's own production plants. Moreover, employees at the production facilities regularly receive training in cutting techniques, production management as well as production technology from HUGO BOSS personnel. This ensures that the products satisfy the Group's high quality and design standards. Wherever economically viable, production processes are automated to minimize tolerances. Compliance with manufacturing standards is ensured using permanently installed, technology-enabled controls that are always performed at specific steps along the production line. In addition to the permanently installed control levels, regular samples are taken to monitor the other steps of the process. Quality criteria are included as an inherent part in the semi-annual supplier assessments.

SUSTAINABILITY

As one of the leading companies in the premium and luxury segment of the apparel industry, HUGO BOSS also assumes responsibility in the area of sustainability. The purpose underlying the credo "We act responsibly" is to create added value – for employees, customers, business partners, shareholders and society. Sustainable business activity is viewed by HUGO BOSS as an opportunity for ensuring both the high quality expected by customers and socially and environmentally friendly production. The Group thus creates an important prerequisite for customer loyalty and innovativeness, two key determinants of its success. At the same time, sustainable business activity helps to enhance the business model in line with future requirements, optimize the efficient use of resources and processes along the value chain and develop the Group's employees in the long term.

HUGO BOSS's sustainability strategy addresses six main fields of action: **We, Environment, Employees, Partners, Products and Society.** These areas provide the framework for the aspects of sustainability relevant for HUGO BOSS:

02|24 SUSTAINABLE ACTIVITIES



The Group aims to continuously improve in all fields of action and, accordingly, has set itself ambitious objectives. As a means of measuring the Company's progress and the attainment of these objectives, HUGO BOSS is working to achieve inclusion in the Dow Jones Sustainability Index, among other things. Its ranking improved appreciably in 2015. Sustainability ratings are used as internal benchmarks.

We.
"Combining excellence and sustainability"

As part of its sustainability management activities, HUGO BOSS maintains a constructive dialog with its stakeholders. Facing up to the expectations of its main stakeholders, identifying different requirements and jointly discussing challenges and possible responses to them – all these aspects are viewed by HUGO BOSS as business necessities and as an opportunity to create additional value for both sides. In 2015, these include concrete projects with the International Union for Conservation of Nature (IUCN), the Fair Labor Association (FLA) and the Natural Capital Coalition. In Germany, HUGO BOSS joined the Federal government's Textiles Partnership. Moreover, it maintains a dialog with sustainability-oriented analysts and investors.

In 2015, a comprehensive materiality analysis was performed to systematically address the requirements of internal and external stakeholders, make the key strategic themes affecting business opportunities and risks even more tangible for HUGO BOSS and apply them more effectively to the defined fields of action. The results and methods are described in greater detail in the 2015 Sustainability Report.

Two Sustainability Days, held for the first time at the facilities in Metzingen and Coldrerio (Switzerland), helped to raise employees' awareness of sustainability. They are to be held twice a year in the future and will focus each time on one of the fields of action defined in the sustainability strategy. In 2015, the focus was on the "products" field of action. The "HUGO BOSS Sustainability Award" for employees was introduced for the first time in 2015, rewarding the most innovative idea for reducing waste in the product portfolio.

Environment.
"Conserving natural resources"

Environmental protection is given high priority at HUGO BOSS. The purpose of environmental management is to continuously reduce the Group's environmental footprint along the entire value chain – from the sourcing of raw materials and the development and manufacture of products through transportation, retail and marketing.

In this way, the Group pursues the long-term objectives of minimizing the effects of climate change, making sparing use of natural resources by means of intelligent systems and environmentally friendly technologies and contributing to the preservation of biological diversity. In this context, HUGO BOSS is pursuing the goal of reducing its specific CO_2 emissions (Scope 1 and 2 Greenhouse Gas Protocol) in relation to sales by 30% by 2020, in comparison with 2010. The action package also includes the use of renewable sources of energy and numerous initiatives for improving energy efficiency. Additional measures aim at achieving further cuts in the CO_2 emissions generated in the logistics and distribution processes (Scope 3). Moreover, HUGO BOSS has set itself the goal of implementing continuous improvements in building efficiency and is seeking acknowledged sustainability certification for its own new buildings.

In 2015, HUGO BOSS published an environmental guideline describing in detail the principles of environmental management in all relevant functions. Further detailed information can also be found in our annual sustainability reports and on the Group website.

Employees.
"Providing fair employment and encouraging a responsibility-conscious culture"

A key element of the value-based corporate culture at HUGO BOSS is the Code of Conduct, which forms the basis for unimpeachable legal and ethical conduct in day-to-day business activities and is therefore binding on all employees. The Code governs relations within the Group as well as with customers, suppliers and service providers. It contains rules on conflicts of interest, health and industrial safety as well as corruption and bribery.

Diversity – in terms of nationality, gender, religious and political views, sexual orientation, age and possible disability – has a high status for HUGO BOSS as an internationally active and oriented company. For the Group this means a non-discriminatory working environment and equal opportunities for all employees. The Group underlined the importance it attaches to diversity by becoming a signatory to the "Charter of Diversity" in 2008.

HUGO BOSS is a member of eight years' standing of the Germany-wide "Erfolgsfaktor Familie" ("Success Factor Family") network. The Group encourages employees to seek an appropriate balance between family and work by offering a flexible family support model. Employees at the Group's headquarters in Metzingen can use places reserved at two child daycare centers and have the option of receiving financial support for alternative childcare arrangements. Annual health days, a balanced and healthy selection of menus in the campus restaurant and a wide range of sports offerings are available to all employees at the Company's head office. In recognition of this, HUGO BOSS received the "Corporate Health Award" in 2014 and is hoping to repeat this in 2015.

The Group provides similar offerings at other sites, for example at Coldrerio and the Group's largest production site in Izmir.

Partners.
"Assuming responsibility together"

HUGO BOSS pays particular attention to social standards and environmental protection in its partners' sustainability management activities. Observance of human rights and environmental standards is of central importance to the Group.

It is committed to observing the HUGO BOSS social standards and imposes the same obligation on its suppliers, incorporating it as a fixed part of their contracts. These standards are based on, among other things, the internationally acknowledged core labor standards defined by the International Labour Organization (ILO) and the United Nations Universal Declaration of Human Rights. The social standards are included in the contracts signed with partners, under which suppliers undertake to comply with local laws and observe the prohibition of child labor and forced labor, maximum working hours, humane working conditions, prohibition of discrimination, payment of fair wages, healthy and safe working conditions, freedom of association, collective wage bargaining and responsible care for the environment. The HUGO BOSS social standards constitute the minimum requirements in countries in which there are gaps in local legislation, for example with regard to working hours and wages.

In 2015, HUGO BOSS commenced activities under its membership of the Fair Labour Association (FLA) to ensure compliance with good and safe working and social conditions by partner companies and to enhance internal and external transparency. These activities make it possible, in cooperation with other companies and NGOs, to learn from best practices and work towards improving working conditions in supplier countries. Furthermore, the FLA has initiated projects to further improve the spread of fair compensation, in which HUGO BOSS is participating.

In 2015, HUGO BOSS joined the Partnership for Sustainable Textiles ("Textiles Partnership") initiated by the German Federal Ministry for Economic Cooperation and Development. It is working on addressing joint challenges in cooperative projects, harnessing synergies and improving underlying conditions in the producer countries with the aid of policymakers.

In addition to its participation in external initiatives, the Group is implementing its own social-compliance-program. Suppliers of raw materials and merchandise as well as contract producers generating a relevant volume of sales with HUGO BOSS are regularly audited to ensure that they comply with the Company's social standards. Audits conducted by its own team of experts as well as in conjunction with external service partners support suppliers in achieving internationally approved social and environmental standards. In principle, however, HUGO BOSS places emphasis on mutually defined and continuous improvement measures in order to enable long-term partnerships.

Products.
"Ideas for tomorrow"

HUGO BOSS takes very seriously its responsibility for developing collections which not only meet the highest standards in premium materials, quality standards and product innovation but also pose no ecological or health risks. In this way, HUGO BOSS is able to generate value for the Group, its customers and society as a whole through innovative products. As a basic prerequisite for collaboration, HUGO BOSS asks its suppliers to sign a guarantee of compliance with the Restricted Substances List (RSL). The RSL governs the observance of relevant local legislation on the use of chemicals and other potentially harmful substances in products as well as of the Group's internal guidelines, which are often more stringent than these legislative minimum standards. These requirements apply to all materials used and substances relevant to the production process. HUGO BOSS supports such preventive measures actively with extensive tests for hazardous substances performed in accredited laboratories that ensure the safety and quality of the products.

Increasing attention is already being paid to selecting sustainable materials in the development of new collections. A further key principle of product responsibility is animal welfare and the protection of biodiversity, e.g. when selecting animal products such as leather, fur and wool. The collections use only a very small quantity of fur products, for example for appliqués and trimmings on collars, hoods and sleeves. HUGO BOSS is opposed to animal testing and inappropriate animal breeding and rearing methods. In line with this, HUGO BOSS will source hides originating solely from sheep, goats, cows or buffaloes in the future. In addition, HUGO BOSS is working on innovative processing methods. In this connection, it has been in dialog with animal welfare and consumer rights organizations for many years about animal welfare issues of relevance for the apparel industry.

The focus in 2015 was on the implementation of a product sustainability strategy with clear goals with respect to animal welfare. These include the procurement of merino and angora wool, fur and down. The corresponding goals are described in the sustainability report.

Society.
"Promoting prospects"

HUGO BOSS is committed to a defined portfolio of socially relevant themes and initiatives outside the scope of is business. In 2015, a corporate citizenship strategy was developed to give a clear definition of the basic elements of this commitment. Under this strategy, the Group's vision, mission and values provide the underpinnings for its social engagement. It pursues the aim of supporting people in their personal journeys through life, allowing them to harness their individual potential for success. At the core is access to education as a key to social inclusion and personal success.

For example, HUGO BOSS has forged a long-standing partnership with UNICEF, the child welfare organization of the United Nations, in which it supports education programs in Africa and in Bangladesh. With its "Off Road Kids" foundation initiative, HUGO BOSS is helping street children in Germany to re-integrate with society. In its facility in Izmir, Turkey, the Company works with the local employment office to offer an employment program for women in difficult economic situations and offers vocational training with the prospect of employment in the textile industry. In a partnership with the renowned "Parsons The New School for Design" in New York, young talents in fashion design are also receiving support for their career development. At Filderstadt, the location of HUGO BOSS's distribution center, the Group is funding a training program at the Filderstadt School of Art to provide young people with guidance in preparing for their future careers.

Moreover, HUGO BOSS can look back on a long tradition of providing assistance in the event of international crises. Thus, for example, various integration projects for refugees were launched in Metzingen in 2015 and will be expanded in 2016. All donation projects must comply with the criteria stipulated in the HUGO BOSS Code of Conduct. In this way, the Group seeks to avoid any conflicts of interest.

FOCUS ON MATERIALITY

In 2015, a comprehensive materiality analysis was performed with the support of internal and external stakeholders to make the key strategic themes relating to business opportunities and risks for HUGO BOSS more tangible and to transfer them increasingly to the defined fields of action. The materiality analysis comprised the following individual steps:

1) an internal review of the current situation
2) consolidation of the sustainability issues of relevance to HUGO BOSS
3) an online survey of internal and external stakeholders
4) interviews with individual stakeholders across all fields of action
5) an internal workshop in the second half of 2015

All relevant Company departments took part in the internal review of the existing situation, during which numerous sustainability issues potentially impacting business success at HUGO BOSS were identified. It was assumed that addressing these themes may mean financial added value and/or be of material importance for the Company's stakeholders.

In the following step, these issues were reconciled with the requirements of relevant sustainability standards, including the GRI G4 reporting standard, the ISO 26000 management guideline and the valuation criteria defined by rating agencies for assessing ethical/sustainable investments. This was supplemented with benchmark analyses of selected peers as well as a media analysis. This process identified 40 sustainability issues of relevance for HUGO BOSS along the entire value chain, which were assigned to the three dimensions of governance, environment and society.

Comprising both quantitative and qualitative elements, the survey was targeted at the Company's internal and external stakeholders. The online survey was used to prioritize the 40 sustainability issues and to assess the Company's performance. More than 1,200 people took part, a participation rate of 53%. In the innovative survey format, participants were presented with pairs of issues and asked to state which one they considered more important, thus making it possible to reduce the fairly broad range of issues to a manageable core of high-priority and important ones.

On the basis of the survey, nine interviews were additionally held in person with stakeholders from all fields of action, including representatives of selected non-government organizations, SRI investors and the Works Council. The purpose of these individual conversations was to gain a deeper insight into the priority of the individual issues.

The potential impact on HUGO BOSS of the issues considered by the stakeholders to have high priority or medium-term importance over the next three to five years was evaluated in an internal workshop with representatives from all relevant departments in October 2015 and their relevance for the

Group's business was assessed. This evaluation was based on the contribution and impact of the sustainability themes in terms of

a) innovation and growth,
b) brand value,
c) resilience and
d) operating efficiency.

On the basis of the results of the stakeholder survey and interviews as well as the internal analysis of business relevance, the 40 issues were plotted on a materiality matrix and assigned a strategic importance of high, medium or low. Issues classified as having "low strategic intensity" are viewed as "hygiene factors", which the stakeholders and the Group consider to be fundamental and therefore have to be implemented. These issues are a matter of complying with legal requirements and social standards. On the other hand, issues with a "medium strategic intensity" go beyond the scope of legal requirements and social standards. Issues considered to have a "high strategic intensity" are of particular strategic relevance for the Group's success in the opinion of all concerned. The results were presented to and approved by the Sustainability Committee with the participation of members of the Group's Managing Board.

For the purposes of the HUGO BOSS Sustainability Report from fiscal year 2015 onwards, these issues were condensed to form 14 superordinate themes and were validated once again by the Sustainability Committee. The main purpose of this consolidation is to adapt the main issues to internal management methods so that they can be integrated more effectively in corporate processes.

02|25 MATERIALITY MATRIX 2015

81 – 167

COMBINED MANAGEMENT REPORT THE FISCAL YEAR

COMBINED MANAGEMENT REPORT THE FISCAL YEAR

GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

The general economic situation and industry-specific environment continued to prove challenging for the HUGO BOSS Group last year. The downturn in Asia, clearly noticeable in the second half of the year, weighed particularly on global economic growth, estimated by the IMF to have slowed to 3.1% compared to the prior year. The persistently weak economic environment and resulting cautious consumer spending also held back growth in the premium and luxury goods sector. With an increase from 1% to 2% adjusted for currency effects it lagged far behind historical growth rates. The greatest stimulus came from Europe, where industry growth was also supported by more business with tourists from Asia and North America.

GENERAL ECONOMIC SITUATION

Weaker development of the global economy

Growth in the **global economy** in 2015 was, at 3.1%, somewhat lower than in 2014, according to an estimate of the IMF. This was mainly driven by a further slackening of growth in the emerging economies and a recovery in the industrialized nations that proved slower than expected. Many industrialized nations continued to struggle with the effects of the financial crisis and the sharp rise in debt in the public and, to some extent, the private sector. Decreases in the prices of raw materials, lower investments and a depreciation of local currencies led to a difficult economic environment in most emerging and developing economies. The sluggish growth rates of emerging economies such as Brazil, Russia, India and China were especially disappointing. While the volume of world trade stood at almost an all-time high, the rate of increase slowed year on year. This development was mainly attributable to far lower import and export momentum in the emerging markets.

European economic recovery continues

According to an estimate of the IMF, growth in the **European economy** was in line with the forecasts at 1.5%, with Italy, Ireland and Spain outperforming expectations. France's economic performance also improved. A weak euro boosted exports and falling oil prices resulted in higher consumer spending. Great Britain's economic growth fell off slightly as a result of lower growth rates in the financial sector. Southern Europe benefited from increasing tourism. The German economy remained robust. The continuing upturn in the German labor market boosted private consumption, positively impacting economic growth. The weaker economy of the emerging countries exerted a drag that had an adverse effect on export-oriented German companies. However, this weakness was more than made up for by increasing exports to Eurozone countries and the USA. In Russia, the economy slid into recession on account of the protracted Ukraine conflict and sanctions imposed by the West. Against the backdrop of low inflation in the Eurozone, the European Central Bank continued with its expansionary monetary policy.

American economy remains stable

Economic growth in the **USA**, at 2.6%, was slightly higher than in the previous year, according to an estimate of the IMF. A stable labor market, an upswing in the real estate sector and wage and salary increases provided positive stimulus. Negative one-off effects such as a harsh winter and lower investments in the oil sector due to the drop in oil prices had a dampening impact. Moreover, economic pressure was also exerted by the significant appreciation of the U.S. dollar. Export-oriented companies primarily felt the effects of decreased competitiveness. As the year progressed, however, both consumption and private spending returned to a solid growth trajectory, with labor market numbers also improving. With a view to stability on the American labor market and to prevent inflation, the U.S. Federal Reserve decided to raise its interest rate. In Latin America, the downturn in Brazil was sharper than expected and other countries in the region also experienced more sluggish growth.

Further slowdown in Asian economic growth

In **Asia**, the economic slowdown continued. According to the IMF, growth in China fell to 6.8%. Slackening growth paired with stock market turbulence mid-year made consumers uneasy. In the course of the year, a number of indicators pointed to a further weakening of the Chinese economy. The Chinese central bank adopted measures to devalue the Chinese yuan in order to counter this. The Japanese economy, according to an estimate of the IMF, returned to growth with a 0.6% increase in gross domestic product. The depreciation of the Japanese yen led to a significant improvement in the competitiveness of the country's companies, and the launch of structural reforms made a positive contribution to economic growth. Economic growth in Australia declined slightly to 2.4%, according to an estimate of the IMF. Detrimental factors such as falling commodity prices and lower investments in mining were offset in part by an easing of monetary policy and the consequent depreciation of the Australian dollar.

INDUSTRY DEVELOPMENT

Sector growth lags behind historical growth rates

The premium and luxury goods sector performed weaker than originally expected last year. Consumption, particularly in the emerging markets, remained muted against the backdrop of an uncertain macroeconomic climate, sharp fluctuations on the global equity, foreign exchange and commodity markets, and in the face of increasing geopolitical risks and extremist attacks. Despite all this, companies operating in the sector increased their sales again in 2015. However, the currency-adjusted growth rate of 1% to 2% as estimated by industry association Altagamma and consulting firm Bain & Company represented a slowdown compared to in previous years. The apparel market performed similarly to other market segments.

Sector growth was characterized by regional differences and fluctuations. After a mixed start, there was an improvement in growth trends over the course of the year, however, the market environment grew increasingly bleak in the second half. This was due to considerably softening demand in such core markets as China and the USA. Despite the more sluggish pace of expansion, the business of most brands in own retail outperformed that in the wholesale channel. Principally in the USA, department stores and specialist, frequently owner-operated multi-brand retailers came under competitive and price pressure. Above-average growth rates were achieved in the online business in particular. Last year, many companies moved to expand their online business and integrate it with their bricks-and-mortar retailing. Some brands also took steps to harmonize their global pricing architecture in response to the increasing regional shift in demand as a result of exchange rate movements that increased existing regional price differences.

Robust development in Europe supported by tourism

The greatest stimulus for sector growth last year stemmed from **Europe**, where a 5% growth rate was buoyed up by further increases in business with tourists, particularly from Asia and North America. Sales were driven by a euro exchange rate that favored many non-EU citizens and lower prices than in other regions. However, this effect was partially offset by a declining number of visitors from Russia. Local demand developed well overall thanks to the macroeconomic recovery, but was depressed by price increases in some instances. Eastern European markets continued to suffer from the tensions surrounding the Ukraine conflict.

Market development in the Americas marked by heavy discounting

Overall, the premium and luxury goods sector in the **Americas** showed a stable development after a mixed start to a year whose second half saw heavy discounting. While domestic demand in the USA remained essentially intact due to economic growth, consumer confidence and sentiment became sensitive to the turbulence on the Asian equity markets in mid year. In addition, consumers spent a greater proportion of their disposable income in other consumer sectors rather than the apparel segment. A strong US dollar and the related decline in sales with tourists also had a negative impact on sector growth. Lower retail customer footfall and high price sensitivity among consumers led to above-average discounting in the wholesale segment. By contrast, the market for premium and luxury goods in Canada and Latin America benefited from strengthening local demand, boosted by the USA's loss of popularity as a shopping destination due to the strong dollar.

Declining Chinese market puts pressure on sector in Asia

In **Asia**, the industry developed unevenly from region to region in 2015. Sales in China fell by 2% in local currency. Ever more sluggish economic growth, the unexpected devaluation of the renminbi and turbulences on the stock markets depressed consumer confidence. Demand on the Chinese mainland remained weak, with sales in the menswear segment declining by a double-digit rate for the second year in succession. Rather than the strong selling space expansion observed in the past, many companies rationalized their store networks last year. Many also reacted to sluggish demand and the shift of shopping to other countries with price cuts. Including demand from tourists, Chinese consumers also contributed to global sector growth in the past year through premium and luxury purchases elsewhere in Asia and in Europe. Particularly in Australia and Japan, this spurred sector performance above and beyond healthy local demand. On the other hand, the industry suffered from a sustained decline in visitor numbers in Hong Kong, which had previously been one of the most popular destinations for Chinese tourists. This led to a total decline in sales of 8% in Asia (excluding China and Japan).

GROUP EARNINGS DEVELOPMENT

The HUGO BOSS Group's sales and earnings rose to new record levels in 2015, making it the sixth year of growth in succession. Group sales increased by 3% adjusted for currency effects and, at EUR 2,809 million, were also 9% higher than the prior year's level in the reporting currency. EBITDA before special items improved slightly by 1% to EUR 594 million.

OVERALL STATEMENT ON BUSINESS DEVELOPMENT

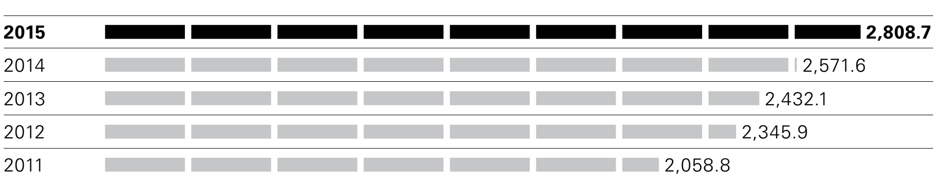
HUGO BOSS grows sales and operating income to record level

The HUGO BOSS Group succeeded in continuing its growth path in 2015. Strong performance in Europe, in particular, enabled HUGO BOSS to drive its sales and operating income once more to new record figures in fiscal year 2015. However, this performance was below the original expectations. The key factor here lay in persistent challenges in China and the United States.

SALES PERFORMANCE

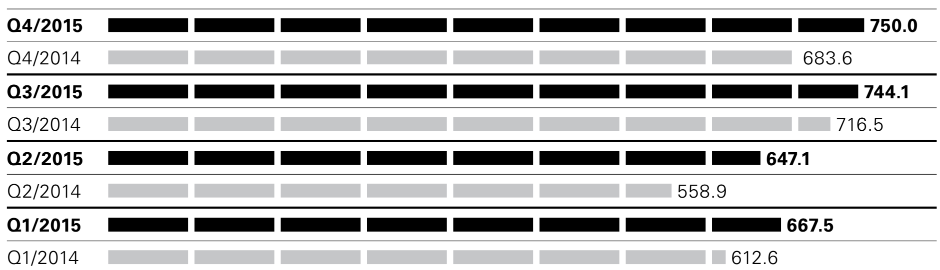
SALES DEVELOPMENT

03|01 SALES DEVELOPMENT (in EUR million)



In fiscal year 2015, HUGO BOSS generated consolidated sales of EUR 2,809 million. Sales in the Group's reporting currency were thus 9% up on the prior-year period (2014: EUR 2,572 million). Currency effects had a positive impact on Group sales in the reporting period. In local currencies, HUGO BOSS registered a 3% increase in sales year on year.

03|02 SALES PERFORMANCE BY QUARTER (in EUR million)



Sales trend over the course of the year reflects slowdown in the second half of the year

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. In a difficult market environment, HUGO BOSS entered the year 2015 on a solid footing. First-quarter sales rose by 9% to EUR 668 million, principally as a result of double-digit increases in the Group's own retail business (Q1 2014: EUR 613 million). In local currencies, sales were up 3%. In market conditions dominated by uncertainty, sales growth picked up in the second quarter. At EUR 647 million, Group sales outstripped those of the comparable prior-year period by 16% (Q2 2014: EUR 559 million), or a sales increase of 7% after adjustment for currency effects. In the third quarter, which was marked by a deterioration in the market environment in Asia and a slowdown in the Americas, Group sales were up 4% to EUR 744 million (Q3 2014: EUR 717 million). However, currency-adjusted sales were lower by 1% due to a declining wholesale business. At EUR 750 million, sales in the fourth quarter of fiscal year 2015 exceeded those of the prior-year period by 10% (Q4 2014: EUR 684 million). They were up 5% adjusted for currency effects. The main drivers were the solid productivity improvements in the Group's own retail business in Europe and an increase in the wholesale business.

SALES BY REGION

03|03 SALES BY REGION (in EUR million)

	2015	**In % of sales**	2014	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,683.2	60	1,566.5	61	7	6
Americas	670.5	24	586.6	23	14	(1)
Asia/Pacific	392.9	14	360.8	14	9	(3)
Licenses	62.1	2	57.7	2	8	8
TOTAL	**2,808.7**	**100**	**2,571.6**	**100**	**9**	**3**

[1] Including Middle East and Africa.

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

	2015	2014	2013	2012	2011
Europe[1]	1,683.2	1,566.5	1,457.3	1,378.0	1,245.4
Americas	670.5	586.6	570.1	558.7	454.8
Asia/Pacific	392.9	360.8	346.8	352.7	309.3
Licenses	62.1	57.7	57.9	56.5	49.3
TOTAL	**2,808.7**	**2,571.6**	**2,432.1**	**2,345.9**	**2,058.8**

[1] Including Middle East and Africa.

Strong sales momentum in Europe

In fiscal year 2015, sales adjusted for currency effects developed unevenly from region to region. Sales in the reporting currency in **Europe** including the Middle East and Africa increased by 7% to EUR 1,683 million (2014: EUR 1,567 million). This corresponds to an increase of 6% in local currencies. Double-digit sales growth in the UK and the Iberian Peninsula contributed to this development. In the **Americas**, sales in the reporting currency climbed by 14% to EUR 671 million (2014: EUR 587 million). In local currencies, sales in the region contracted by 1% as a result of lower sales in the United States. Sales in the reporting currency in **Asia/Pacific** amounted to EUR 393 million, up 9% on the prior year (2014: EUR 361 million). The deterioration in market conditions in China, which depressed the performance of HUGO BOSS in this market, caused sales to drop by 3% in local currencies.

→ **Sales and profit development of the business segments**

SALES BY DISTRIBUTION CHANNEL

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

	2015	**In % of sales**	2014	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,688.8	60	1,471.3	57	15	7
Directly operated stores	1,095.2	39	976.4	38	12	4
Outlet	511.0	18	427.1	16	20	12
Online	82.6	3	67.8	3	22	18
Wholesale	1,057.8	38	1,042.6	41	1	(3)
Licenses	62.1	2	57.7	2	8	8
TOTAL	**2,808.7**	**100**	**2,571.6**	**100**	**9**	**3**

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

	2015	2014	2013	2012	2011
Group's own retail business	1,688.8	1,471.3	1,314.1	1,149.7	924.2
Directly operated stores	1,095.2	976.4	874.0	757.6	617.7
Outlet	511.0	427.1	378.6	343.2	273.6
Online	82.6	67.8	61.5	48.9	32.9
Wholesale	1,057.8	1,042.6	1,060.1	1,139.7	1,085.3
Licenses	62.1	57.7	57.9	56.5	49.3
TOTAL	**2,808.7**	**2,571.6**	**2,432.1**	**2,345.9**	**2,058.8**

Growth in Group's own retail business supported by 2% increase in retail comp store sales

The **Group's own retail business (Retail)** was once again a driver of growth in fiscal year 2015. In particular, the expansion of the Group's own retail business activities by new openings and takeovers led in the reporting period to a rise in sales in the reporting currency of 15% to EUR 1,689 million (2014: EUR 1,471 million). In local currencies, this corresponds to sales growth of 7%. On the basis of retail comp store sales, i.e. including retail areas opened or taken over before December 31, 2013, sales in the Group's own retail business increased by 9% year on year in the reporting currency. Sales rose by 2% adjusted for currency effects. The share of the Group's own retail business in Group sales was further expanded and stood at 60% in the last fiscal year (2014: 57%).

Sales growth in directly operated stores (DOS)

Sales from **directly operated stores (DOS)** were increased by 12% in the reporting period, or by 4% adjusted for currency effects, to EUR 1,095 million (2014: EUR 976 million). This includes both sales from own freestanding stores and sales generated with concession partners. With the concession model, the Group directly operates HUGO BOSS shop-in-shop units in retail partners' selling space. With sales growth in the Group's reporting currency of 20% to EUR 511 million, the **outlet stores** contributed to the growth in sales from the Group's own retail business (2014: EUR 427 million). This is equivalent to a currency-adjusted increase of 12%. The sales generated by the Group's own **online retail business** rose in 2015 by 22% in the reporting currency to EUR 83 million (2014: EUR 68 million). They were up 18% adjusted for currency effects.

Currency-adjusted decline in wholesale channel sales

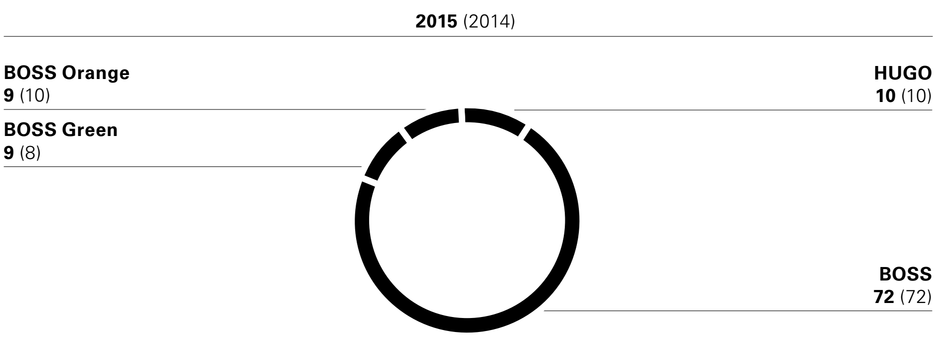
In fiscal year 2015, sales in the **wholesale channel** were up by 1% on the prior year in the reporting currency and totaled EUR 1,058 million (2014: EUR 1,043 million). A decline in sales of 3% adjusted for currency effects was reported. This primarily reflected takeovers of selling space previously operated by wholesale partners, which resulted in a shift in sales from wholesale business to the Group's own retail business, and falling sales in the Americas. Replenishment business, which allows HUGO BOSS to react to short-term surges in demand from business partners, was down in the last fiscal year. The share of wholesale business in consolidated sales contracted from 41% to 38% year on year.

Positive sales trend in license business

The **license business** developed well in fiscal year 2015. Sales were up by 8% on the prior year both in the reporting currency and local currencies, totaling EUR 62 million (2014: EUR 58 million). The articles produced by partners include fragrances, eyewear and watches. A key factor behind the sales growth was a double-digit increase in license income from watches and eyewear. License income from fragrances also rose. The share of license business in Group sales remained unchanged at 2%.

SALES BY BRAND

03|07 SALES BY BRAND (in %)



2% increase in core BOSS brand sales adjusted for currency effects

In fiscal year 2015, the **BOSS** core brand reported sales growth of 8% compared to the previous year, achieving sales of EUR 2,012 million (prior year: 2014: EUR 1,858 million). This translates into a 2% increase adjusted for currency effects. Sales of the **BOSS Green** brand climbed by 28% in the reporting currency in the same period to EUR 268 million (2014: EUR 210 million) and by 19% in local currencies. At EUR 242 million, sales of the **BOSS Orange** brand were down 7% from the comparable prior-year period (2014: EUR 260 million), and by 10% adjusted for currency effects. On the other hand, at EUR 287 million the **HUGO** brand displayed sales growth of 18% compared to the prior year (2014: EUR 243 million). The latter also reported double-digit growth of 14% adjusted for currency effects. The transition of category business in the wholesale channel, which was successfully implemented in Europe in fiscal year 2015, brought about a shift in sales from the BOSS core brand to the BOSS Green brand and to HUGO.

4% growth in womenswear sales adjusted for currency effects

In the reporting period, **menswear** sales were up 10% on the comparable prior-year period, totaling EUR 2,501 million (2014: EUR 2,283 million). Sales growth of 3% adjusted for currency effects was reported. This is equivalent to an unchanged share of 89% in total sales (2014: 89%). **Womenswear** sales grew by 6% in the reporting currency and 4% in local currencies, coming to around EUR 308 million (2014: EUR 289 million). BOSS womenswear, led by Artistic Director Jason Wu, achieved double-digit sales growth in both the reporting currency and local currencies. This development echoed the positive customer response to the collections presented and was supported by expanded brand communication activities and an associated increased brand awareness. As in the previous year, womenswear contributed 11% to total sales (2014: 11%).

Increase in brand sales

Brand sales generated with HUGO BOSS products worldwide in fiscal year 2015 came to EUR 5.4 billion and, mainly due to growth in the Group's own retail business, were higher than the previous year's by 6% (2014 EUR 5.1 billion). Brand sales are calculated as the total of sales earned from the Group's own retail business and sales with both wholesale partners and HUGO BOSS licensees that are extrapolated to a retail base.

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. The pre-order business, i.e. the sale to wholesale partners of goods ordered in advance, is therefore losing significance for the development of the business as a whole.

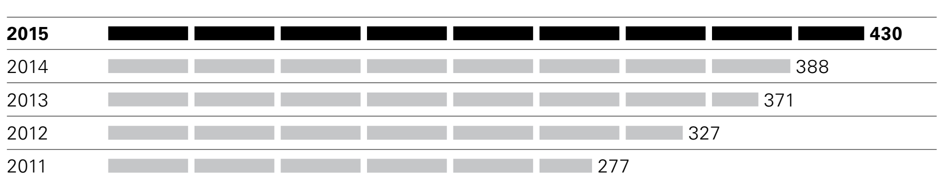
In relation to total Group sales, **the share of the traditional order business** fell in the past fiscal year to 29% (2014: 32%). In order to plan its production to the best possible effect despite this, HUGO BOSS is therefore integrating not only order intake but, above all, the trend in its own retail business into its volume planning.

NUMBER OF GROUP'S OWN RETAIL STORES

Network of free-standing retail stores shows net growth of 42 stores in 2015

In fiscal year 2015, the number of the Group's own **freestanding retail stores** rose by a net figure of 42 to 430 (2014: 388).

03|08 NUMBER OF GROUP'S OWN RETAIL STORES



In addition to organic growth by 21 stores, takeovers of 38 freestanding stores previously operated by franchise partners contributed to the increase in selling space. In contrast, 17 freestanding stores were closed, mainly in connection with the qualitative upgrade of the store portfolio.

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

2015	Freestanding stores	Shop-in-Shops	Outlets	TOTAL
Europe	183	363	57	**603**
Americas	92	86	48	**226**
Asia/Pacific	155	100	29	**284**
TOTAL	**430**	**549**	**134**	**1,113**
2014				
Europe	183	363	49	**595**
Americas	83	75	46	**204**
Asia/Pacific	122	93	27	**242**
TOTAL	**388**	**531**	**122**	**1,041**

Including shop-in-shops and outlets, the total net number of **retail stores** operated by HUGO BOSS worldwide in fiscal year 2015 rose by 72 to 1,113 (2014: 1,041). The total selling space of the Group's own retail stores rose by 8% to around 152,000 sqm (December 31, 2014: 140,000 sqm).

Number of freestanding retail stores in Europe unchanged from last year

In **Europe** the number of freestanding retail stores was unchanged from the previous year at 183 (2014: 183). There were nine new openings, including in Italy and Great Britain, while nine stores were closed over the same period. Taking into account shop-in-shops and outlets, Europe reported a net increase of eight in the number of the Group's own retail stores, with 603 at present (2014: 595).

New openings in all Americas markets

In the **Americas**, freestanding retail stores showed a net increase of nine during the reporting period, rising to 92 stores (2014: 83). A total of six new stores were opened in all markets of the region and three freestanding stores were taken over from former franchise partners. Including shop-in-shops and outlets, the number of the Group's own retail stores in the Americas totaled 226 (2014: 204).

Takeovers in South Korea and China strengthen brand presence in Asia/Pacific

The number of freestanding retail stores in **Asia/Pacific** rose by a net figure of 33 to 155 stores in fiscal year 2015 (2014: 122). In the course of the expansion, 16 freestanding stores were taken over in South Korea, 18 in China and one store in New Zealand. The store network was also expanded by six new openings. Eight freestanding retail stores were closed in the reporting period. Taking into account all shop-in-shops and outlets, there was a net increase of 42 to a total of 284 own retail stores in this region (2014: 242).

In addition, some 6,450 points of sale are operated by wholesale partners, either as franchise stores, shop-in-shops or in a multi-brand setting (2014: 6,550 points of sale). This means that customers today can buy HUGO BOSS products in a total of around 7,600 points of sale in 125 countries (2014: 7,600 points of sale in 130 countries). → **Key locations/global market presence**

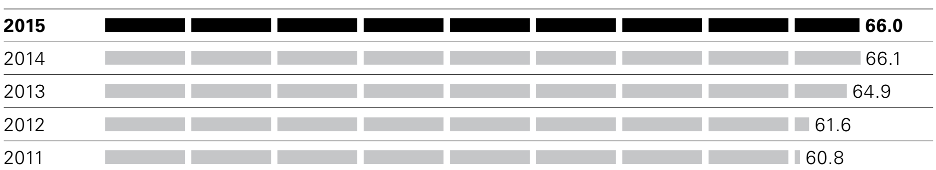
EARNINGS DEVELOPMENT

03|10 INCOME STATEMENT (in EUR million)

	2015	In % of sales	2014	In % of sales	Change in %
Sales	**2,808.7**	**100.0**	**2,571.6**	**100.0**	**9**
Cost of sales	(955.9)	(34.0)	(872.5)	(33.9)	(10)
Gross profit	**1,852.8**	**66.0**	**1,699.1**	**66.1**	**9**
Selling and distribution expenses	(1,136.6)	(40.5)	(994.9)	(38.7)	(14)
Administration expenses	(264.3)	(9.4)	(236.2)	(9.2)	(12)
Other operating income and expenses	(4.2)	(0.2)	(19.3)	(0.8)	78
Operating result (EBIT)	**447.7**	**15.9**	**448.7**	**17.4**	**0**
Net interest income/expenses	(5.9)	(0.2)	(4.5)	(0.2)	(31)
Other financial items	(21.8)	(0.8)	(7.1)	(0.3)	<(100)
Financial result	**(27.7)**	**(1.0)**	**(11.6)**	**(0.5)**	**<(100)**
Earnings before taxes	**420.0**	**14.9**	**437.1**	**16.9**	**(4)**
Income taxes	(100.6)	(3.5)	(102.6)	(4.0)	2
Net income	**319.4**	**11.4**	**334.5**	**13.0**	**(5)**
Attributable to:					
Equity holders of the parent company	319.3	11.4	333.3	12.9	(4)
Non-controlling interests	0.1	0.0	1.2	0.1	(92)
Earnings per share (EUR)[1]	**4.63**		**4.83**		**(4)**
EBITDA	**589.9**	**21.0**	**571.5**	**22.2**	**3**
Special items	(4.2)	(0.2)	(19.3)	(0.8)	78
EBITDA before special items	**594.1**	**21.2**	**590.8**	**23.0**	**1**
Income tax rate in %	**24**		**23**		

[1] Basic and diluted earnings per share.

03|11 GROSS PROFIT MARGIN (in %)



Gross profit margin slightly below last year's at 66.0%

The **gross profit** in fiscal year 2015, at EUR 1,853 million, was 9% above the prior-year figure (2014: EUR 1,699 million). At 66.0%, the **gross profit margin** was slightly lower than in the prior year (2014: 66.1%). Positive effects stemming from above-average growth in the Group's own retail business, in which HUGO BOSS generates a higher gross profit margin than in the wholesale channel, were offset by increased discounting.

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

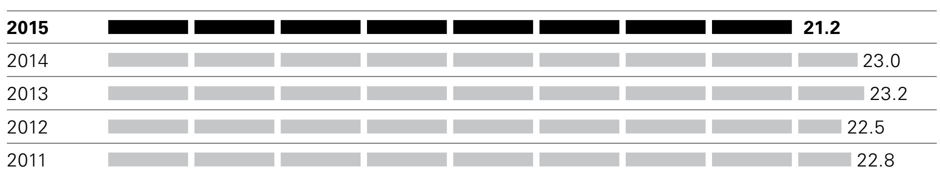
Selling and marketing expenses in fiscal year 2015 totaled EUR 1,137 million, up 14% year on year (2014: EUR 995 million). Currency effects made a material contribution to this increase. Relative to sales, selling and marketing expenses increased from 38.7% to 40.5%. Particularly due to the global expansion of the Group's own retail business, selling expenses in the reporting year increased by 14% compared to the prior year, accounting for 31.1% of sales (2014: 29.7%). This includes additional expenses for the net increase of 42 freestanding retail stores which were opened or taken over in the course of the global expansion of this sales channel in fiscal year 2015. The year-on-year increase in selling and marketing expenses of 17% 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 6.8% (2014: 6.3%). Additional lease expenses associated with the commissioning of the new flat-packed goods distribution center in Germany in the third quarter of 2014 contributed to an 8% increase in logistics expenses compared with the prior year. At 2.6%, they accounted for the same percentage of sales as in the prior year (2014: 2.6%). Bad debt allowances and bad debts were again of secondary importance in the fiscal year 2015 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 increase in administration expenses in relation to sales

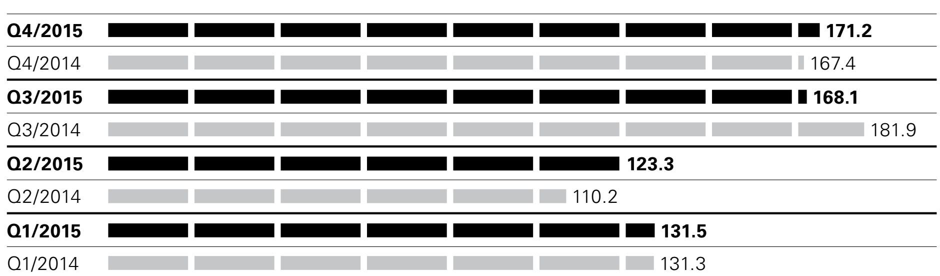
Administration expenses in fiscal year 2015 totaled EUR 264 million, up 12% year on year (2014: EUR 236 million). Currency effects made a material contribution to this increase. As a percentage of sales the administration expenses increased slightly, amounting to 9.4% (2014: 9.2%). General administration expenses increased by 14% and, at 7.1% of sales, were up on the prior-year period (2014: 6.8%). Research and development costs incurred during the creation of fashion collections rose by 6% compared to the prior-year period and accounted for 2.3% of sales, slightly less than in the prior year (2014: 2.4%). → **Notes to the consolidated financial statements, Note 4**

The net expense arising from **other operating expenses and income** was EUR 4 million (2014: net expense of EUR 19 million). This includes special items which mainly relate to the early dissolution of contracts with trade agents and service providers as well as organizational changes in Europe and the Americas. In the second quarter of 2015, the sale of the production site in Cleveland, Ohio, led to the release of provisions recognized in 2014. The resultant income partially offset the expenses arising from special items. → **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)



1% increase in EBITDA before special items

The key internal performance indicator **EBITDA before special items** increased year on year by 1% to EUR 594 million (2014: EUR 591 million). At 21.2%, the adjusted EBITDA margin was 180 basis points below the prior-year figure (2014: 23.0%). This development can mainly be attributed to the declining gross profit margin and the increase in operating expenses, with the latter exceeding sales growth. Due to an increase in the ratio of property, plant and equipment and intangible assets to total assets as a result of investments in the Group's own retail business in particular, **amortization and depreciation** came to EUR 142 million, up 16% on the prior year (2014: EUR 123 million). **Earnings before interest and taxes (EBIT)** came to EUR 448 million as of the end of fiscal year 2015, down slightly on the prior year (2014: EUR 449 million).

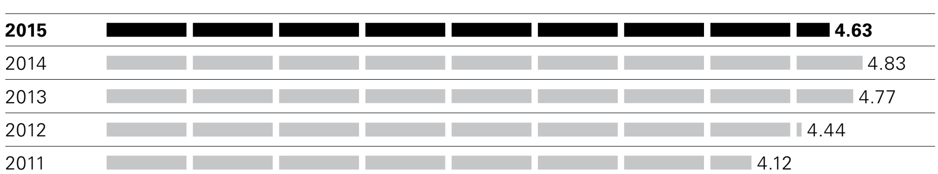
Negative development of exchange rates exerting pressure on financial result

The **financial result**, measured as a net expense after aggregating the interest result and other financial items, increased in fiscal year 2015 to EUR 28 million (2014: EUR 12 million). This is primarily due to negative trends in the exchange rates of the Brazilian real and the Swiss franc. There were also one-time negative effects arising from the dissolution of derivatives used for hedging interest payments under the previous loan facility as well as interest expenses in connection with the tax field audit for the years 2007 to 2011 at HUGO BOSS AG. → **Notes to the consolidated financial statements, Note 6**

Group's net income below prior-year level

At EUR 420 million, **earnings before taxes** were down 4% year on year (2014: EUR 437 million). At 24%, the **Group's income tax rate** was slightly higher than in the prior year (2014: 23%). The shares of earnings of companies of the HUGO BOSS Group in Germany and abroad led to a slight increase in the Group's tax rate in fiscal year 2015 due to regional differences in growth rates. The **Group's net income** declined by 5% to EUR 319 million in the past fiscal year (EUR 2014: EUR 335 million). The net income attributable to equity holders of the parent company fell by 4% to EUR 319 million (2014: EUR 333 million). In the reporting period, net income attributable to non-controlling interests came to EUR 0 million (2014: EUR 1 million).

03|14 EARNINGS PER SHARE (in EUR)



Earnings per share decreased by 4% to EUR 4.63 compared to the prior year (2014: EUR 4.83).

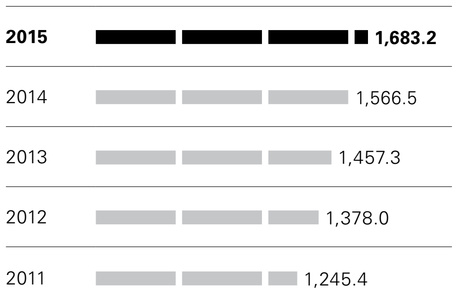
DIVIDENDS AND APPROPRIATION OF PROFIT

HUGO BOSS AG closed fiscal year 2014 with a net income of EUR 304 million (2014: EUR 292 million). The unappropriated surplus after transfer to retained earnings came to EUR 255 million (2014: EUR 255 million). Given the **profits-based dividend policy**, the Supervisory Board and the Managing Board will propose to the Annual Shareholders' Meeting that, unchanged as against the prior year, a **dividend of EUR 3.62 per share** (2014: EUR 3.62 per share) be paid out for fiscal year 2015. This corresponds to a figure of EUR 250 million (2014: EUR 250 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 (2014: EUR 5 million).

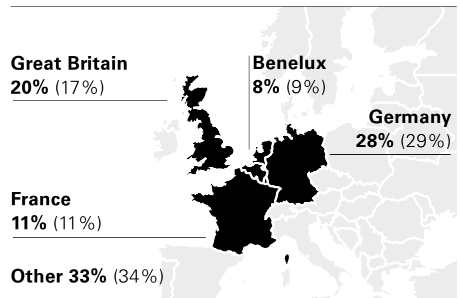
SALES AND PROFIT DEVELOPMENT OF THE BUSINESS SEGMENTS

EUROPE

03|15 SALES EUROPE
(in EUR million)



03|16 SHARE IN SALES EUROPE 2015
(2014)



Sales in **Europe** including the Middle East and Africa increased in fiscal year 2015 by 7% in the reporting currency to EUR 1,683 million (2014: EUR 1,567 million). This corresponds to an increase of 6% in local currencies.

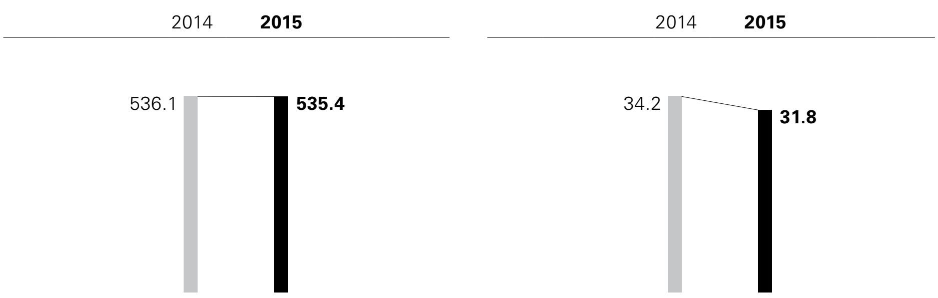
Sales in region determined by Group's own retail business

Sales in the **Group's own retail business** increased by 12% in Europe to EUR 956 million in the past fiscal year (2014: EUR 851 million). This is equivalent to a 10% increase in local currencies. In addition to continued selling space expansion, this favorable performance was particularly due to the enhanced productivity of existing retail selling space. Sales with customers in the **wholesale** channel increased in the reporting currency by 2% to EUR 727 million (2014: EUR 716 million). They slightly increased by 1% adjusted for currency effects.

Great Britain still the fastest growing core market within the region

At EUR 465 million, sales in **Germany** rose to 4% above the prior year's level (2014: EUR 448 million). This favorable performance was underpinned by both the Group's own retail business and the wholesale business. 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 332 million, up 27% on the prior year (2014: EUR 262 million). In the local currency, this corresponds to sales growth of 15%. In **France**, sales came to EUR 179 million, up 5% on the prior year (2014: EUR 171 million). Growth in the high single digits in the Group's own retail business thus offset the declining wholesale business. Reflecting the continuing consolidation in the wholesale channel, sales in the **Benelux countries** were 2% down on the prior year at EUR 141 million (2014: EUR 145 million). The Group's own retail business also fell off slightly in this market last year. The business in **Eastern Europe** developed well in the last fiscal year. In **Southern Europe** HUGO BOSS was able to generate sales growth in fiscal year 2015 in both **Italy** and the **Iberian Peninsula**. Double-digit growth rates in the Group's own retail business led to a significant rise in sales, particularly in Italy.

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

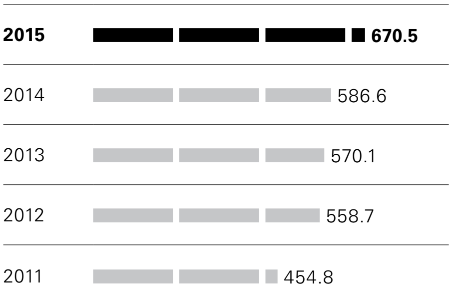


At EUR 535 million, **segment profit** in Europe was slightly down on the previous year (2014: EUR 536 million). Negative exchange rate effects as well as higher selling and marketing expenses depressed earnings in this region. At 31.8%, the adjusted EBITDA margin was down 240 basis points on the previous year (2014: 34.2%).

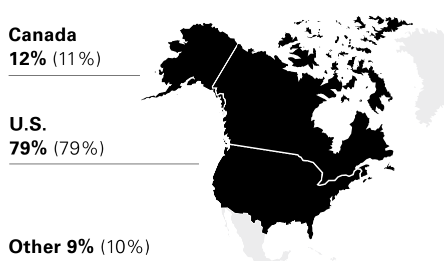
Segment profit slightly down from prior year

AMERICAS

03|18 SALES AMERICAS
(in EUR million)



03|19 SHARE IN SALES AMERICAS 2015
(2014)



In the **Americas sales** increased by 14% in the Group's reporting currency to EUR 670 million year on year (2014: EUR 587 million). Currency effects were a major influence. In local currencies, this corresponds to a sales decrease of 1%.

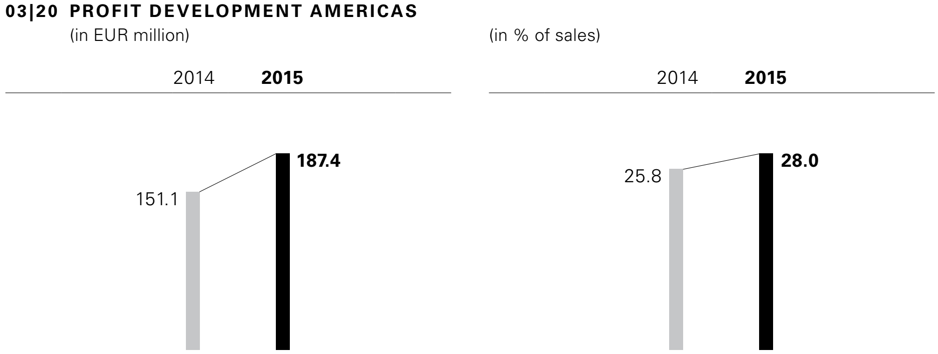
Currency-adjusted increase in sales in the Group's own retail business

In fiscal year 2015, sales in the **Group's own retail business** increased by 20%, reaching EUR 391 million (2014: EUR 326 million). This is equivalent to a currency-adjusted increase of 4%. Sales in the **wholesale channel** reached EUR 279 million over the same period (2014: EUR 261 million). Accordingly, sales in this distribution channel rose by 7% in the Group's reporting currency, whereas a decline of 7% in local currencies was reported.

Disparate sales development in region's individual markets

In the **USA** sales in the reporting currency increased by 15% and totaled EUR 530 million over the twelve months (2014: EUR 463 million). In the local currency, however, they contracted by 5%. This was mainly due to declining wholesale business. At EUR 78 million, sales in **Canada** rose to 17% above the prior year's level (2014: EUR 67 million). Supported by double-digit growth rates in the Group's own retail business, it proved possible to increase sales in local currency by 14% in this market. In **Central and South America**, sales increased by 10% in the reporting currency to EUR 63 million (2014: EUR 57 million). Despite the persistently weak economic development in this region, sales growth of 14% adjusted for currency effects was achieved. This positive development was due in particular to the Group's own retail business.

03|20 PROFIT DEVELOPMENT AMERICAS

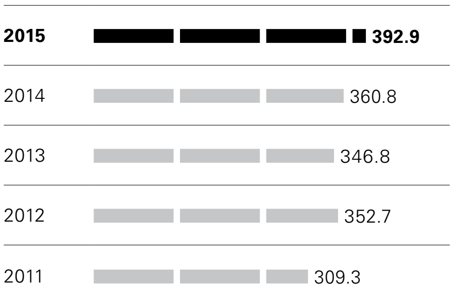


Growth in segment profit

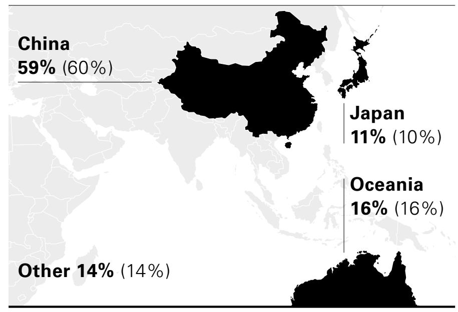
At EUR 187 million, **segment profit** in the Americas was up 24% year on year (2014: EUR 151 million). Positive exchange rate effects, which were especially visible in the gross profit margin, made a major contribution here. Increased discounting as well as negative effects from inventory valuation partially counterbalanced this development. The adjusted EBITDA margin for the region, at 28.0%, was 220 basis points above that of the prior year (2014: 25.8%).

ASIA/PACIFIC

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



03|22 SHARE IN SALES ASIA/PACIFIC 2015
(2014)



In fiscal year 2015, **sales** in **Asia/Pacific** were EUR 393 million in the reporting currency, 9% higher than a year before (2014: EUR 361 million). The deterioration in market conditions in China, which burdened the performance of HUGO BOSS in this market, caused sales to decrease by 3% in local currencies.

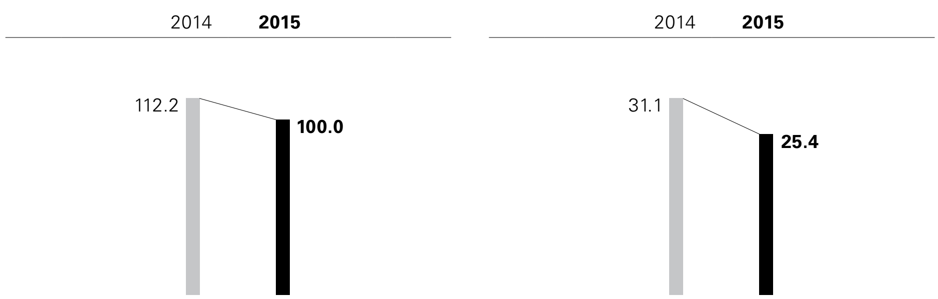
Takeovers in South Korea and China support sales in the Group's own retail business

Sales in the **Group's own retail business** in this region rose by 16% to EUR 341 million in the reporting currency (2014: EUR 295 million). This is equivalent to growth of 3% in local currencies compared to the prior year. By contrast, at EUR 52 million, sales with **wholesale customers** were down 22% from the prior year in the Group's reporting currency (2014: EUR 66 million). This translates into a 31% decline in local currencies. Takeovers of selling space previously operated by wholesale partners in South Korea and China led to a shift in sales from wholesale to the the Group's own retail business.

Currency-adjusted sales growth in Oceania and Japan

At EUR 232 million, sales in **China** were up 8% on the prior year (2014: EUR 215 million). Against the backdrop of deteriorating market conditions, currency-adjusted sales decreased by 9%. At EUR 61 million, sales in **Oceania** increased by 7% on the prior year (2014: EUR 57 million). Supported by significant productivity gains in the Group's own retail business, sales increased by 8% adjusted for currency effects. At EUR 43 million, sales in **Japan** rose to 12% above the previous year's level (2014: EUR 38 million). This is equivalent to a sales increase of 7% adjusted for currency effects.

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

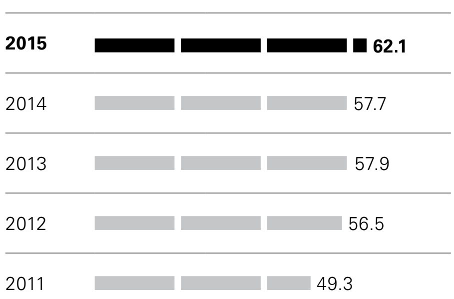


Segment profit dragged down by sales development in China

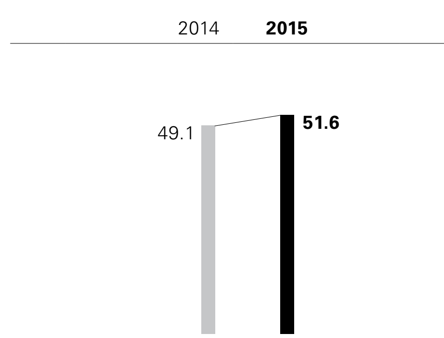
At EUR 100 million, **segment profit** in Asia/Pacific was down 11% on the prior-year level (2014: EUR 112 million). Sales in China and a disproportionately large increase in selling and distribution expenses, particularly in connection with the expansion of the Group's own retail business, negated the positive exchange rate effects in this region. At 25.4%, the adjusted EBITDA margin in this region was down 570 basis points from the prior year (2014: 31.1%).

LICENSES

03|24 SALES LICENSES
(in EUR million)



03|25 PROFIT DEVELOPMENT LICENSES
(in EUR million)



Sales growth in the license business

The **license business** developed well in fiscal year 2015. Sales were up by 8% on the prior year both in the reporting currency and local currencies, totaling EUR 62 million (2014: EUR 58 million). The articles produced by partners include fragrances, eyewear and watches. A key factor behind the sales growth was a double-digit increase in license income from watches and eyewear. License income from fragrances also grew.

At EUR 52 million, the license **segment profit** was up year on year (2014: EUR 49 million).

NET ASSETS

In fiscal year 2015, the development of the Group's key financial reporting indicators continued to be strongly influenced by the continued 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 slightly above the level achieved at the end of 2014 as of the reporting date.

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

ASSETS	2014	2015
Property, plant and equipment and intangible assets	32	35
Inventories	30	31
Trade receivables	15	13
Other assets	15	16
Cash and cash equivalents	8	5
TOTAL	100	**100**
ASSETS (in EUR million)	1,661.8	**1,800.3**

For absolute figures please refer to the statement of financial position, p. 173

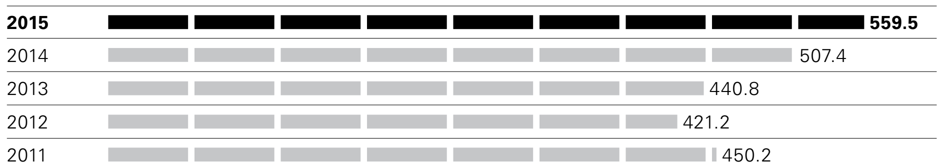
Increase in total assets due to higher inventories, property, plant and equipment and intangible assets

Total assets rose by 8% as of the end of fiscal year 2015 to EUR 1,800 million (December 31, 2014: EUR 1,662 million). This change was driven in particular by an increase in inventories and property, plant and equipment and intangible assets in which currency effects and the expansion of the Group's own retail business played a key role. At 58%, the **share of current assets** decreased slightly compared to the prior year (December 31, 2014: 60%). The **share of non-current assets** as of December 31, 2015 accordingly came to 42% (December 31, 2014: 40%).

Increase in assets due to higher investments

Property, plant and equipment and intangible assets had risen at the end of the reporting period by 17% compared to the prior year to EUR 622 million (December 31, 2014: EUR 531 million). This was due to currency effects and in particular to the increase in investments. → **Financial position, capital expenditure**

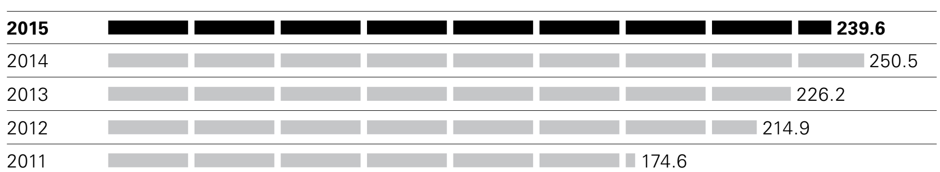
03|27 INVENTORIES AS OF DECEMBER 31 (in EUR million)



Currency-adjusted increase of 3% in inventories

Inventories increased by 10% to EUR 560 million as of December 31, 2015 (December 31, 2014: EUR 507 million). Adjusted for exchange rate effects, the increase came to only 3%. The slightly 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)



Currency-adjusted 7% decrease in trade receivables

Trade receivables decreased by 4% year on year to EUR 240 million (December 31, 2014: EUR 251 million). Adjusted for exchange rate effects, this equates to a decrease of 7%. This was mainly due to declining wholesale business in the reporting period.

Other assets rose by 22% year on year to EUR 297 million (December 31, 2014: EUR 243 million). This development is mainly attributable to an increase in deferred tax assets because of additional temporary differences, higher tax receivables and higher refund claims from returns. **➜ Notes to the consolidated financial statements, Note 7**

Cash and cash equivalents came to EUR 81 million as of the reporting date (December 31, 2014: EUR 129 million), principally due to decreasing free cash flow. **➜ Financial position, statement of cash flows**

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

EQUITY AND LIABILITIES	2014	**2015**
Shareholders' equity	51	**53**
Provisions and deferred taxes	12	**10**
Trade payables	15	**15**
Other liabilities	12	**12**
Financial liabilities	10	**10**
TOTAL	100	**100**
EQUITY AND LIABILITIES (in EUR million)	1,661.8	**1,800.3**

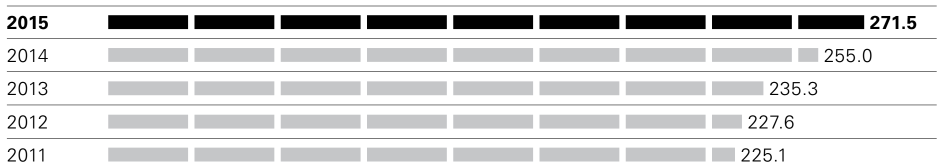
For absolute figures please refer to the statement of financial position, p. 173

Increase in equity ratio to 53%

Equity had increased as of the reporting date by 13% to EUR 956 million (December 31, 2014: EUR 844 million). The **equity ratio** thus rose to 53% as of the reporting date (December 31, 2014: 51%).

Provisions and deferred taxes, at EUR 183 million, were 7% lower than in the prior year (December 31, 2014: EUR 196 million). This includes provisions for pensions and other personnel expenses of EUR 94 million (December 31, 2014: EUR 91 million). Other provisions came to EUR 81 million (December 31, 2014: EUR 95 million) and deferred tax liabilities to EUR 8 million (December 31, 2014: EUR 10 million). The decrease in other provisions chiefly results from the utilization of the provision recognized in the previous year for the early termination of the contract with a trade agent in the Middle East and the reversal of the provision recognized last year in connection with the sale of the production facility in Cleveland, Ohio. → **Notes to the consolidated financial statements, Note 25**

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



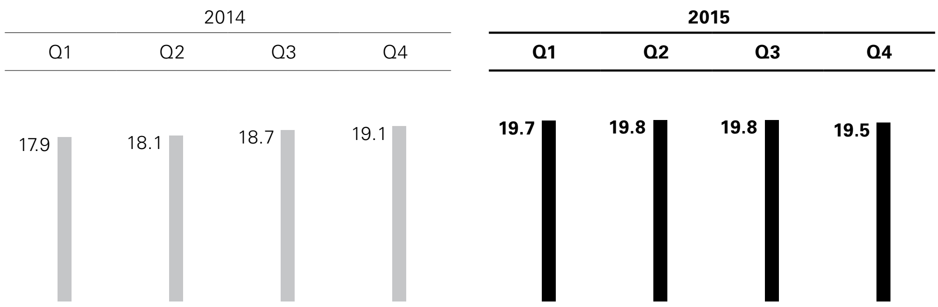
Currency-adjusted 2% increase in trade payables

Trade payables increased by 6% year on year to EUR 272 million driven by quantity effects (December 31, 2014: EUR 255 million). After currency adjustments, this corresponds to a rise of 2%.

Other liabilities increased by 10% year on year to EUR 214 million (December 31, 2014: EUR 195 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 as accrued vacation, wages and salaries. The year-on-year change primarily results from an increase in the accruals of rental obligations as a result of the expansion of the Group's own retail business.

Total **current and non-current financial liabilities** increased by 3% to EUR 176 million as of the reporting date (December 31, 2014: EUR 172 million). The main driver was the increased cash outflow from capital expenditure on property, plant and equipment as well as intangible assets. Due to favorable interest rates, in addition to the utilization of EUR 75 million (December 31, 2014: EUR 100 million) of the syndicated loan, greater use was also made of short-term credit facilities for financing as of the reporting date.

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



Positive development of trade net working capital in local currencies

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 5% year on year to EUR 528 million (December 31, 2014: EUR 503 million). In local currencies, the value of this indicator was 2% below that in the prior year. The increase in inventories was fully compensated by the lower trade receivables and 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 19.5%, was 40 basis points higher than in the prior year (2014: 19.1%).

FINANCIAL POSITION

By refinancing the syndicated credit facility of EUR 450 million ahead of schedule, HUGO BOSS was able to benefit from low interest rates and agree attractive terms. Despite increased capital expenditure of EUR 220 million, it proved possible to keep net financial liabilities to the good level of EUR 82 million. This can mainly be attributed to the strong internal financing power of the Group.

FINANCIAL MANAGEMENT AND FINANCING PRINCIPLES

The core purpose of Group-wide financial management is to secure its strong financial profile, creditworthiness and the related financial stability of the Group. It is systematically geared towards supporting the strategic and operational development of the company. The objective is access at all times to capital and favorable terms of financing.

Central bundling of global financial management

Group-wide financial management comprises cash and liquidity management and the management of market price risks and default risks in addition to corporate finance. At HUGO BOSS, these activities are 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 Group companies directly agree external financing in consultation with corporate financial management. This is done, for instance, if it is economically advantageous to use local credit and capital markets. If the Group companies enter directly into external loan transactions, HUGO BOSS AG issues guarantees or letters of comfort in exceptional cases.

In its capacity as an "in-house bank", HUGO BOSS International B.V. provides funds to Group companies with increased financing needs in the form of intercompany loans. These loans are issued in the local currency of the distribution company concerned and generally take the form of an overdraft facility.

The corporate treasury department optimizes and centralizes payment flows and secures Group-wide liquidity by its cash and liquidity management. The cash inflows from the operating activities of the individual Group companies 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**. Funds are mainly drawn in the Group currency, the euro. → **Notes to the consolidated financial statements, Notes 27 and 30**

Syndicated loan secures long-term financial flexibility

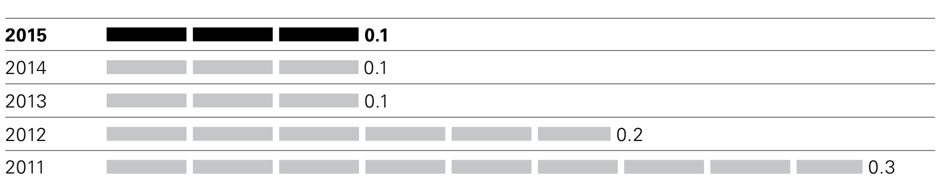
The Group signed a new syndicated credit facility for EUR 450 million in October 2015. The revolving credit facility with an international syndicate of six banks has a basic term of five years. It also includes the option to extend twice by a year at a time. The credit facility with a volume of EUR 450 million, originally due in March 2018, has been refinanced earlier than planned in this way. By refinancing the line of credit ahead of time, HUGO BOSS was able to take advantage of the positive market environment and agree attractive terms.

The credit facility is intended to secure the company's liquidity in the long term, thus also financially securing the growth strategy. As of the reporting date, EUR 75 million of the syndicated loan had been used. The Group has additional liquidity secured in the form of bilateral lines of credit with a total volume of EUR 257 million, of which EUR 89 million had been drawn as of December 31, 2015. Apart from the unutilized lines of credit amounting to EUR 543 million, the Group has access to liquid funds of EUR 81 million as of the reporting date. In contrast to the previous year, no liquid funds are held in time deposits with a term of up to three months (2014: EUR 10 million).

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. The maximum permissible value is above the agreed maximum for the facility that was replaced. → **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 below the permissible maximum as of December 31, 2015. 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 EUR 135 million in financial liabilities that are subject to variable interest rates, a volume of approximately EUR 10 million was hedged by payer swaps against a rise in interest rates as of December 31, 2015. There is no exposure to interest rate risks from other fixed-interest loans. → **Notes to the consolidated financial statements, Note 27**

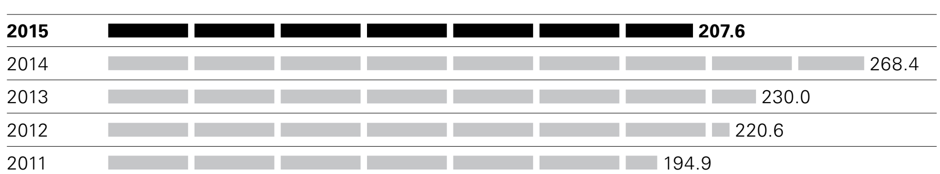
Land charges in connection with land and buildings amount to EUR 39 million (2014: EUR 42 million).

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Financing is supplemented by operating leases for the Group's own retail locations as well as logistics and administration properties which are not reported in the statement of financial position. → **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 adjusted for currency effects, these figures cannot be derived from the statement of financial position.

Free cash flow decreases

Free cash flow, measured as the cash inflow from operating activities and the cash outflow from investing activities, decreased by EUR 61 million in the past fiscal year to EUR 208 million (2014: EUR 268 million).

Cash inflow from operating activities above prior-year level

At EUR 424 million, **cash inflow from operating activities** was 7% up on the prior-year period (2014: EUR 395 million). In addition to the substantially lower cash outflow from changes in inventories compared with the previous year, cash inflows arose from changes in trade receivables and trade payables. This led to a total inflow of cash from trade net working capital of EUR 17 million (2014: cash outflow of EUR 50 million). An increased cash outflow due to income taxes paid in the same period partly offset the effect.

As a result of a continuing low level of debt and of lower market interest rates, the net cash outflow from interest expenses and income was, as in the prior year, around EUR 3 million as of the reporting date (2014: EUR 3 million).

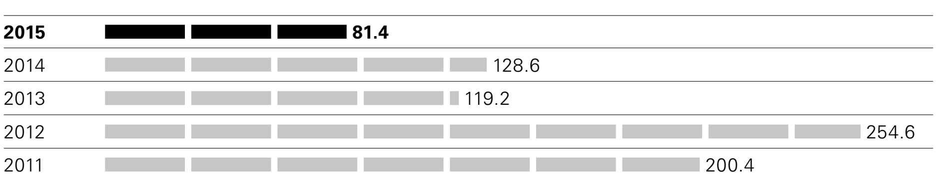
Cash outflow from investing activities significantly higher

The **cash outflow from investing activities** came to EUR 216 million, substantially higher than in the prior-year period (2014: EUR 127 million). This was mainly driven by increased capital expenditure on property, plant and equipment in connection with the expansion of the Group's own retail business. A cash outflow of EUR 23 million was attributable to property, plant and equipment and intangible assets as well as current assets acquired in the purchase of other business entities in Asia/Pacific and the Americas.

Cash outflow from financing activities determined by dividend payment

The **cash outflow from financing activities** in fiscal year 2015 totaled EUR 255 million (2014: EUR 262 million) and was most heavily influenced by the dividend payment of EUR 250 million (2014: EUR 230 million). In the prior year, the acquisition of the remaining 40% share in the joint venture entities in China and Macao led to a higher cash outflow.

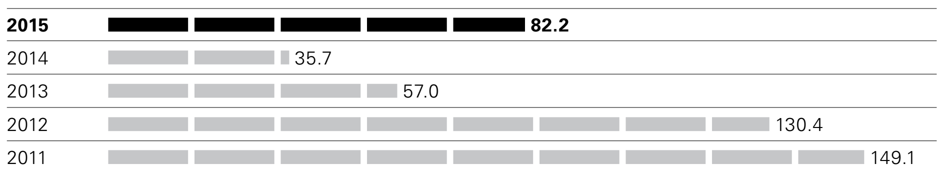
03|34 CASH AND CASH EQUIVALENTS AS OF DECEMBER 31 (in EUR million)



Cash and cash equivalents came to EUR 81 million as of the reporting date (December 31, 2014: EUR 129 million).

NET FINANCIAL LIABILITIES

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



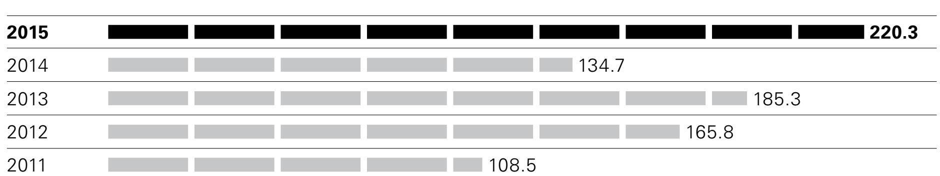
Increase in net financial liabilities due to free cash flow

Net financial liabilities are the total of all financial liabilities due to banks less cash and cash equivalents. Liabilities from finance leases are not included in the calculation of this indicator. Net financial liabilities increased as of the end of fiscal year 2015 to EUR 82 million (December 31, 2014: EUR 36 million). The key factor here was the decrease in free cash flow.

At EUR 164 million, financial liabilities due to banks remained at the prior-year level (December 31, 2014: EUR 164 million).

CAPITAL EXPENDITURE

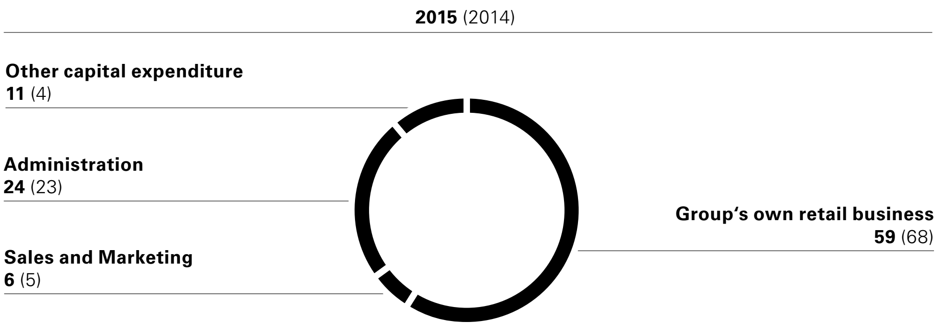
03|36 CAPITAL EXPENDITURE (in EUR million)



HUGO BOSS invests EUR 220 million in fiscal year 2015

In the past fiscal year, HUGO BOSS invested a total of EUR 220 million in property, plant and equipment and intangible assets. Total investment thus increased by 63% year on year (2014: EUR 135 million). A sum of EUR 17 million is attributable to property, plant and equipment and intangible assets acquired in the purchase of other business units in Asia/Pacific and the Americas.

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



Capital expenditure remains focused on own retail business

Making up 59% 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 (2014: 68%). This corresponds to an investment volume of EUR 130 million (2014: EUR 92 million).

Investment in **new retail stores** owned by the Group came to EUR 71 million in fiscal year 2015 (2014: EUR 48 million). In Europe, new retail stores were amongst other opened in Dublin, Verona, Athens. In the Americas, the opening of stores in metropolises such as Vancouver and Toronto as well as the takeover of 14 selling spaces in Mexico were particularly noteworthy. Furthermore, in Asia/Pacific the main highlight was the takeover of 45 stores in South Korea, China and New Zealand.

Modernization of the Group's own retail locations increases

EUR 59 million was invested worldwide in the **renovation and modernization** of existing retail locations in the past fiscal year (2014: EUR 44 million). The bulk of these investments were in Europe, with the primary focus on the modernization of stores in London, Liverpool and Düsseldorf.

In 2015, investment in the **production, logistics and distribution structure** as well as in **research and development** came to EUR 38 million (2014: EUR 12 million). The increase is chiefly the result of the renovation of the Wendlingen warehouse location in preparation for the planned insourcing of order processing in the European online business, the construction of a new showroom in New York and a new production hall at the Group's own production plant in Izmir.

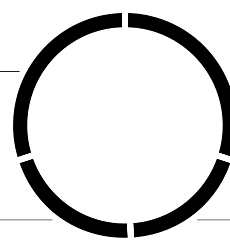
Investments in **administration** came to EUR 52 million in the past fiscal year (2014: EUR 31 million). This mainly includes investments of EUR 34 million in the IT infrastructure (2014: EUR 21 million) as well as spending on expansion at the Metzingen site.

The accumulated amortization and depreciation on property, plant and equipment and intangible assets including own work capitalized came to EUR 793 million (2014: EUR 688 million). → **Notes to the consolidated financial statements, Notes 11 and 12**

Obligations from investment projects that had commenced as of the December 31, 2015 amounted to EUR 8 million (December 31, 2014: EUR 1 million). → **Notes to the consolidated financial statements, Note 33**

03|38 CAPITAL EXPENDITURE BY REGION (in %)

2015 (2014)



[1] Including Middle East and Africa.

COMPENSATION REPORT

The compensation report describes the main features of the compensation system for the Managing Board and Supervisory Board of HUGO BOSS AG. It also explains the structure, composition and amount of the remuneration components. The report is based on the recommendations of the German Corporate Governance Code in the version of May 5, 2015 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 on and reviews 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.

In fiscal year 2015, the compensation system for members of the Managing Board was examined and further developed by the Supervisory Board in connection with the conclusion of new service contracts for Mark Langer and Christoph Auhagen, both members of the Managing Board. On the basis of discussions in the Supervisory Board and of the proposals made by the Personnel Committee, new service contracts were concluded in October 2015 with the Managing Board members Mark Langer and Christoph Auhagen with effect from January 1, 2016, which provide for a compensation system that is partly new in its conception. The service contact for Claus-Dietrich Lahrs, the chairman of the Managing Board, remains unchanged. It is planned to propose the system for the compensation of the Managing Board members, which applies to Mark Langer and Christoph Auhagen as of January 1, to the Annual Shareholders' Meeting 2016 for approval in accordance with Sec. 120 (4) Sentence 1 AktG ["Aktiengesetz": German Stock Corporation Act].

Unless otherwise stated, the following information relates to the compensation system applicable equally to all members of the Managing Board until the end of fiscal year 2015, which also remains applicable to the compensation of Claus-Dietrich Lahrs in fiscal year

2016. The main changes to the compensation system decided for Mark Langer and Christoph Auhagen with effect from January 1, 2016 are outlined in the penultimate section of this compensation report.

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

For fiscal year 2015, the amounts paid to members of the Managing Board will for the first time be disclosed individually, which until now was prohibited for a period of five years on the basis of a resolution of the Annual General Meeting of June 21, 2010. For that reason, the individual amounts paid to members of the Managing Board for the previous year are not disclosed.

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. All 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 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

The performance-related compensation, comprising an annual bonus and a bonus assessed over a multiple-year period, relates only to quantitative targets. Until the end of fiscal year 2015, the arrangements for the annual bonus and a bonus assessed over a multiple-year period were governed on a standard basis in the service contracts of the 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 raw materials, finished goods 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.

If the target is achieved in full (100%) for the annual bonus 2015, a total amount of EUR 790 thousand will be paid out (Claus-Dietrich Lahrs EUR 440 thousand, Christoph Auhagen EUR 200 thousand, Mark Langer EUR 150 thousand).

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.

For the multiple-year bonus for 2015–2017, if the target is achieved in full (100%), a total amount of EUR 3,160 thousand will be paid out (Claus-Dietrich Lahrs EUR 1,760 thousand, Christoph Auhagen EUR 800 thousand, Mark Langer EUR 600 thousand).

TOTAL COMPENSATION

Total compensation of the Managing Board in fiscal year 2015 came to EUR 4,918 thousand (2014: EUR 4,434 thousand). Of this amount, EUR 3,690 thousand was attributable to fixed salary components including fringe benefits (2014: EUR 3,682 thousand), which was paid in full in the 2015 reporting period.

An amount of EUR 644 thousand (2014: EUR 752 thousand) is accounted for by the annual bonus agreed for fiscal year 2015. A total of EUR 584 thousand (2014: EUR 0 thousand) is accounted for by the multiple-year bonus for the period 2013–2015. The annual bonus for 2015 and the multiple-year bonus for 2013–2015 will be paid out in fiscal year 2016 within a week of the Supervisory Board approving the consolidated financial statements for 2015.

In fiscal year 2015, the Managing Board received advance installments of the multiple-year bonus for fiscal year 2014 totaling EUR 2,844 thousand (2014: EUR 2,844 thousand advance installments of the multiple-year bonus 2013), which will ultimately be measured by the target realization for the multiple-year period 2014–2016. As of the reporting date, the advances towards the multiple-year bonuses for 2013–2015 and 2014–2016 total EUR 5,688 thousand (2014: EUR 2,844 thousand).

COMPENSATION OF MEMBERS OF THE MANAGING BOARD FOR FISCAL YEAR 2015 UNDER GAS 17

03|39 TOTAL REMUNERATION (in EUR thousands)

	Basic compensation	One-year variable compensation („annual-bonus“)	Multiple-year variable compensation („multiple-year bonus 2013–2015“)	Fringe benefits	**TOTAL**
Claus-Dietrich Lahrs (since 01.08.2008 Chairman of the Managing Board)	1,800	359	325	52	**2,536**
Mark Langer (since 15.01.2010)	750	122	111	42	**1,025**
Christoph Auhagen (since 01.12.2009)	1,000	163	148	46	**1,357**
Total 2015	**3,550**	**644**	**584**	**140**	**4,918**
Total 2014	3,550	752	0	132	**4,434**

PENSION PROVISION AND PROVISION FOR SURVIVING DEPENDENTS

The Company has entered into defined benefit pension obligations for members of the Managing Board. The post-employment benefits are calculated in the basis of the duration of membership of the Managing Board as a percentage of the contractually agreed pensionable income. The basis for the pensionable income is defined as the basic salary under the service contract. For Claus-Dietrich Lahrs and Christoph Auhagen the level of the post-employment benefits is 50% of the pensionable income, and for Mark Langer 60% of that income.

Post-employment benefits are paid when the employment relationship ends at or after a fixed age limit of 60 or 65 years (Chairman of the Managing Board) or if the member of the Managing Board becomes permanently unable to work due to illness or accident and leaves the company before reaching the age limit. Furthermore, in the event of the death of a member of the Managing Board, a post-employment benefit is paid to the surviving dependents in the form of a widow's or orphan's pension.

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

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

03|40 PENSION EXPENSES (in EUR thousand)

	Service Costs (IFRS)	Present value provision/asset (IFRS) after offsetting of the plan assets	Expenses of earned pension commitments (HGB)	Present value provision/asset (HGB) after offsetting of the plan assets
Claus-Dietrich Lahrs (since 01.08.2008 Chairman of the Managing Board)	673	576	1,492	(2,395)
Mark Langer (since 15.01.2010)	412	2,664	866	934
Christoph Auhagen (since 01.12.2009)	948	487	1,234	(849)
Total 2015	**2,033**	**3,727**	**3,592**	**(2,310)**
Total 2014	2,148	10,466	2,206	1,515

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. The contributions from deferred compensation agreements are included in the disclosure of the total amounts paid. The provisions recognized correspond to the plan assets in each case.

BENEFITS IN THE EVENT OF TERMINATION OF EMPLOYMENT

In the event of early termination (excluding the existence of important grounds for the company to terminate a service agreement), the service agreements include provisions that comply with the recommendations of the German Corporate Governance Code point 4.2.3. under which a member of the Managing Board will receive a severance payment in the amount of the total amounts paid (including fringe benefits) for the duration of the original residual period, but at most for a period of one year and in the case of Claus-Dietrich Lahrs for a period of two years (calculated from the end of the service agreement) (severance pay cap). For these purposes, the total amounts are calculated on the basis of the total remuneration received for the last full fiscal year and, where appropriate, on the basis of the predicted total remuneration for the current fiscal year, The service agreements do not provide for any severance payment in the event of early termination for an important reason for which the member of the Managing Board in question is responsible. The service agreements do not stipulate any provisions in the event of regular termination, with the exception of the provisions governing pensions.

The service agreements with the members of the Managing Board contain 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), each member of the Managing Board is granted an extraordinary termination right and, if the service agreement is indeed terminated, a severance payment has to be made to the member of the Managing Board. This clause, which is applicable only to Claus-Dietrich Lahrs in the reporting period, became a component part of all Managing Board members' service agreements on January 1, 2016. The Company has not entered into any other compensation arrangements with members of the Managing Board or employees in the event of a takeover bid.

FURTHER DEVELOPMENT OF THE COMPENSATION SYSTEM

As of January 1, 2016, in addition to non-performance-related compensation components, the compensation structure for the members of the Managing Board Mark Langer and Christoph Auhagen provides for core performance-related compensation components with modified content in the form of a short-term incentive program (STI) and a long-term incentive program (LTI).

The structure of the fixed compensation components, which still comprise a fixed basic compensation, certain fringe benefits already described above and a contribution to post-retirement benefits under the new compensation system, is essentially unchanged.

As a short-term performance-related compensation component, the short-term incentive program is tied to the development of certain quantitative targets in line with the previous annual bonus. The targets defined for the two members of the Managing Board, with different weightings, were EBITDA (consolidated earnings before interest, taxes, depreciation, amortization and special items), trade net working capital (sum of raw and finished goods and trade receivables less trade payables) and sales (the sales recognized in the consolidated financial statements using the exchange rates underlying the budget). For the annual bonus of a fiscal year, the targets to be achieved are defined in a target-setting agreement between the Managing Board and the Supervisory Board at the start of the fiscal year March 31 at the latest. All targets may be replaced by other corporate goals or weighted differently. If the Managing Board and Supervisory Board are unable to reach agreement, the Supervisory Board makes the decision at its professional discretion. If the agreed targets are achieved in full on average, 100% of the amount contractually agreed with the respective member of the Managing Board will be paid out. Target fulfillment that is above the maximum of 150% or below the minimum target of 75% agreed for the individual target will not be taken into account in calculating the average. If the average target fulfillment comes to 150% or more, a maximum amount (cap) of 150% is paid out. If the average degree of target achievement is below 75%, on the other hand, no annual bonus will be paid. Between the minimum target and maximum target, target fulfillment will be determined in each case by linear interpolation. As previously, the annual bonus is payable within a week of the Supervisory Board approving the consolidated financial statements for the fiscal year in question.

Under the new compensation system, a long-term incentive program (LTI) replaces the previous long-term variable compensation (multiple-year bonus). Under the LTI program, the members of the Managing Board receive a defined number ("initial grant") of virtual shares ("tranches") at the beginning of the plan. The initial grant is based on the amount ("LTI budget") defined in the service agreement or by an additional agreement divided by the share price for the last three months preceding the initial grant. Each tranche has a three-year performance term. A one-year qualifying period follows the expiry of the performance term. Upon the expiry of the performance term and the qualifying period, the final number of virtual shares is calculated on the basis of the fulfillment of certain performance criteria and the trend in the Company's share price. The criteria defined as performance components, in each case over the performance term and with different weightings, take into account not only value creation within the Company measured against the MSCI World Textiles, the Apparel & Luxury Goods Performance Index and the profitability indicator Return on Capital Employed (ROCE), but also employee satisfaction in the Company and sustainability. Specific target, minimum and maximum values are set for each performance component and these are used to calculation the entitlement to payment. The targets for a tranche in accordance with the LTI program are defined in a target agreement between the Managing Board and the Supervisory Board no later than March 31 of the first year of the tranche's performance term. If the Managing Board and Supervisory Board are unable to reach agreement, the Supervisory Board makes the decision at its professional discretion. The variable remuneration under the LTI program is limited for each member of the Managing Board to 250% of the individual LTI budget (cap). Furthermore, subject to the terms of point 4.2.3 of the German Corporate Governance Code in the current version (or of a successor provision), the severance payment cap recommended there will also apply unless a deviation from this was declared in the relevant declaration of compliance. Under certain circumstances (in particular in the event of the termination of the service agreements for good cause), claims of members of the Managing Board under the LTI program may lapse.

The further development of the Managing Board's compensation in fiscal year 2015 was supported by a compensation consultant whose independence was respected by the Supervisory Board and the company.

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 2014 amounting to EUR 2,184 thousand. For fiscal year 2015, total compensation is expected to come to EUR 2,087 thousand. This figure includes a variable component of EUR 1,332 thousand (2014: EUR 1,454 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. It was made available to the public on the website at **:// group.hugoboss.com/ Investor-Relations/Corporate-Governance**. It is also included on pages 17 to 27 of this Annual Report.

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, until the final refutation of the presumption of dependence on May 12, 2015 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 the period from January 1 until May 12, 2015 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 no restrictions on voting rights or the transfer of shares.

HUGO BOSS AG has not been notified of any direct or indirect capital investment that exceed 10% of the voting rights.

In fiscal year 2015, HUGO BOSS AG was notified of 34 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 2015.

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

Own shares acquired under this authorization can be sold again through the stock exchange or through an offer addressed to all shareholders (also while excluding subscription rights of shareholders). They can alternatively be redeemed as compensation 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 Managing Board is also authorized subject to the consent of the Supervisory Board and without any compliance with a deadline to offer for acquisition own shares to persons with an employment relationship with HUGO BOSS AG (employee shares).

By resolution of the Annual General Meeting of May 12, 2015, the Managing Board is further authorized to acquire own shares using equity derivatives.

The syndicated loan taken out by HUGO BOSS AG and HUGOBOSS 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 agreements of the members of the Managing Board contain 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 with 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 corporate strategy successfully. The early identification of risks and immediate assessment of their possible impact are the first step of the risk management forming the basis for 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 by mitigating risks as efficiently as possible.

RISK MANAGEMENT

Group-wide standards ensure successful risk management

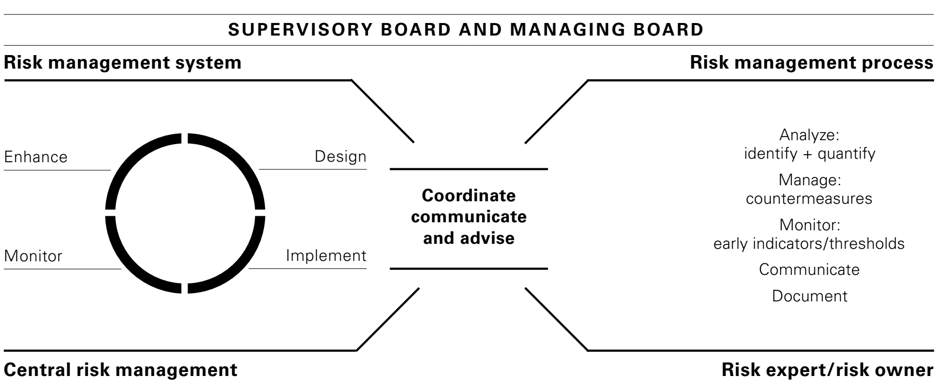
Successful risk management is founded on Group-wide standards for systematically handling risks. These are set for the HUGO BOSS Group by the Managing Board as part of the risk policy and documented in a risk manual that is applicable throughout the Group and is available for all employees online. Risks are defined as potential, negative deviations from the planned operating result (EBIT) or, in the case of tax and interest risks, cash flow. Clear thresholds describe the risk-bearing capacity of the HUGO BOSS Group and permit a classification of risks into four levels from "low" 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 and notification to the Managing Board and Supervisory Board, where appropriate. 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 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 Group-wide risk management in order to be able to identify risks early and subsequently analyze and monitor them. The team is dedicated to developing the tools of the risk management system further and ensuring that risks are identified Group-wide and recorded at regular, predefined 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 assessment, 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|41 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 assessment 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 the risks identified.

03|42 MEASUREMENT CRITERIA FOR BUSINESS RISKS

Likelihood of occurrence		Extent of financial impact	
unlikely	**≤ 20%**	**low**	**≤ 2.5% of planned EBIT**
possible	**> 20–40%**	**moderate**	**> 2.5–5% of planned EBIT**
likely	**> 40–60%**	**significant**	**> 5–15% of planned EBIT**
very likely	**> 60%**	**high**	**> 15% of planned EBIT**

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 of a risk occurring on a general basis. 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. In addition to this trend indicator and scenario assessment, for certain risks there is the option of incorporating a medium- and long-term risk assessment into the risk management software.

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 management 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. 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) Aktiengesetz (AktG – German Stock Corporation Act).

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 |43 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 produced at the end of fiscal year 2014, the total risk position has risen moderately overall. This development can be explained by the global uncertainties that have increased perceptibly in 2015.

03|44 DEVELOPMENT AND COMPOSITION OF TOTAL RISK EXPOSURE

Risk category	Trend	Share of total risk (Expected value)
External risks	→	15.4%
Strategic risks	→	11.1%
Financial risks	↗	13.3%
Operative risks	↗	56.1%
Organizational risks	↗	4.1%

Risk aggregation using Monte Carlo simulation

Second, using a Monte Carlo simulation method, the probability distributions of all identified 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 2016 are described in detail in the following. 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 an early 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 2016, the Group generally expects the global economy to continue to grow. It is anticipated that, in the best case scenario, the premium and luxury goods industry will see a modest rise in sales. 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 given the persistent uncertainties surrounding the euro debt crisis, the slowdown in economic growth in China, and the prospect of further appreciation of the US dollar and a tighter monetary policy in the United States. → **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. The tragic events in Paris made it all too clear that attacks such as these can have an adverse impact on business and demand beyond regional borders. If a tougher line is taken against terrorist organizations, there is the danger this could lead to further attacks.

2015 was shaped by growing geopolitical tensions. In addition to the extension of sanctions against Russia in the wake of the Ukraine conflict, developments in the Near and Middle East have shown that conflicts of interest are increasingly leading to military hostilities. Syria and Iraq are the hotbed of the conflicts, and the influence exerted by allies, neighboring countries and NATO members in these countries harbors the danger that political frictions could arise between the parties involved. Further trade restrictions imposed in this context could have a detrimental effect on the states concerned and thus influence purchasing habits. The lower oil price is also fueling domestic and foreign policy tensions; depending on the break-even point per barrel of oil, the contribution made by oil to state revenues and the prevailing financial situation, oil-exporting states are going to come under more and more pressure.

Given the increasing importance of geo(political) risks in recent years and the likely continuation of this trend, HUGO BOSS has defined this as a long-term emerging risk. In view of this definition, a special focus will be placed on risks belonging to this sub-category, meaning that all developments will be monitored and analyzed to assess their potential impact on HUGO BOSS. During these analyses, risk experts work together in interdisciplinary teams, supported and advised by central risk management where necessary.

Global distribution in more than 120 countries at Group level provides a natural hedge against adverse developments in individual countries or regions. No significant changes in the regulatory or sociocultural environment are expected in the HUGO BOSS Group's key markets. Unexpected changes in country-specific business conditions in key markets may generally lead to low 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 public agencies worldwide, HUGO BOSS has taken far-reaching organizational measures to be able to discover instances of product piracy quickly and pursue them rigorously. The risk of direct sales losses due to fake articles being widely offered is currently evaluated as low 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 the year 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, low effects on target realization cannot be entirely ruled out, although management considers this situation to be unlikely. The risks resulting from climate change, such as water scarcity, are deemed to be unlikely for fiscal year 2016, and the potential loss is assessed as low. Over a medium- to long-term observation period, the risk posed by water scarcity increased in significance for HUGO BOSS, resulting in a moderate expected impact in the medium term. There is the risk that water scarcity will affect the agricultural sector in the long term. Cotton farming and, consequently, the reduced availability of special cotton fibers could lead to higher material costs. Given the medium- to long-term observation period, it will be possible to identify changes in the risk assessment at an early stage, meaning that measures can be prepared and implemented in good time.

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 low level. The Managing Board currently regards it as unlikely that such an impact will materialize.

03|45 SUMMARY OF EXTERNAL RISKS

#	Risk	Likelihood	Exposure
1	**Overall economy**	**Possible**	**Moderate**
2	**Geopolitical developments**	**Unlikely**	**Low**
3	**Product piracy**	**Unlikely**	**Low**
4	**Environment and health**	**Unlikely**	**Low**
5	**Competitive environment**	**Unlikely**	**Low**

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 moderate.
→ **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 low.

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 Group 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 low financial impact. → **Group management, investment controlling**

03|46 SUMMARY OF STRATEGIC RISKS

#	Risk	Likelihood	Exposure
6	**Collection and industry**	**Unlikely**	**Moderate**
7	**Brands and corporate image**	**Possible**	**Low**
8	**Investments**	**Possible**	**Low**

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 monitoring and control measures.

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 settled 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.

In order to secure its long-term financial flexibility, in October 2015 HUGO BOSS refinanced the credit line originally due for repayment in March 2018. The new revolving credit facility with a credit line of EUR 450 million has a basic term of five years. It also has access to two renewal options of one year each.

EUR 75 million of this revolving tranche had been utilized as at the reporting date.

Apart from the syndicated financing line of credit, HUGO BOSS has short-term bilateral lines of credit amounting to EUR 257 million. Of this, EUR 89 million had been utilized as at 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. ➔ **Financial position, Financing conditions**

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.

There are no comparable agreements for its short-term credit facilities.

In addition to the lines of credit amounting to EUR 707 million as at December 31, 2015, the Group had liquid funds of EUR 81 million as at 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 of financing and liquidity risks to be unlikely and the financial impact to be low.

Interest rate risks

The interest rate risk for HUGO BOSS results primarily from changes to market interest rates for payments on cash balances and liabilities subject to variable interest, while market-driven fluctuations in interest rates impact future interest income and payments on cash balances and liabilities subject to variable interest. 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. To minimize the effects of future interest volatility on long-term borrowing costs, partial use is made of derivative financial instruments in the form of interest rate swaps. 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 at the reporting date, unlike the previous year, there were no derivatives designated as effective interest rate hedges for the syndicated credit facility (2014: EUR 100 million) within the meaning of IFRS. The derivatives were closed and recognized in profit or loss during refinancing.

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 135 million (December 31, 2014: EUR 133 million), interest derivatives of EUR 10 million (December 31, 2014: EUR 111 million), and cash and cash equivalents of EUR 81 million (December 31, 2014: EUR 129 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 left at +100/–10 basis points in the reporting year in order to present realistic scenarios in the analysis of interest rate sensitivity as at the reporting date. Taking the sharp fall in money market and capital market interest into account, HUGO BOSS considers this change to be appropriate.

03|47 INTEREST RATE SENSITIVITIES AS OF DECEMBER 31 (in EUR million)

	2015		2014	
	+100 bp	**(10) bp**	+100 bp	(10) bp
Cash flow risks	(0.3)	0.0	0.8	(0.1)
Risks from interest rate derivatives recognized in income	0.6	(0.1)	0.6	(0.1)
Effects on net income	**0.3**	**(0.1)**	**1.4**	**(0.2)**
Risks from interest rate derivatives reflected on the consolidated statement of financial position	0.0	0.0	2.3	(0.2)
Effects on Group equity	**0.3**	**(0.1)**	**3.7**	**(0.4)**

An increase in market interest rates of 100 basis points as at December 31, 2015 would have led to an increase in net income of EUR 0.3 million (2014: EUR 1.4 million) and in equity of EUR 0.3 million (December 31, 2014: EUR 3.7 million). A fall in market interest rates by 10 basis points would have led to a drop in net income of EUR 0.1 million (2014: EUR 0.2 million) and a decline in Group equity of EUR 0.1 million (December 31, 2014: EUR 0.4 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.

Interest rates in Europe and North America remained at a low level in 2015. Given the current interest rate policy being pursued by the European Central Bank and the persisting macroeconomic uncertainties in Europe, the Group does not anticipate any significant interest rate changes in this region in the near future. Since the vast majority of Group financing is transacted in euros, HUGO BOSS considers the potential impact of interest rates to be low. Given the expansionary monetary policy, particularly by the European Central Bank and the Federal Reserve, management currently considers interest rate changes likely with a low 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 operating business, exchange rate risks primarily arise due to the fact that products are bought and sold in different currencies in different amounts.

Distribution activities in key markets are performed by Group companies, which place their orders directly 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 currency.

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 is centrally performed for all Group companies. An exception to this is foreign currency risk at the level of the Turkish Group company with the functional currency of the euro, which manages the foreign currency risk in Turkish lira arising from salary, social security and transport payments on a local basis in close collaboration with the Treasury department.

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 at 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. Currency risk is determined based on currency exposure already recognized as at December 31, 2015 and planned future cash flows in Turkish lira. 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 at the reporting date. It is assumed that the total financial currency exposure, its hedging ratio and the underlying volatility as at the reporting date are representative for the entire year.

03|48 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2015
(in EUR million)

	USD	GBP	AUD	CHF	JPY	HKD	RUB	BRL	CNY	TRY[1]
Gross currency exposure	**33.7**	**21.4**	**22.0**	**(83.5)**	**29.7**	**26.7**	**9.1**	**19.5**	**8.2**	**11.0**
Hedging	(32.1)	(16.3)	(20.1)	59.1	(24.4)	(19.6)	(6.2)	(13.9)	(2.8)	18.9
Net currency exposure	**1.6**	**5.1**	**1.9**	**(24.4)**	**5.3**	**7.1**	**2.9**	**5.6**	**5.4**	**3.9**
Volatility	10.1	10.4	12.4	7.7	10.3	11.1	21.5	22.5	11.8	14.6
Appreciation of the euro by standard deviation										
Net income	(0.2)	(0.5)	(0.2)	1.9	(0.5)	(0.8)	(0.6)	(1.3)	(0.6)	(0.6)
Equity	(0.2)	(0.5)	(0.2)	1.9	(0.5)	(0.8)	(0.6)	(1.3)	(0.6)	(3.5)
Depreciation of the euro by standard deviation										
Net income	0.2	0.5	0.2	(1.9)	0.5	0.8	0.6	1.3	0.6	0.6
Equity	0.2	0.5	0.2	(1.9)	0.5	0.8	0.6	1.3	0.6	3.5

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

03|49 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2014
(in EUR million)

	USD	GBP	AUD	CHF	JPY	HKD	RUB	BRL	CNY	TRY[1]
Gross currency exposure	**39.3**	**17.8**	**28.1**	**(74.2)**	**27.1**	**16.0**	**5.7**	**0.0**	**7.2**	**7.2**
Hedging	(34.8)	(11.2)	(22.6)	21.6	(26.4)	(12.9)	(3.4)	0.0	0.0	12.5
Net currency exposure	**4.5**	**6.6**	**5.5**	**(52.6)**	**0.7**	**3.1**	**2.3**	**0.0**	**7.2**	**7.2**
Volatility	8.9	8.1	9.9	4.2	10.6	9.1	40.8	n/a	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)	(0.7)	0.0	(0.5)	(0.8)
Equity	(0.3)	(0.4)	(0.4)	1.7	(0.1)	(0.2)	(0.7)	0.0	(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	0.7	0.0	0.5	0.8
Equity	0.3	0.4	0.4	(1.7)	0.1	0.2	0.7	0.0	0.5	2.2

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

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 regards to the disclosure of a "reasonably possible change".

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 3.4 million lower (2014: EUR –1.7 million) and its equity EUR 6.3 million lower (2014: EUR –3.0 million). Had the euro depreciated by the same amount, the Group's net income would have been EUR 3.4 million higher (2014: EUR 1.7 million) and its equity EUR 6.3 million higher (2014: EUR 3.0 million). As at the reporting date, derivatives with a nominal value of EUR 24.3 million were designated as effective currency hedges within the meaning of IAS 39. Changes in value are recognized directly in equity. The sensitivity of equity is thus not reflected in the Group's net income.

Management expects further changes in the exchange rates of relevance to HUGO BOSS to be likely in fiscal year 2016. 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 low.

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. 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 low 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 possible with moderate 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 pension provisions 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 low financial impact.
→ **Notes to the consolidated financial statements, Note 26**

03|50 SUMMARY OF FINANCIAL RISKS

#	Risk	Likelihood	Exposure
9	**Counterparties**	**Unlikely**	**Low**
10	**Financing and liquidity**	**Unlikely**	**Low**
11	**Currencies**	**Likely**	**Low**
12	**Changes in interest rates**	**Likely**	**Low**
13	**Taxes**	**Possible**	**Moderate**
14	**Provisions for pensions**	**Likely**	**Low**

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 9% of the total sourcing volume (2014: 8%). 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 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 low 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.

Seen as a whole, the potential aggregated loss arising from risks relating to the sourcing market are rated as essential, while the likelihood of occurrence is categorized as possible on an aggregated basis. In view of the high priority attached to procurement and the growing requirements and increasing uncertainty relating to procurement countries, material planning, suppliers and quality, the overall risk in terms of procurement for HUGO BOSS is classified as a long-term emerging risk. A stronger focus is being placed on comprehensive analyses in this respect, resulting in new measures and projects. In addition, project management will ensure that projects that have been begun are completed and the defined added value is achieved. As part of this process, for example, a long-term strategic supplier portfolio has been developed and a supplier classification carried out. ➜ **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 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 low 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 low.

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 provide for inventory risks from slow-moving goods and the resulting reduction in marketability; these are reviewed at regular intervals. Sufficient write-downs were recognized as at 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 essential.

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 at 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 low. 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**

03|51 SUMMARY OF OPERATIVE RISKS

#	Risk	Likelihood	Exposure
15	**Suppliers and sourcing markets**	**Possible**	**Essential**
16	**Quality**	**Possible**	**Low**
17	**Logistics**	**Unlikely**	**Low**
18	**Sales and distribution**	**Possible**	**Essential**

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 low.

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 targeted way. The Group's good reputation with respect to working conditions and employee satisfaction is regularly confirmed by the Group's consistent presence in the top positions of various employer rankings. A broad-based employee survey at HUGO BOSS AG in fiscal year 2014 gave important indications for the development of additional initiatives with which HUGO BOSS can be expanded as an employer brand and its attractiveness further enhanced. Workshops were carried out with various employee groups in 2015 in order to discuss the findings of this employee survey and subsequently use these to derive targeted measures which can then be implemented in practice. 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 low 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, plannable maintenance expenses. Even low 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 low 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 low 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, bans on child labor and 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 basically 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 low financial impact from the risk of failure to comply with rules cannot be entirely ruled out, even although 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.

03|52 SUMMARY OF ORGANIZATIONAL RISKS

#	Risk	Likelihood	Exposure
19	**IT**	**Unlikely**	**Low**
20	**Personnel**	**Unlikely**	**Low**
21	**Facilities**	**Unlikely**	**Low**
22	**Legal**	**Possible**	**Low**
23	**Governance and compliance**	**Possible**	**Moderate**
24	**Health and safety**	**Unlikely**	**Low**

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. 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 discussions. On this basis, the Managing Board allocates the necessary resources to the operational units to enable them to benefit from their realization.

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

EXTERNAL OPPORTUNITIES

Favorable macroeconomic developments

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 growth in the market segment relevant for the global premium and luxury goods industry. Substantial growth is expected in emerging markets in the long term, 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 to create an attractive offering, particularly in Europe. These efforts are especially focused on the tourist segment, which has seen significant commercial growth in recent years.

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 promise 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.

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. Since the appointment of Jason Wu as Artistic Director, the fashion status of the collections has been elevated and the brand identity refined. 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. ➔ **Group Strategy**

Growing demand for authentic, understated luxury

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 trend-oriented casual wear brand BOSS Orange and the sporty, elegant brand BOSS Green, to progressive brand HUGO and the authentic and understated luxury of the brand BOSS. The different brand worlds are clearly delineated from one another thanks to their increasingly differentiated price points and distribution strategies. In particular, the updated distribution strategy in the wholesale channel supports the consistent global market image of the BOSS core brand. The Group therefore sees itself in a good position to leverage its brand strength in the luxury segment in a very credible manner. By better meeting the changing needs of its customer base, it can reinforce loyalty and also exploit new sales potential.

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 taking the opportunity of directly operating mono-brand shop-in-shops at retail 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.

Increasing digitization of 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 presence, the Group is addressing the expectations of consumers with respect to high-quality brand experience. The closer integration of its online presence with the in-store retail business is designed to provide customers with an appealing and uncomplicated shopping experience. In so doing, HUGO BOSS is responding to the growing importance of digital channels in the buying process on the part of more and more customers. Indeed, more than half of HUGO BOSS customers questioned in a survey responded that they research offerings online before making a purchase. ➔ **Group Strategy**

Growing need for individuality

The Group addresses its customers' growing need for individuality with both its brand strategy and its distribution strategy. By building up and regionally extending its Made to Measure offering, HUGO BOSS can offer a growing number of interested customers the option of wearing individually fitted 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. In addition, HUGO BOSS is creating a greater personalization offering in other product groups and price brackets. Opportunities are also seen in an individual approach to customers with systematic customer relationship management. Stronger ties are forged between customers and HUGO BOSS and customers' brand loyalty increased by targeted phone calls, personalized mailings and individual newsletters.

Improvements in operational processes

HUGO BOSS is addressing the growing importance of its own retail business by optimizing critical operational processes. Thanks to the introduction of IT-supported selling space, assortment and volume planning, the Group is in a position to align itself even more effectively with the needs of end consumers and respond to changes in the market even more swiftly than in the past. The Group will also take over fulfillment of its online business in Europe going forward in order to achieve cost efficiencies and offer more extensive services. The expanded logistic capacities associated with this will also make it more flexible in the way it manages its flow of goods across all distribution 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. → **Research and Development**

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 growth trajectory and post a moderate rise in sales in 2016. The ongoing implementation of the Group strategy combined with the initiatives derived from this will secure the company's profitable growth in the medium to long term. Group sales should increase in 2016 on the back of growth in Europe. The challenging market environment, especially in China and the United States, and the continued investments in the Group's growth potential will depress earnings, however.

SUBSEQUENT EVENTS

No events requiring disclosure

Between the end of fiscal year 2015 and the release for publication of this report on February 23, 2016, there were no material macroeconomic, socio-political, industry-related or company-specific changes that the Management expects to have a significant influence on the earnings, net assets, and financial position of the Group.

OUTLOOK

Forward-looking statements

The following report presents the forecasts by the management of HUGO BOSS with respect to the future course of business and describes the expected development of significant macroeconomic and industry-specific conditions. It reflects management's understanding at the time 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. Other than the statutory publication requirements, the HUGO BOSS Group does not assume any obligation to update the statements contained in this report.

External factors influence development of business

Economic and industry-specific developments have a major influence on the development of the operations and financial position of HUGO BOSS. The Group must base its forecasts for expected business performance on assumptions regarding global economy and sector trends. These assumptions are outlined below. The Group monitors these conditions over the course of the year in order to be able to respond to possible changes as quickly and comprehensively as possible.

Slight upturn in economic growth expected

The IMF expects the **global economy** to grow at a slightly accelerated pace of 3.6% in 2016. This positive trend should be driven not only by the emerging markets, but also by an economic uptick in the industrialized nations.

According to the IMF, growth in **Europe** will increase slightly to 1.6%. A sustained low oil price, a continued expansive monetary and fiscal policy and the depreciation of the euro should further underpin this growth. In the Eurozone, political uncertainties could, however, start to play a more prominent role and jeopardize the still fragile economic recovery. The economic upswing in the **United States** will also continue in 2016. According to the IMF, growth should accelerate slightly to 2.8%. The expansion will likely be propped up by a rise in consumption and above-average growth in real estate investments. On the other hand, the ongoing appreciation of the US dollar could impair foreign trade, while a more stringent monetary policy could curb domestic demand. For **Latin America**, the IMF forecasts growth of 0.8%, although this will be dampened by persistently low commodity prices. The **Asian economy** will grow at a slightly slower pace of 6.4% in 2016, according to the IMF. Growth momentum in China is expected to slow further, hindering performance throughout the region. The remaining countries in Asia will likely benefit from falling commodity prices and the associated rise in household income. Japan should see a continued uptick in economic growth, nearly doubling to 1.0%, according to the IMF. This will be supported by monetary measures instigated by the Bank of Japan as well as lower oil and commodity prices.

Industry development fraught with uncertainties in 2016

Financial analysts covering the sector expect, at best, subdued sales growth in the **premium and luxury goods industry** in 2016. The general outlook is fraught with uncertainties, however. Own retail will remain the main driver of growth for most brands in 2016. The expansion of online offerings and their integration with in-store retailing will play a major role in this regard. The investments this will require coupled with the increasing harmonization of global price architectures may have an adverse impact on industry margins in the short term. In the wholesale channel, the heavy discounting seen in the past year looks set to continue.

In **Europe**, the industry should again post a solid performance in 2016. The main catalyst of growth will likely be increased tourist traffic, although the price increases implemented by some companies in 2015 could curb growth. The pace of industry growth should accelerate slightly in the **Americas** in 2016. In the United States, general economic trends should have a positive effect on local demand in the premium and luxury goods sector. The strong US dollar combined with volatile equity markets will, however, continue to dent consumer confidence and tourist demand. The Latin American markets are expected to make only a minor contribution to industry growth due to the macroeconomic challenges faced by this region. The **Asian premium and luxury goods market** will continue to suffer from the structurally weaker growth in China. The measures instigated by the government to stimulate the national economy will likely give only a minor boost to domestic demand. In Hong Kong, the premium and luxury goods sector is expected to be negatively impacted by the continued decline in tourism from China.

Moderate increase in Group sales expected

HUGO BOSS anticipates that the challenging economic and industry-specific situation in many markets will have an adverse effect on the Group's business performance. In view of the described assumptions regarding macroeconomic developments and industry trends in 2016, the Group expects low single-digit sales growth on a currency-adjusted basis. This means that business growth should be roughly on a par with the rate of expansion in the global economy and the development of the industry overall.

Region Europe drives Group growth

Group sales should increase in 2016 on the back of continued growth in Europe – the largest region within the Group. Growth is expected in all major European markets, driven by the increasing focus on own retail in the region and the digitization of the business model. In the Americas, by contrast, sales are forecast to decline slightly. This reflects the difficult, heavily promotional market situation. One of the main ways HUGO BOSS is responding to this challenge is by changing its distribution strategy in the wholesale business, in particular by limiting distribution of the BOSS core brand in this distribution channel. Sales in Asia will decrease slightly in view of the challenges facing the Chinese market. As part of an alignment of its global price architecture, HUGO BOSS will be adjusting its sales prices in Asia more closely to the levels in Europe and the Unites States. In spite of the expected rise in demand, this will have negative repercussions on sales in the short term. Sales in the license segment should increase moderately, however. ➔ **Group Strategy**

Group's own retail business expected to show above-average growth

Sales in the Group's own retail business will likely grow faster than the Group as a whole in 2016. The online business will play an especially important role in this. The expansion of the Group's own store network and takeovers should make a mid to high single-digit growth contribution to sales development in the Group's own retail business.

Expansion and upgrade of the store network

The scope of the expansion will be lower than in previous years, however. In addition to opening around 20 freestanding stores, HUGO BOSS plans to continue expanding its shop-in-shop portfolio at selected retail partners and assuming the management of existing floor space in department stores on a case-by-case basis. Effective January 1, 2016, the Group also took over all three freestanding stores belonging to its franchise partner in Malaysia as well as an important franchise store in the Gum department store in Moscow. However, the Group also intends to close points of sale as part of its measures to upgrade its store portfolio. In some cases, this development will be associated with the relocation and consolidation of existing stores to form higher-end, larger points of sale. HUGO BOSS will moreover be closing smaller shop-in-shops in Europe. The planned renovation of more than 100 points of sale in 2016 will upgrade the store network and further improve the customer experience in the Group's own retail business.

Takeover and consolidation effects impact sales in the wholesale segment

A mid to high single-digit decline in sales is expected in the wholesale business, impacted by the changed distribution strategy in the US market and takeover activities. The sales recorded at points of sale that have been taken over will be accounted for as retail instead of wholesale. The ongoing consolidation of the customer portfolio and the resultant decline in business with smaller partners will also have a negative impact on sales through this distribution channel.

Moderate increase in gross profit margin expected

The growing share of own retail sales will support the Group's gross profit margin development in 2016. The gross profit margin generated through this distribution channel is higher than in wholesale. The planned pricing adjustments in Asia will offset this effect, however, meaning that the Group forecasts a stable gross profit margin development overall for the year as a whole.

Accelerated shift in business model drives up operating expenses

The Group's operating expense development will be impacted by the ongoing transformation to a customer-focused business model. As part of this transformation, HUGO BOSS is investing in the quality of its systems and processes in its own retail business. In particular, the Group is creating the IT and logistics-related infrastructure to insource online fulfillment in Europe and offer omnichannel services. HUGO BOSS will also further expand its brand communication activities in order to strengthen customer demand. Top priority will be given here to upgrading the hugoboss.com website and expanding the company's presence on the various digital channels. The share of research and development expenses in Group sales should remain more or less stable. The rise in operating expenses will be mitigated overall by renegotiating rental agreements in its own retail business and taking a strict approach to managing administration expenses.

Decrease of EBITDA before special items projected

The Group's operating profit (EBITDA before special items) is expected to decline at a low double-digit rate in 2016. Effects arising from the more comprehensive harmonization of regionally different pricing architectures and the transformation of the business model will more than offset the positive impact from the projected increase in sales. This forecast is based on the assumption of broadly stable own retail comp store sales development. Depreciation and amortization expenditures will increase significantly as a result of higher investment activity in the prior year. Financial result, however, should improve due to less pronounced exchange rate effects, which had a considerably negative effect in the prior year. Net income and earnings per share are hence forecasted to develop broadly in line with EBITDA before special items.

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 in the operating cash flow. In 2016, the Group is striving to moderately reduce trade net working capital as a percentage of sales. Potential for improvement has specifically been identified in a reduction of days inventories outstanding. Optimized planning of merchandise needs and increased flexibility and speed in merchandise management will help to reduce days inventories outstanding particularly in the Group's own retail business.

Capital expenditure focuses on Group's own retail business

The own retail business will remain the focus of the Group's investment activities in 2016. Investments in renovating existing retail stores will exceed the costs involved in opening new stores. 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. The company is additionally investing in infrastructure measures at its headquarters in Metzingen. Accordingly, capital expenditure will come to between EUR 200 million and EUR 220 million in 2016.

Significantly positive free cash flow expected

The Group again forecasts significantly positive free cash flow in 2016. The free cash flow will chiefly be used to finance the dividend payment. Accordingly, the Group expects net financial liabilities at the end of the year to be broadly unchanged compared to the prior year. On the back of its strong internal financing power and the 2015 refinancing of its syndicated loan facility, which will secure the company's long-term liquidity requirement at favorable conditions, the Group is not planning any significant financing activities in 2016.

Dividend proposal stipulates unchanged dividend per share

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. The Managing Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting to be held on May 19, 2016 a dividend of EUR 3.62 per share for fiscal year 2015, unchanged compared to the prior year (2014: EUR 3.62). The proposal is equivalent to a payout ratio of 78% of the consolidated net income attributable to the shareholders of the parent company in 2015 (2014: 75%). It takes into account the Company's strong financial position and its positive growth prospects for the coming years. Assuming that the shareholders approve the proposal, the dividend will be paid out on the day after the Annual Shareholders' Meeting, on May 20, 2016. On the basis of the number of shares outstanding at year-end, the amount distributed will come to EUR 250 million (2014: EUR 250 million).

Group targets growth also beyond 2016

The Group intends to generate further increases in sales also beyond 2016. Its strategy is oriented towards organic growth of the existing brand portfolio. However, medium-term sales increases are expected to fall short of the original target of annual high single-digit percentage growth on average in the period between 2015 and 2020. In 2020, more than 75% of sales are expected to be generated by the Group's own retail business. Adjusted operation margin shall be improved again in the medium term, too. However, the Group no longer expects its adjusted operating margin (EBITDA before special items in relation to sales) to improve to a level of 25%. Adverse macroeconomic and sector-specific developments in key sales markets, rising costs in sourcing processes or unexpected demand changes in the Group's own retail business 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|53 TARGET ACHIEVEMENT AND OUTLOOK

	Targets 2015	**Result 2015**	Outlook 2016
Group sales [1]	Solid increase	+3%	Increase at a low single-digit percentage rate
Sales by region [1]	Solid growth in all regions		
Europe		+6%	Solid increase
Americas		(1)%	Slight decline
Asia/Pacific		(3)%	Slight decline
Sales by distribution channel [1]			
Group's own retail business	Above-average development relative to overall Group	+7%	Above-average development relative to overall Group
Wholesale	Below-average development relative to overall Group	(3)%	Decline at a mid to high single-digit percentage rate
Licenses	Growth	8%	Moderate growth
EBITDA before special items	Solid increase	+1%	Decline at a low double-digit percentage rate
Trade net working capital	Decline relative to sales	Increase by 40 basis points to 19.5% of sales	Moderate decline relative to Group sales
Capital expenditure	EUR 200 million to EUR 220 million	EUR 220 million	EUR 200 million to EUR 220 million
Group's own retail stores	Continued expansion	Opening of 21 new stores, total number of stores rises by 72 on a net basis to 1,113	Opening of around 20 new freestanding stores, upgrade and optimization of store portfolio
Free cash flow	Generation of strongly positive free cash flow	EUR 208 million	Generation of strongly positive free cash flow
Net financial liabilities	Attainment of positive net financial position at year-end	Net debt increase to EUR 82 million	Net debt around prior year levels

[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.

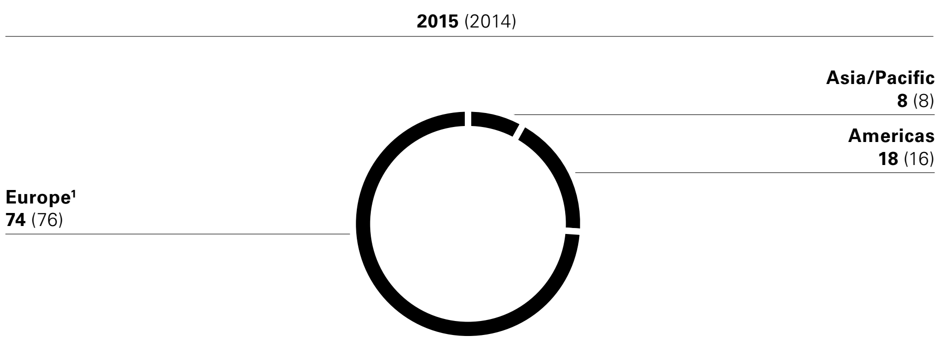
EARNINGS DEVELOPMENT

SALES DEVELOPMENT

Sales of HUGO BOSS AG up 8%

In fiscal year 2015, **sales** of HUGO BOSS AG increased 8% to EUR 1,250 million (2014: EUR 1,155 million). This performance was aided by higher sales both in the Group's own retail business and with wholesale partners in Germany and Austria. The expanded retail activities of its subsidiaries also made a valuable contribution to this rise.

03|54 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 10% in fiscal year 2015 to EUR 436 million (2014: EUR 397 million). Sales with third parties increased 3% to EUR 488 million in the same period (2014: EUR 474 million). Sales outside Germany and Austria were mainly generated with subsidiaries.

Sales of HUGO BOSS AG with subsidiaries in the **Americas** increased 16% to EUR 220 million (2014: EUR 189 million). In the **Asia/Pacific** region HUGO BOSS AG experienced an increase in sales of 12% to EUR 106 million (2014: EUR 95 million).

Sales of the **BOSS brand**, including the brand lines BOSS Orange and BOSS Green, rose 7% to EUR 1,091 million (2014: EUR 1,019 million). The **HUGO brand** in fiscal year 2015 saw a sales increase of 17% to EUR 159 million (2014: EUR 136 million).

DEVELOPMENT OF EARNINGS

03|55 INCOME STATEMENT HUGO BOSS AG (in EUR million)

	2015	In % of sales	2014	In % of sales	Change in %
Sales	**1,250.0**	**100.0**	**1,155.0**	**100.0**	**8**
Cost of sales	(729.7)	(58.4)	(696.0)	(60.3)	(5)
Gross profit	**520.3**	**41.6**	**459.0**	**39.7**	**13**
Distribution Costs	(369.1)	(29.5)	(327.0)	(28.3)	(13)
General administrative expenses	(102.7)	(8.2)	(95.4)	(8.3)	(8)
Other operating income	171.6	13.7	155.9	13.5	10
Other operating expenses	(69.8)	(5.6)	(66.2)	(5.7)	(6)
Operating profit	**150.3**	**12.0**	**126.3**	**10.9**	**19**
Income from investments in affiliated companies	229.8	18.4	228.3	19.8	1
Net interest income/expenses	(12.4)	(1.0)	(7.2)	(0.6)	(72)
Income from ordinary activities	**367.7**	**29.4**	**347.4**	**30.1**	**6**
Taxes on income and other taxes	(64.0)	(5.1)	(55.7)	(4.8)	(15)
Net income	**303.8**	**24.3**	**291.7**	**25.3**	**4**
Transfer to (–)/from (+) other revenue reserves	(54.0)	(4.3)	(41.5)	(3.6)	>(100)
Accumulated income previous year	5.0	0.4	4.6	0.4	9
Unappropriated income	**254.8**	**20.4**	**254.8**	**22.1**	**0**

At EUR 520 million, **gross profit** was up 13% on the prior-year level (2014: EUR 459 million). The gross profit margin hence increased from 39.7% in the prior year to 41.6%. This development was aided alongside currency effects by the increased share of sales accounted for by the own retail business and efficiency gains in production and sourcing activities.

Gross profit margin increases by 190 basis points

Distribution costs rose 13% in the past fiscal year to EUR 369 million (2014: EUR 327 million). Increased sales in the own retail business 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. Finally, additional lease expenses associated with the commissioning of the new flat-packed goods distribution center in the third quarter of 2014 contributed to an increase in logistics expenses.

General administrative expenses increased 8% to EUR 103 million (2014: EUR 95 million) and mainly comprised personnel expenses, rent for premises, lease expenses, amortization and depreciation as well as various IT costs. The increase mainly stems from higher personnel expenses and the greater amortization charged on enterprise software.

Other operating expenses mainly comprise research and development costs, bad debt allowances and exchange rate effects and increased 6% year-on-year to EUR 70 million (2014: EUR 66 million).

In the past fiscal year, **other operating income** amounted to EUR 172 million (2014: EUR 156 million) and mainly breaks down into cost allocations and services rendered to affiliated companies.

Operating profit considerably up on prior year

Operating profit rose 19% in particular thanks to the positive development of gross profit to EUR 150 million in comparison to the previous year (2014: EUR 126 million).

At EUR 230 million, **income from investments in affiliated companies** was up 1% year-on-year (2014: EUR 228 million). Income from investments in affiliated companies of EUR 90 million (2014: EUR 89 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 2015, as in the prior year, this amounted to EUR 140 million (2014: EUR 140 million) and resulted from the transfer of profit from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In fiscal year 2015, this company received dividend income from HUGO BOSS Holding Netherlands B.V.. In the past fiscal year, as in the year before, expenses from loss absorption were immaterial.

The **interest result** as a net expense (other interest and similar income less interest and similar expenses) increased in fiscal year 2015 to EUR 12 million (2014: EUR 7 million). This change was fueled in particular by a year-on-year increase in borrowing and higher interest expenses resulting from the accrued interest on long-term personnel provisions. It was also due to interest expenses in connection with the tax field audit for the years 2007 to 2011.

Income before taxes amounted to EUR 368 million in fiscal year 2015, up 6% on the prior year (2014: EUR 347 million). This rise is attributable primarily to the higher operating profit.

At 17%, the **effective tax rate** was slightly above the prior-year level (2014: 16%), resulting mainly from the increased municipal trade tax multiplier at the Group’s Metzingen headquarters and the significantly higher operating profit versus the tax-privileged income from investments. Expenses from income taxes relating to other periods remained unchanged at EUR 2 million (2014: EUR 2 million). 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 to 2011 including subsequent effects.

Net income up 4%

At EUR 304 million, the **net income** for fiscal year 2015 was thus up 4% on the prior-year level (2014: EUR 292 million).

NET ASSETS

Property, plant and equipment and intangible assets increased 5% year-on-year to EUR 706 million (December 31, 2014: EUR 675 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. The renovation of the Wendlingen warehousing site in preparation for the planned insourcing of order processing in the European online business and expansion spending at the Metzingen site led to an increase in property, plant and equipment.

Inventories above prior-year level

Inventories increased by 4% at the end of the fiscal year 2015 to EUR 175 million (December 31, 2014: EUR 169 million). The inventory of finished goods was up 10% on the prior year. By contrast, raw materials and supplies decreased 21% during the same period.

Decrease in trade receivables

Trade receivables with external wholesale partners decreased 14% year-on-year to EUR 27 million (December 31, 2014: EUR 32 million), owing primarily to the improved average days sales outstanding as compared with the previous year.

Receivables from affiliated companies saw an increase to EUR 123 million (December 31, 2014: EUR 94 million). This development is essentially attributable to the larger volume of receivables due from affiliated companies.

Other assets, at EUR 45 million, were up on the prior year (December 31, 2014: EUR 26 million). These mainly pertain to bonus receivables from suppliers, credit card receivables as well as income tax and VAT receivables. The increase on the previous year is mainly attributable to higher income tax receivables.

Cash and cash equivalents, as the sum of cash on hand and bank balances, increased EUR 2 million in comparison to December 31, 2014 to EUR 3 million (December 31, 2014: EUR 5 million).

Liabilities up on the prior year

On the equity and liabilities side, **liabilities** stood at EUR 373 million as at the reporting date, meaning they were 6% above the prior-year level (December 31, 2014: EUR 351 million). This includes liabilities due to affiliated companies of EUR 257 million (December 31, 2014: EUR 236 million), and trade payables that at EUR 95 million as at the reporting date were up 2% year-on-year, driven by quantity effects (December 31, 2014: EUR 93 million).

On aggregate, **provisions** increased 3% to EUR 99 million as at the reporting date (December 31, 2014: EUR 96 million). Higher personnel provisions were the main catalyst for this rise.

Trade net working capital unchanged compared to prior year

Trade net working capital is HUGO BOSS AG's performance indicator for measuring the efficiency of capital employed. The only three components factored into the calculation of this indicator are inventories, trade receivables and trade payables. As at the reporting date, the trade net working capital was, at EUR 107 million, at the prior-year level (December 31, 2014: EUR 107 million). The increase in trade receivables was counterbalanced by an increase in trade payables.

FINANCIAL POSITION

03|56 STATEMENT OF CASH FLOW HUGO BOSS AG (in EUR million)

	2015	2014
Cash flow from operating activities	318	302
Cash flow from investing activities	(88)	(62)
Cash flow from financing activities	(232)	(238)
Change in cash and cash equivalents	**(2)**	**2**
Cash and cash equivalents at the beginning of the period	5	3
Cash and cash equivalents at the end of the period	3	5

At EUR 318 million, the **cash inflow from operating activities** was up 5% on the prior-year figure (2014: EUR 302 million). This increase is mainly attributed to the Group's higher net income, up EUR 12 million year-on-year. The higher cash outflow from trade net working capital compared with the prior-year period was offset by the change in provisions.

The **cash outflow from investing activities** rose 42% in fiscal year 2015 to EUR 88 million (2014: EUR 62 million), owing primarily to the EUR 25 million increase in capital expenditure in property, plant and equipment as well as intangible assets.

Decline in free cash flow

Free cash flow, measured as the cash inflow from operating activities and the cash outflow from investing activities, decreased by EUR 9 million in fiscal year 2015 to EUR 230 million (2014: EUR 239 million).

As at December 31, 2015, the **cash outflow from financing activities** totaled EUR 232 million (2014: EUR 238 million). Alongside the payment of the dividend of EUR 250 million, a cash inflow from liabilities due to affiliated companies of EUR 22 million characterized the development (2014: cash outflow of EUR 6 million).

Cash and cash equivalents, as the sum of cash on hand and bank balances, decreased EUR 2 million in comparison to December 31, 2014 to EUR 3 million (December 31, 2014: EUR 5 million).

CAPITAL EXPENDITURE

HUGO BOSS AG's total capital expenditure was EUR 60 million

Capital expenditure in property, plant and equipment as well as intangible assets posted a substantial year-on-year rise to EUR 60 million (2014: EUR 34 million).

Intangible assets mainly comprise software. The addition of EUR 29 million (2014: EUR 21 million) was attributable, on the one hand, to investments in software and user rights in connection with the continuous enhancement of the ERP system, chiefly comprising the industry solution SAP AFS and SAP Retail for the Group's own retail business. The rise was additionally fueled by investments in IT infrastructure associated with the takeover of major portions of the e-commerce value chain in Europe scheduled for early summer 2016.

The additions to **property, plant and equipment** of EUR 31 million (2014: EUR 13 million) are due primarily to expansion spending at the Metzingen site and the renovation of the Wendlingen warehousing site in preparation for the planned insourcing of order processing in the European online business. The opening of three new shop-in-shops in Germany and the takeover of a shop-in-shop in Dresden previously operated by a wholesale partner also generated additional investments.

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 at December 31, 2015 amounted to EUR 7 million (December 31, 2014: EUR 1 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 was able to continue on its growth trajectory in 2015 again. However, general economic and industry-specific conditions were more challenging than originally expected, particularly in the second half of the year. The Group's sales and earnings growth therefore fell short of the expectations expressed in the Annual Report 2014.

Currency-adjusted sales growth matched the growth of the overall economy but slightly exceeded that of the global premium and luxury goods industry. This was chiefly due to solid growth in Europe. However, sales in the Americas and Asia declined on a currency-adjusted basis contrary to the original forecast. Broken down by sales channel, sales in the Group's own retail business rose more sharply compared with the Group as a whole but fell somewhat short of expectations. Wholesale business declined and was thus at the lower end of the expected range.

Operating profit (EBITDA before special items) rose by 1% due to the increase in sales. However, this rate of growth was slower than expected. Reflected in this is the slight contraction in the gross profit margin, which was affected by higher rebates due to a market environment conducive to heavy discounting, and a further increase in expenses to support the Group's medium and long-term growth. **→ Group Earnings Development**

Considerable capital spending in connection with the transition to a business model increasingly focusing on the Group's own retail business and higher trade net working capital also affected free cash flow. Despite this, free cash flow was substantially positive.
→ Financial Position

With its low financial liabilities, the Group is in an exceedingly solid economic condition. The challenging market environment, especially in China and the United States, and the continued investments in the Group's growth potential will depress earnings in 2016, however.
→ Subsequent Events and Outlook

Metzingen, February 23, 2016

HUGO BOSS AG
The Managing Board

Claus-Dietrich Lahrs
Christoph Auhagen
Mark Langer

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2015

04|01 CONSOLIDATED INCOME STATEMENT (in EUR thousand)

	Notes	2015	2014
Sales	(1)	**2,808,746**	**2,571,616**
Cost of sales	(2)	(955,930)	(872,523)
Gross profit		**1,852,816**	**1,699,093**
In % of sales		66.0	66.1
Selling and distribution expenses	(3)	(1,136,551)	(994,861)
Administration expenses	(4)	(264,307)	(236,204)
Other operating income and expenses	(5)	(4,246)	(19,307)
Operating result (EBIT)		**447,712**	**448,721**
Net interest income/expenses		**(5,901)**	**(4,518)**
Other interest and similar income		1,190	1,627
Interest and similar expenses		(7,091)	(6,145)
Other financial items		**(21,837)**	**(7,055)**
Financial result	(6)	**(27,738)**	**(11,573)**
Earnings before taxes		**419,974**	**437,148**
Income taxes	(7)	(100,556)	(102,668)
Net income		**319,418**	**334,480**
Attributable to:			
Equity holders of the parent company		319,355	333,262
Non-controlling interests	(8)	63	1,218
Earnings per share (EUR) [1]	(9)	**4.63**	**4.83**
Dividend per share (EUR)	(24)	**3.62** [2]	**3.62**

[1] Basic and diluted earnings per share.
[2] 2015: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2015

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

	2015	2014
Net income	**319,418**	**334,480**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	2,404	(11,632)
Items to be reclassified subsequently to profit or loss		
Currency differences	39,081	31,634
Gains/losses from cash flow hedges	842	(1,587)
Other comprehensive income, net of tax	**42,327**	**18,415**
Total comprehensive income	**361,745**	**352,895**
Attributable to:		
Equity holders of the parent company	361,682	352,062
Non-controlling interests	63	833
Total comprehensive income	**361,745**	**352,895**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

OF THE HUGO BOSS GROUP AS OF DECEMBER 31, 2015

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

Assets	Notes	**2015**	2014
Intangible assets	(11)	182,602	147,998
Property, plant and equipment	(12)	439,788	383,349
Deferred tax assets	(7)	115,166	100,382
Non-current financial assets	(15), (30)	22,448	19,783
Non-current tax receivables	(7)	689	1,167
Other non-current assets	(15)	3,910	7,573
Non-current assets		**764,603**	**660,252**
Inventories	(16)	559,509	507,408
Trade receivables	(17)	239,614	250,532
Current tax receivables	(7)	21,124	8,291
Current financial assets	(15), (30)	29,017	22,528
Other current assets	(15)	104,582	83,022
Cash and cash equivalents	(18)	81,409	128,631
Assets held for sale	(13)	487	1,136
Current assets		**1,035,742**	**1,001,548**
TOTAL		**1,800,345**	**1,661,800**

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)	873,107	801,330
Accumulated other comprehensive income	(23)	54,595	14,672
Equity attributable to equity holders of the parent company		**956,138**	**844,438**
Non-controlling interests	(8)	(463)	(520)
Group equity		**955,675**	**843,918**
Non-current provisions	(25), (26)	72,082	70,545
Non-current financial liabilities	(27), (30)	134,975	153,643
Deferred tax liabilities	(7)	7,776	10,132
Other non-current liabilities	(28)	42,242	37,871
Non-current liabilities		**257,075**	**272,191**
Current provisions	(25)	102,773	115,656
Current financial liabilities	(27), (30)	41,475	18,256
Income tax payables	(7)	46,361	59,944
Trade payables	(29)	271,506	254,959
Other current liabilities	(28)	125,480	96,876
Current liabilities		**587,595**	**545,691**
TOTAL		**1,800,345**	**1,661,800**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2015

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

	Subsribed capital	Own shares	Capital reserve
Notes	(19)	(20)	(21)
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**
January 1, 2015	**70,400**	**(42,363)**	**399**
Net income			
Other income			
Comprehensive income			
Dividend payment			
Acquisition of non-controlling interests			
Changes in basis of consolidation			
December 31, 2015	**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	**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**
	6,641	**794,689**	**15,320**	**(648)**	**844,438**	**(520)**	**843,918**
		319,355			319,355	63	319,418
		2,404	39,081	842	42,327		42,327
		321,759	**39,081**	**842**	**361,682**	**63**	**361,745**
		(249,839)			(249,839)		(249,839)
		(114)			(114)	(6)	(120)
		(29)			(29)		(29)
	6,641	**866,466**	**54,401**	**194**	**956,138**	**(463)**	**955,675**

CONSOLIDATED STATEMENT OF CASH FLOWS

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2015

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

	Notes	**2015**	2014
	(35)		
Net income		319,418	334,480
Depreciation/amortization	(10)	142,099	122,760
Unrealized net foreign exchange gain/loss		7,915	(3,049)
Other non-cash transactions		(2,229)	5,178
Income tax expense/refund	(7)	100,556	102,668
Interest income and expenses	(6)	5,901	4,518
Change in inventories		(22,852)	(45,778)
Change in receivables and other assets		595	(31,987)
Change in trade payables and other liabilities		38,963	27,684
Result from disposal of non-current assets		(2,000)	(2,478)
Change in provisions for pensions	(26)	(7,110)	(1,319)
Change in other provisions		(9,261)	13,969
Income taxes paid		(145,525)	(128,389)
Cash flow from operations		**426,470**	**398,257**
Interest paid	(6)	(4,076)	(4,458)
Interest received	(6)	1,190	1,628
Cash flow from operating activities		**423,584**	**395,427**
Investments in property, plant and equipment	(12)	(154,256)	(104,459)
Investments in intangible assets	(11)	(39,857)	(25,307)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired	(35)	(22,951)	0
Cash receipts from sales of property, plant and equipment and intangible assets		1,106	2,702
Cash flow from investing activities		**(215,958)**	**(127,064)**
Dividends paid to equity holders of the parent company	(24)	(249,839)	(230,514)
Dividends paid to non-controlling interests		0	0
Change in current financial liabilities		24,278	262
Cash receipts from non-current financial liabilities		76,280	0
Repayment of non-current financial liabilities		(105,973)	(12,447)
Cash outflows for the purchase of additional interests in subsidiaries without change of control		(114)	(18,838)
Cash flow from financing activities		**(255,368)**	**(261,537)**
Exchange-rate related changes in cash and cash equivalents		520	2,563
Change in cash and cash equivalents		**(47,222)**	**9,389**
Cash and cash equivalents at the beginning of the period		128,631	119,242
Cash and cash equivalents at the end of the period	(18)	**81,409**	**128,631**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2015

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 23, 2016.

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, 2015, 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 2015 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 2015:

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
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
IAS 19 Employee Benefits	November 2013	February 1, 2015	January 2015	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.

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 2015 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 date of expected first-time application was postponed by one year from January 1, 2017 until January 1, 2018. 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 date of expected first-time application was postponed by one year from January 1, 2017 until January 1, 2018. 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. This version replaces all previous versions of IFRS 9. 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. In July 2015, a draft proposal was tabled providing for the date of first-time application to be postponed indefinitely pending completion of the research project on accounting in accordance with the equity method.
IFRS 10 IFRS 12 IAS 28 Consolidated Financial Statements 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	November 2015	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.

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
IFRS 15 Revenue from Contracts with Customers	May 2014	January 1, 2018	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. HUGO BOSS does not expect any material impact on the consolidated financial statements as a result of the first-time application of IFRS 15. In September 2015, the date of expected first-time application was postponed by one year from January 1, 2017 until January 1, 2018.
IFRS 16 Leases	January 2016	January 1, 2019	Pending	IFRS 16 "Leases" provides guidance on recognition, measurement, presentation and disclosure requirements and replaces IAS 17 and the related interpretations. In the future, all leases must be placed on the lessee's balance sheet. The guidance for recognition by the lessor still draws a distinction between finance leases and operating leases and therefore does not differ materially from the accounting guidance provided in IAS 17. Given the substantial number of operating leases, HUGO BOSS expects the first-time application of IFRS 16 to have a material effect on the consolidated financial statements.
IAS 1 Presentation of Financial Statements	December 2014	January 1, 2016	December 2015	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 comprehen-sive 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 7 Statement of Cash Flows	January 2016	January 1, 2017	Pending	The amendment provides clarifying and improved guidance for financial statement users concerning changes to liabilities arising from a company's financing activities.
IAS 12 Income Taxes	January 2016	January 1, 2017	Pending	The amendments clarify the differing practices for the recognition of deferred income tax assets for unrealized losses.
IAS 16 IAS 38 Property, Plant and Equipment Intangible Assets	May 2014	January 1, 2016	December 2015	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.

Standard/ interpretation	Publication by IASB	Expected adoption	EU endorsement	Content
IAS 27 Separate Financial Statements	August 2014	January 1, 2016	December 2015	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	February 1, 2015	January 2015	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	September 2014	January 1, 2016	December 2015	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, China
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 Korea Ltd.	Seoul, South Korea
HUGO BOSS Licensing, Inc.	Wilmington, DE, U.S.A.
HUGO BOSS Lotus Hong Kong Ltd.	Hong Kong, China
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 New Zealand Ltd.	Auckland, New Zealand
HUGO BOSS Nordic ApS	Copenhagen, Denmark
HUGO BOSS Portugal & Companhia	Lisbon, Portugal

[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 Retail, Inc.	New York, NY, U.S.A.
HUGO BOSS Rus LLC	Moscow, Russia
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 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 Limited	London, Great Britain
HUGO BOSS USA, Inc.	New York, NY, U.S.A.
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG	Metzingen, Germany[3]
Lotus (Shenzhen) Commerce Ltd.	Shenzhen, China
Lotus Concept Trading (Macau) Co., Ltd.	Macau
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG	Grünwald, Germany[3]
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG	Grünwald, Germany[2,3]

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

Effective April 9, 2015, the HUGO BOSS Group established a new subsidiary in the United Arab Emirates, HUGO BOSS Middle East FZ-LLC, Dubai, U.A.E. The HUGO BOSS Group holds 100% of the equity in this company. HUGO BOSS Middle East FZ-LLC is not included in the consolidated financial statements as of December 31, 2015 due to its immateriality for the Group.

Effective October 23, 2015, the HUGO BOSS Group also established a subsidiary in Malaysia, HUGO BOSS MALAYSIA SDN. BHD., Kuala Lumpur, Malaysia. The HUGO BOSS Group holds 100% of the equity in this company. HUGO BOSS MALAYSIA SDN. BHD. is not included in the consolidated financial statements as of December 31, 2015 due to its immateriality for the Group.

Effective November 25, 2015, HUGO BOSS established HUGO BOSS ALFUTTAIM UAE TRADING L.L.C, Dubai, U.A.E., in conjunction with the AL-FUTTAIM Group in Dubai. HUGO BOSS Middle East FZ-LLC, Dubai, U.A.E., holds 49% of the equity of this newly established company. HUGO BOSS ALFUTTAIM UAE TRADING L.L.C., Dubai, U.A.E., is not included in the consolidated financial statements as of December 31, 2015 due to its immateriality for the Group. It is expected to be fully consolidated for the first time from January 1, 2016.

HUGO BOSS AG controls HUGO BOSS ALFUTTAIM UAE TRADING L.L.C. as it holds decision-making powers over the subsidiary on account of special rights, participates in its positive and negative variable returns and is able to affect these returns through its decision-making powers.

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, 2015, the number of consolidated companies increased from 56 to 57 in comparison to the consolidated financial statements as of December 31, 2014. Overall, the number of companies included in the consolidated financial statements was as follows in fiscal year 2015:

	2015	2014
January 1	**56**	**55**
Newly founded/consolidated companies	2	1
Merged companies/disposal	(1)	0
Derecognized due to loss of control	0	0
December 31	**57**	**56**

The new company HUGO BOSS Korea Ltd., Seoul, South Korea, which was founded in fiscal year 2014, was not included in the consolidated financial statements as of December 31, 2014 due to its immateriality for the Group. The subsidiary was consolidated for the first time in fiscal year 2015.

With retroactive effect from January 1, 2015, the previously fully consolidated subsidiary HUGO BOSS Switzerland Retail AG, Zurich, Switzerland, was merged into the fully consolidated HUGO BOSS (Schweiz) AG, Zug, Switzerland, as part of the optimization of the Group structure and has therefore been deconsolidated.

HUGO BOSS New Zealand Ltd., Auckland, New Zealand, was consolidated as a 100% subsidiary for the first time in fiscal year 2015.

CONSOLIDATION PRINCIPLES

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

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

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

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

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

GOODWILL

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

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

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.

DETERMINATION OF THE FUNCTIONAL CURRENCY

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

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

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

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

TRANSLATION OF THE SEPARATE FINANCIAL STATEMENTS

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

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

	Currency	**Average rate**		**Closing rate**	
Country	1 EUR =	**2015**	2014	**2015**	2014
Australia	AUD	1.5025	1.4726	1.4897	1.4829
China	CNY	7.0179	8.1977	7.0608	7.5358
Great Britain	GBP	0.7253	0.8067	0.7340	0.7789
Hong Kong	HKD	8.4311	10.3179	8.4376	9.4170
Japan	JPY	132.3842	140.2427	131.0700	145.2300
Switzerland	CHF	1.0826	1.2149	1.0835	1.2024
Turkey	TRY	3.1732	2.9085	3.1838	2.8272
U.S.A.	USD	1.0878	1.3305	1.0887	1.2141

ACCOUNTING POLICIES

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

RECOGNITION OF INCOME AND EXPENSES

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

Sale of merchandise and goods

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

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

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

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

Lincese and other income

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

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

Interest income

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

FUNCTIONAL COSTS

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

RESEARCH AND DEVELOPMENT COSTS

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

INCOME TAXES

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 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 the Group's 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 19 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 up to the maximum of the recoverable amount. The reversal is limited to the amortized carrying amount which would have been determined had no impairment loss been recognized in the past. The impairment loss is reversed through profit or loss. Reversals of impairment losses recognized on goodwill are not permitted.

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 at the date on which the agreement is entered into at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the asset. The lease obligations, which correspond to the carrying amount of the leased assets and are amortized and measured in subsequent periods using the effective interest method, are reported under financial liabilities. The interest component of the lease liabilities is reported in the consolidated income statement over the term of the lease.

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

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 that contain agreements on contingent rents (particularly rents linked to sales) are also in place. 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 include non-consolidated subsidiaries.

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

FINANCIAL LIABILITIES

Financial liabilities are initially measured at their fair value less any directly attributable transaction costs.

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

Trade payables and 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 economically effective derivatives for the purpose of hedging interest and currency risks. The necessary substantive and formal requirements of IAS 39 for accounting for existing cashflow hedges 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 equals 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. Please refer to Note 26 for further details.

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:

CLASSIFICATION OF LEASES

The Group has entered into leases for retail stores, office space, warehouses, land and IT servers. The leases for the retail stores operated by the Group, office space and warehouses 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. On the other hand, the leases for a warehouse and the land on which it is located in Midway, Georgia, U.S.A., and for IT servers in Metzingen provide for the material opportunities and risks arising from ownership to be transferred to the lessee. Accordingly, they are classified as finance leases.

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 key activities and is thus able to affect the amount of the variable returns. In view of the leases which were already determined when two of these 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, 2015, 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. In addition, allowance was made for the step-by-step harmonization of global price structures, particularly in Asia/Pacific in the expected cash flows of the 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 17,726 thousand (2014: EUR 15,281 thousand) were recognized as at the reporting date. As in the previous year, there had been no reversals. 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 67,594 thousand (2014: EUR 61,411 thousand) were recognized at net realizable value. In fiscal year 2015, impairment losses of EUR 25,954 thousand were recognized (2014: EUR 12,437 thousand) were recognized as at the reporting date. 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 15,284 thousand (2014: EUR 15,876 thousand) were recognized as at 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 135,532 thousand (2014: EUR 140,573 thousand) were recognized as at the reporting date. Further explanations are provided in Note 25.

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 39,323 thousand (2014: EUR 45,628 thousand). 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. The probability of future availability is assessed in the light of various factors such as future taxable earnings in the forecast periods and historical earnings. HUGO BOSS applies a forecast period of a maximum of five years for this purpose. Actual figures may differ from the estimates.

As at the reporting date, deferred taxes were recognized on unused tax losses amounting to EUR 14,010 thousand (2014: EUR 10,662 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.

Explanations on the acquisitions recognized in fiscal year 2015 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 2015

In fiscal year 2015, the HUGO BOSS Group acquired a total of 46 stores and the associated assets in asset deals with former franchise partners in South Korea, China, New Zealand and Brazil. The stores in South Korea were acquired effective March 1, 2015, via HUGO BOSS Korea Ltd., South Korea, while the stores in China were acquired effective April 1, 2015, via HUGO BOSS China Retail Co. Ltd., Shanghai, China. One store in New Zealand was acquired via HUGO BOSS New Zealand Ltd., Auckland, New Zealand, effective September 1, 2015. One store in Brazil was acquired via HUGO BOSS do Brasil Ltda., São Paulo, Brazil, effective October 2, 2015. The business acquisitions were made to support the expansion of the Group’s own retail business in Asia/Pacific and the Americas.

The following overview shows the allocation of the purchase price to the acquired assets performed in fiscal year 2015 as well as the resulting goodwill:

(in EUR thousand)

	2015
Purchase consideration transferred	
Agreed purchase price	21,891
Contingent purchase price payment (not paid yet)	1,060
Liabilities incurred	0
Total purchase price	**22,951**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	591
Property, plant and equipment	2,980
Inventories	6,066
Cash and cash equivalents	0
Other assets	0
Total assets	**9,637**
Financial liabilities	0
Trade payables	0
Other liabilities	0
Total liabilities	**0**
Goodwill	**13,314**

Control over the assets in each case was achieved through payment of the agreed purchase price.

A contingent purchase price payment was agreed upon in the contract with the former franchise partner in China. In the event of the successful negotiation of leases, the former franchise partner is expected to receive additional payments of a total of EUR 1,133 thousand. The fair value of the contingent purchase price payment stood at EUR 1,060 thousand as at the reporting date.

In the case of the stores acquired in China during the fiscal year, the acquisition was recognized based on a preliminary purchase price allocation which will be finalized within twelve months of the acquisition date.

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

Goodwill is attributable to Asia/Pacific and Americas 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 instead tested for any impairment annually.

Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

If the business acquisitions had taken place as at January 1, 2015, Group sales would have been EUR 2,999 thousand higher in fiscal year 2015. The change in consolidated net income would have been immaterial.

The additional consolidated sales generated by the business acquisitions came to EUR 12,153 thousand in fiscal year 2015.

TAKEOVERS IN FISCAL YEAR 2014

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

ACQUISITION OF NON-CONTROLLING INTERESTS WITHOUT CHANGE OF CONTROL

With effect from June 30, 2015 HUGO BOSS AG, Metzingen, Germany, exercised the option of transferring the remaining 6% share of the previously already fully consolidated ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG, Grünwald, Germany. HUGO BOSS AG thus holds 100% of the shares in ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG. The purchase price of EUR 120 thousand was paid to the general partner. The carrying amount of the non-controlling shares acquired is EUR 6 thousand. The difference of EUR 114 thousand between the purchase price and carrying amount of the assets was recognized directly in equity.

(in EUR thousand)

	Dec. 31, 2015
Carrying amount of non-controlling interests acquired	6
Consideration paid to non-controlling interests	(120)
Excess of consideration paid recognized in Group's equity	**(114)**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1| SALES

(in EUR thousand)

	2015	2014
Sale of goods	2,746,658	2,513,952
Licenses	62,088	57,664
TOTAL	**2,808,746**	**2,571,616**

2| COST OF SALES

(in EUR thousand)

	2015	2014
Cost of purchase	835,761	755,406
Cost of conversion	120,169	117,117
TOTAL	**955,930**	**872,523**

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 2015, impairment losses on inventories and the reversal of impairment losses previously charged resulted in net expense of EUR 10,746 thousand (2014: net income of EUR 6,376 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)

	2015	2014
Expenses for Group's own retail business, sales and marketing organization	872,529	764,042
Marketing expenses	190,456	163,003
Logistic expenses	73,566	67,816
TOTAL	**1,136,551**	**994,861**

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. Selling expenses comprise sales-based commissions, freight-out and customs costs as well as credit card charges.

The marketing expenses comprise expenses of EUR 207,997 thousand (2014: EUR 180,406 thousand) and income from the allocation of marketing expenses of EUR 17,541 thousand (2014: EUR 17,403 thousand). Income from the allocation of marketing expenses mainly contains costs for the allocation of the cost of store fittings, marketing materials and advertising and sponsorship activities.

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

In total, selling and distribution expenses contain other taxes of EUR 3,180 thousand (2014: EUR 2,501 thousand).

4| ADMINISTRATION EXPENSES

(in EUR thousand)

	2015	2014
General administrative expenses	199,389	174,679
Research and development costs	64,918	61,525
TOTAL	**264,307**	**236,204**

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 64,918 thousand (2014: EUR 61,525 thousand) breaks down as follows: personnel expenses of EUR 44,463 thousand (2014: EUR 42,254 thousand), amortization of EUR 2,280 thousand (2014: EUR 2,083 thousand), and other operating expenses of EUR 18,175 thousand (2014: EUR 17,188 thousand).

Significant income was generated in the area of administration expenses by cross-charging of other costs and services amounting to EUR 10,214 thousand (2014: EUR 9,141 thousand) and from the reversal of provisions EUR 5,148 thousand (2014: EUR 3,138 thousand).

In total, administration expenses contain other taxes of EUR 4,262 thousand (2014: EUR 3,843 thousand).

5| OTHER OPERATING EXPENSES AND INCOME

The net expense arising from other operating expenses and income of EUR 4,246 thousand in fiscal year 2015 resulted from special items which were mainly related to early dissolutions of contracts with trade agents and service providers as well as organizational changes in Europe and the Americas. In the previous year, the net expenses amounted to EUR 19,307 thousand and were primarily 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 planned at the time for the first half of 2015.

Other operating expenses and income include income of EUR 8,504 thousand (2014: income of EUR 2,600 thousand) chiefly relating to the release of the provisions recognized in 2014 in connection with the sale of the production site in Cleveland, Ohio.

6| FINANCIAL RESULT

(in EUR thousand)

	2015	2014
Interest income on bank deposit	351	429
Other interest income	839	1,198
Interest and similar income	**1,190**	**1,627**
Interest expenses from financial liabilities	(4,076)	(4,474)
Other interest expenses	(3,015)	(1,671)
Interest and similar expenses	**(7,091)**	**(6,145)**
Net interest income/expenses	**(5,901)**	**(4,518)**
Exchange rat gains/losses from receivable and liabilities	(8,252)	357
Gains/losses from hedging transactions	(8,581)	(5,048)
Other financial expenses/income	(5,004)	(2,364)
Other financial items	**(21,837)**	**(7,055)**
Financial result	**(27,738)**	**(11,573)**

The interest expenses from financial liabilities contain expenses in connection with interest rate swaps amounting to EUR 1,028 thousand (2014: EUR 1,134 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 1,450 thousand (2014: EUR 1,384 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 35,571 thousand (2014: EUR 25,668 thousand) and exchange rate losses of EUR 43,823 thousand (2014: EUR 25,311 thousand). The result from hedging transactions contains the effects from the fair value measurement of foreign exchange forwards and swaps.

Expenses arising from the refinancing of the syndicated credit facility in fiscal year 2015 are included in other financial expenses/income. This item includes expenses from the early termination of interest rate swaps of EUR 1,845 thousand (2014: EUR 0 thousand).

7 | INCOME TAXES

(in EUR thousand)

	2015	2014
Current taxes	117,716	122,915
Deferred taxes	(17,160)	(20,247)
TOTAL	**100,556**	**102,668**

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

At HUGO BOSS AG, the domestic income tax rate comes to 29.5% (2014: 28.0%). As in the prior year, the tax rates abroad range between 0% and 40%.

In fiscal year 2015, current income taxes include expenses relating to other periods amounting to EUR 3,496 thousand (2014: EUR 6,043 thousand), income relating to other periods of EUR 484 thousand (2014: EUR 3,789 thousand) and deductible withholding tax of EUR 590 thousand (2014: EUR 0 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 29.5% (2014: 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% (2014: 15.8%) and a trade tax rate of 13.7% (2014: 12.2%).

(in EUR thousand)

	2015	2014
Pre-tax result	**419,974**	**437,148**
Anticipated income tax	124,102	122,401
Tax effect of permanent items	5,368	3,773
Tax rate-related deviation	(27,596)	(20,189)
Thereof effects of changes in tax rates	(7,318)	(4,543)
Thereof effects of addback deduction for local taxes	941	873
Thereof adjustment of tax amount to diverging local tax rate	(21,218)	(16,519)
Tax refund/back taxes	3,601	2,254
Deferred tax effects from prior years	(4,594)	255
Valuation allowance on deferred tax assets	(842)	(35)
Tax effects from distributable profit of subsidiaries	443	(4,824)
Other deviations	74	(967)
Income tax expenditure reported	**100,556**	**102,668**
Income tax burden	24%	23%

The income tax burden was reduced by tax-free income of EUR 3,316 thousand (2014: EUR 11,332 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 8,684 thousand (2014: EUR 15,105 thousand).

Tax effects from the add-back/deduction for local taxes amounting to EUR 941 thousand (2014: income of EUR 873 thousand) stem for the most part from the rules 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 21,218 thousand (2014: EUR 16,519 thousand) are attributable to the difference between the nominal income tax rate of 29.5% 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, deferred tax expenses include income from the impact of changes in tax rates of EUR 7,318 thousand (2014: income of EUR 4,543 thousand)

Deferred tax income from prior years of EUR 4,594 thousand was recognized in fiscal year 2015 (2014: expenses of EUR 255 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 tax expenses amounting to EUR 1,896 thousand (2014: income of EUR 4,549 thousand). Of that amount, EUR 387 thousand (2014: income of EUR 700 thousand) is attributable to the recognition directly in equity of fluctuations in the fair value of derivatives designated as hedging relationships and expenses of EUR 1,509 thousand (2014: income of EUR 3,849 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)

	2015		2014	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	41,188	(45,565)	44,938	(42,730)
Unused tax losses	23,037	0	20,923	0
Inventory measurement	58,187	(3,115)	42,374	(3,733)
Recognition and measurement of non-current assets	53,367	(14,315)	53,269	(14,392)
Receivables measurement	8,637	(2,427)	6,968	(2,478)
Market valuation of financial instruments	1,034	(94)	1,802	0
Retained earnings of subsidiaries	0	(3,369)	0	(2,768)
Other differences in recognition and measurement	823	(971)	442	(1,374)
	186,273	**(69,856)**	**170,716**	**(67,475)**
Impairments[1]	(9,027)	0	(12,991)	0
Netting	(62,080)	62,080	(57,343)	57,343
TOTAL	**115,166**	**(7,776)**	**100,382**	**(10,132)**

[1] Including unrecognized unused tax losses.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses 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 59,656 thousand (2014: EUR 76,373 thousand) are non-current, while EUR 44,106 thousand (2014: EUR 60,369 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 9,027 thousand (2014: EUR 10,261 thousand) due to unused tax losses that are not expected to be usable in the future.

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 (2014: 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 2,169 thousand (2014: EUR 1,568 thousand) were recognized for these withholding tax expenses.

Further deferred tax liabilities were not recognized on distributable profits at subsidiaries amounting to EUR 374,351 thousand (2014: EUR 381,013 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)

	2015	2014
Expiry within		
1 year	997	8,700
2 years	5,113	1,122
3 years	7,875	6,809
4 years	3,630	7,161
5 years	15,262	3,276
After 5 years	23,058	25,490
unlimited carryforward	27,405	19,170
TOTAL	**83,340**	**71,728**

As in prior fiscal years, a corresponding deferred tax asset of EUR 14,010 thousand was recognized on unused tax losses as at December 31, 2015 (2014: EUR 10,662 thousand). In fiscal year 2015, no deferred taxes were recognized on unused tax losses of EUR 27,907 thousand (2014: EUR 32,249 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, 2015, or December 31, 2014.

(in EUR thousand)

	2015	2014
Net income attributable to equity holders of the parent company	319,355	333,262
Average number of shares outstanding [1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR [2]	4.63	4.83

[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)

	2015	2014
Cost of sales	93,290	88,957
Selling and distribution expenses	321,715	283,093
Administration expenses	152,031	133,300
Other operating expenses/income	(4,243)	9,001
TOTAL	**562,793**	**514,351**

The net income resulting from other operating expenses and income in fiscal year 2015 was EUR 4,243 thousand. Income resulting from the release of provisions recognized in fiscal year 2014 relating to the sale of the production facility in Cleveland, Ohio, is partly offset here by expenses in connection with organizational adjustments in Europe and the Americas.

In the prior year, the net expense of EUR 9,001 thousand resulting from other operating expenses and income mainly related to the then planned closure of the production facility in Cleveland, Ohio and organizational adjustments in Europe and the Americas.

(in EUR thousand)

	2015	2014
Wages and salaries	478,320	435,692
Social security	78,813	72,405
Expenses and income for retirement and other employee benefits	5,660	6,254
TOTAL	**562,793**	**514,351**

The average headcount for the year was as follows:

EMPLOYEES

	2015	2014
Industrial employees	5,043	4,861
Commercial and administrative employees	10,263	9,652
TOTAL	**15,306**	**14,513**

AMORTIZATION AND DEPRECIATION

(in EUR thousand)

	2015	2014
Cost of sales	6,020	5,656
Selling and distribution expenses	111,124	96,237
Administration expenses	24,955	20,867
TOTAL	**142,099**	**122,760**

Amortization of intangible assets and depreciation of property plant and equipment amount to EUR 142,099 thousand (2014: EUR 122,760 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 765,699 thousand (2014: EUR 715,081 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, 2014	**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**
Change in the basis of consolidation	0	0	0
Currency translation effects	31,099	4,459	35,558
Additions	166,579	53,770	220,349
Disposals	(51,796)	(6,135)	(57,931)
Transfers	(2,797)	1,119	(1,678)
December 31, 2015	**1,096,477**	**318,727**	**1,415,204**
Amortization, depreciation and impairment			
January 1, 2014	**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**
Change in the basis of consolidation	0	0	0
Currency translation effects	18,329	1,696	20,025
Amortization and depreciation	103,822	20,551	124,373
Impairment	16,572	1,154	17,726
Disposals	(50,023)	(6,073)	(56,096)
Transfers	(2,054)	1,281	(773)
December 31, 2015	**656,689**	**136,125**	**792,814**
Carrying amount December 31, 2015	**439,788**	**182,602**	**622,390**
Carrying amount December 31, 2014	**383,349**	**147,998**	**531,347**

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, 2014	**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**
Change in the basis of consolidation	0	0	0	0	0	0
Currency translation effects	2,631	0	1,246	0	582	4,459
Additions	30,885	0	9,571	0	13,314	53,770
Disposals	(6,135)	0	0	0	0	(6,135)
Transfers	894	0	225	0	0	1,119
December 31, 2015	**199,074**	**14,992**	**45,130**	**5,603**	**53,928**	**318,727**
Amortization/impairment						
January 1, 2014	**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**
Change in the basis of consolidation	0	0	0	0	0	0
Currency translation effects	1,266	0	430	0	0	1,696
Amortization	18,769	0	1,782	0	0	20,551
Impairment	0	0	1,154	0	0	1,154
Disposals	(6,073)	0	0	0	0	(6,073)
Transfers	892	0	389	0	0	1,281
December 31, 2015	**109,102**	**0**	**20,287**	**5,603**	**1,133**	**136,125**
Carrying amount December 31, 2015	**89,972**	**14,992**	**24,843**	**0**	**52,795**	**182,602**
Carrying amount December 31, 2014	**76,551**	**14,992**	**17,556**	**0**	**38,899**	**147,998**

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 with a historical cost of EUR 77,199 thousand (2014: EUR 76,318 thousand) were capitalized in connection with "Columbus" for the ERP system, comprising the industry solution SAP AFS and SAP Retail for the Group's own retail business. Of this, EUR 52,272 thousand (2014: EUR 49,531 thousand) had already been amortized as at the reporting date. As a result of investments in software and licenses in connection with the continuous enhancement of the ERP system, the remaining amortization period decreased only slightly to 3.9 years (2014: 4.0 years). Apart from the aforementioned software, other software licenses totaling EUR 50,029 thousand (2014: EUR 33,471 thousand) are included, whose remaining amortization period is 5.6 years (2014: 5.5 years).

In addition, the line item software, licenses and other rights contains intangible assets from purchase price allocations. Under acquisition accounting for the joint venture entities in fiscal year 2010, some of the items capitalized included business licenses and franchise agreements with a remaining carrying amount of EUR 12,289 thousand as at December 31, 2015 (2014: EUR 12,667 thousand) and a remaining amortization period of 9.6 years (2014: 10.6 years). The re-acquired rights capitalized as a result of purchase price allocation in connection with the takeover of retail stores of a former franchise partner in Singapore in 2013 have a residual carrying amount of EUR 1,702 thousand (2014: EUR 2,250 thousand). The remaining amortization period is 3.9 years (2014: 4.9 years).

BRAND RIGHTS

The reported brand rights amounting to EUR 14,992 thousand (2014: 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 24,843 thousand (2014: EUR 17,556 thousand) was recognized as at the reporting date. Of that amount, 6,397 thousand (2014: EUR 6,353 thousand) pertains to key money with an indefinite useful life and EUR 18,446 thousand (2014: EUR 11,203 thousand) to key money with a finite useful life. As at December 31, 2015, key money with an indefinite useful life only concerns the DOS in France at EUR 6,397 thousand (2014: EUR 6,353 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 the DOS in Great Britain, Switzerland and Italy. An amortization period of 9.1 years remains (2014: 6.4 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, 2014	**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**
Change in the basis of consolidation	0	0	0	0	0
Currency translation effects	(15,039)	556	45,733	(151)	31,099
Additions	24,853	5,585	122,259	13,882	166,579
Disposals	(15,152)	(984)	(35,617)	(43)	(51,796)
Transfers	(306)	(1,644)	3,006	(3,853)	(2,797)
December 31, 2015	**259,862**	**83,532**	**737,998**	**15,085**	**1,096,477**
Depreciation/impairment					
January 1, 2014	**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**
Change in the basis of consolidation	0	0	0	0	0
Currency translation effects	(11,821)	536	29,614	0	18,329
Depreciation	16,155	4,635	83,032	0	103,822
Impairment	0	0	16,572	0	16,572
Disposals	(15,174)	(903)	(33,946)	0	(50,023)
Transfers	(83)	(1,644)	(327)	0	(2,054)
December 31, 2015	**124,670**	**63,920**	**468,096**	**3**	**656,689**
Carrying amount December 31, 2015	**135,192**	**19,612**	**269,902**	**15,082**	**439,788**
Carrying amount December 31, 2014	**129,913**	**18,723**	**229,466**	**5,247**	**383,349**

Land charges in connection with land and buildings amount to EUR 39,118 thousand (2014: EUR 42,043 thousand).

Impairment losses of EUR 16,572 thousand (2014: EUR 15,022 thousand) were recognized on property, plant and equipment and have been allocated to the corresponding functional areas 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. 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.

13| NON-CURRENT ASSETS HELD FOR SALE

In the third quarter of 2015, HUGO BOSS announced that it would be closing its showroom in Aix-en-Provence in France. As a result, property, plant and equipment comprising land, buildings and operating and office equipment valued at EUR 487 thousand belonging to HUGO BOSS France SAS, Paris, France, were classified as "non-current assets held for sale" due to the intent to sell them in fiscal year 2016.

As part of the consolidation process for its production sites, HUGO BOSS sold its site in Cleveland, Ohio, in the second quarter of 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, United States, were classified as "non-current assets held for sale" as at December 31, 2014 as a result of the intent to sell. The sale took place in the second quarter of 2015.

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 to determine whether there is any evidence 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 at the reporting date December 31, 2015, 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 at December 31, 2015, is based on a risk-free interest rate of 1.5% (2014: 2.0%) and a market risk mark-up of 6.0% (2014: 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 on the basis of discounted cash flow models. The planned cash flows for the DOS from the bottom-up one-year budget approved by the management of HUGO BOSS AG are used for calculating the value in use. The forecast period is derived based on the expected useful lives for all DOS and is reassessed annually. After the bottom-up budget, the values for the remaining useful lives are determined based on sales and cost developments specific to each country and CGU. The growth rates used for this purpose are based on the nominal, expected retail growth in each respective market for the corresponding planning year. Single-digit growth rates were thus determined for all DOS. At the end of the residual useful life, it is assumed that the respective DOS is wound up and that proceeds are obtained from the sale of the operating assets. In the calculation of the value in use of the DOS, cash flows were discounted using a weighted average cost of capital of between 3.5% and 18.1% (2014: between 4.4% and 14.8%). This was based on a risk-free interest rate of 0.3% (2014: 0.8%) with an equivalent term. Alternatively, the recoverable amount of the DOS is determined with the assistance of external reports which calculate the fair value less the costs to sell at level 3 of the fair value hierarchy in accordance with IFRS 13. Depending on the underlying legal framework and the available information, the fair value, particularly for key money with a finite useful life, is determined by reference to previous and comparable transactions using a multiplication process or as the present value of the differences in rents between the current lease and current market rents; in this case, the valuation period is determined on the basis of the lease.

DOS impairment testing in the past fiscal year resulted in impairment losses of EUR 17,726 thousand (2014: EUR 15,281 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. There are no material differences in impairment losses on retail store locations from region to region. The increase over the previous year is primarily due to Europe.

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**
2015				
Europe	**294**	**6,397**	**5.9–6.8%**	**3.0–3.2%**
Sales unit UK	294	0	6.8%	3.0%
DOS within the sales unit France	0	6,397	5.9%	3.2%
Americas	**336**	**0**	**7.1–19.4%**	**3.4–5.9%**
Sales unit USA	257	0	7.1%	3.4%
Sales unit Brasil	79		19.4%	5.9%
Asia/Pacific	**33,455**	**0**	**6.3–7.5%**	**3.4–5.0%**
Sales unit Macau	6,610	0	6.3%	3.4%
Sales unit Australia	8,550	0	6.9%	4.9%
Sales unit Singapore	429	0	7.5%	3.7%
Sales unit South Korea	7,372	0	7.2%	3.7%
Sales unit China	10,188	0	6.8%	5.0%
Sales unit New Zealand	306	0	6.4%	4.1%
Licenses	**0**	**14,992**	**6.8–7.1%**	**2.5–3.4%**
Brand rights U.S.A.	0	13,615	7.1%	3.4%
Brand rights Italy	0	1,377	6.8%	2.5%
Corporate Units	**18,710**	**0**	**6.8%**	**2.9%**
Production unit shoes and leather accessories Italy	18,710	0	6.8%	2.9%
TOTAL	**52,795**	**21,389**	**5.9–19.4%**	**2.5–2.9%**
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%
Americas	**232**	**0**	**8.0%**	**3.8%**
Sales unit U.S.A.	232		8.0%	3.8%
Asia/Pacific	**19,680**	**0**	**7.8–8.3%**	**3.6–5.0%**
Sales unit China	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%**

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 monobrand 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. Goodwill stemming from the takeover of a store from a former franchise partner in 2015 is allocable to the sales unit Brazil. In Asia/Pacific, goodwill acquired from business combinations relates to the acquisition of the shares in the sales units Lotus (Shenzhen) Commerce Limited and Lotus Concept Trading (Macau) Co., Ltd., in fiscal year 2010 among other things. In addition, goodwill from the acquisition of shares in the sales unit Australia in 2002 as well as the takeover of a retail store operated by a franchise partner in 2013 are allocable to the sales unit Australia. Additional goodwill arose in 2013 from the takeover of a franchise partner in Singapore and in 2015 from the takeover of HUGO BOSS monobrand stores in South Korea, China and New Zealand. 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 license 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 the fair value less costs to sell at level 3 of the valuation hierarchy in accordance with IFRS 13 or the value in use using discounted cash flow models.

Impairment losses of EUR 450 thousand were calculated for the DOS to which key money with an indefinite useful life was allocated in fiscal year 2015 (2014: EUR 0 thousand).

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 on the basis of their fair value less costs to sell and classified at level 3 of the fair value hierarchy pursuant to IFRS 13. This is based on a sales forecast for the respective market approved by management as part of the budget process. Country-specific sales growth rates are also used. After the five-year detailed planning phase, planned sales are extrapolated using a long-term nominal retail growth rate for each of the respective markets.

No impairment losses were recognized on the brand rights with indefinite useful lives in fiscal years 2015 and 2014.

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 2015.

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 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.

Estimation of gross profit margin – The planned gross profit margin factors in both efficiency improvements and margin shifts due to differences in the sales mix of the various distribution 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 post-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 the DOS – The forecast period underlying the impairment testing of non-current assets at the DOS level amortized or depreciated on a systematic basis is based on the average remaining terms of the lease agreements. These are determined and reviewed 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 at December 31, 2015, 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. Based on past developments and the Management's expectations with regard to market trends, growth rates below the country-specific nominal retail growth were applied in some cases. For these models, the Management considers an annual relative variation in the growth rate of 10% in the detailed planning phase to be possible thereafter as well.

DOS sensitivities – A 10.0% increase in the discount rate would result in an additional impairment on the DOS considered of EUR 446 thousand (2014: EUR 372 thousand). In the event of a 15.0% reduction of the annual growth rates, it would be necessary to recognize an additional impairment loss on the DOS considered of EUR 3,066 thousand (2014: EUR 1,645 thousand).

Goodwill sensitivities – The values in use of all items of goodwill exceed the respective carrying amounts even in the case of a 10% increase in the discount rate. With respect to the goodwill for the CGUs in South Korea and China, a 15% reduction in the rate of growth would result in impairment losses assuming unchanged costs. For the purpose of impairment testing, sales growth in South Korea was extrapolated on the basis of nominal retail growth in the mid single digits. In this model, the recoverable amount for the CGU "Sales unit South Korea" exceeds the carrying amount by EUR 3,475 thousand. If the annual growth rate were to decrease by 6%, the recoverable amount would equal the carrying amount of the CGU. With respect to the CGU "Sales unit China", management has already applied a growth rate under the national rate of retail growth for impairment testing purposes. In view of the challenges in the Chinese market, management expects sales to decline in the first planning year. A growth rate in the mid single digits is assumed to be realistic in the following years. In this case, the recoverable amount of the CGU exceeds the carrying amount by EUR 80,475 thousand. If the annual growth rate decreased by 12%, the recoverable amount would equal the carrying amount of the CGU. In the event of a 15.0% reduction in the growth rate of sales used to extrapolate the cash flow forecasts after the detailed planning period, the value in use of all items of goodwill would exceed their carrying amounts (2014: 15.0%).

15| FINANCIAL AND OTHER ASSETS

(in EUR thousand)

	2015			2014		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	50,969	29,017	21,952	42,181	22,528	19,653
Tax refund claims and prepayments	16,977	16,288	689	13,520	12,353	1,167
Other assets	92,204	88,294	3,910	78,242	70,669	7,573
Other financial assets	496	0	496	130	0	130
TOTAL	**160,646**	**133,599**	**27,047**	**134,073**	**105,550**	**28,523**

Financial assets include positive market values of currency hedges amounting to EUR 6,677 thousand (2014: EUR 3,908 thousand) as well as rent deposits for the Group's own retail stores of EUR 14,053 thousand (2014: EUR 13,714 thousand). Financial assets also include receivables from credit card companies amounting to EUR 16,085 thousand (2014: EUR 15,924 thousand).

The tax refund claims and tax prepayments are mostly VAT receivables.

Other assets contain refund claims from returns in the amount of EUR 17,463 thousand (2014: EUR 17,353 thousand), bonus receivables from supplier arrangements and prepayments for service agreements and leases.

Impairment losses of EUR 90 thousand were recognized on other assets in the past fiscal year (2014: EUR 457 thousand).

Other financial assets include the investment measured at amortized cost in subsidiaries which have been established but are not consolidated due to their immateriality.

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, 2015 [1]	Dec. 31, 2014 [2]
Non-current assets	118,285	123,119
Current assets	1,006	8,145
Liabilities	127,947	136,283
Sales	10,845	6,355
Depreciation and amortization	(9,914)	(5,630)
Other interest and similar income	3	40
Interest and similar expenses	(4,158)	(2,450)
Net income/(loss)	(3,483)	(1,984)

[1] Figures are based on the preliminary financial statements as of December 31, 2015.
[2] Prior-year figures are based on the final financial statements as of December 31, 2014. Different values in the annual report 2014 occur due to preliminary end-of-year figures as at December 31, 2014.

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)

	2015	2014
Finished goods and merchandise	512,056	448,245
Raw materials and supplies	41,719	52,817
Work in progress	5,734	6,346
TOTAL	**559,509**	**507,408**

The carrying amount of inventories recognized at net realizable value amount to EUR 67,594 thousand (2014: EUR 61,411 thousand). In fiscal year 2015, impairment losses of EUR 25,954 thousand (2014: EUR 12,437 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 15,208 thousand (2014: EUR 18,813 thousand), following the sale of finished goods and raw materials on which impairment losses had previously been recognized.

17| TRADE RECEIVABLES

(in EUR thousand)

	2015	2014
Trade receivables, gross	254,898	266,408
Accumulated allowance	(15,284)	(15,876)
Trade receivables, net	**239,614**	**250,532**

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)

	2015	2014
Allowances for doubtful accounts as of January 1	**15,876**	**15,126**
Additions	4,454	7,021
Use	(1,940)	(2,647)
Release	(2,740)	(3,793)
Currency differences	(366)	169
Allowances for doubtful accounts as of December 31	**15,284**	**15,876**

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)

	2015	2014
Trade receivables, net	**239,614**	**250,532**
Thereof neither overdue, nor impaired	**177,148**	**192,007**
Thereof overdue, but not impaired	**56,682**	**51,779**
≤ 30 days	37,759	32,467
30 to 60 days	12,042	14,726
60 to 90 days	6,881	4,586
90 to 120 days	0	0
120 to 180 days	0	0
180 to 360 days	0	0
> 360 days	0	0
Thereof: overdue and impaired	**5,784**	**6,746**

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)

	2015	2014
Balances with banks and other cash items	74,380	121,055
Checks/ec-cash	650	590
Cash in hand	6,379	6,986
TOTAL	**81,409**	**128,631**

Cash and cash equivalents contain balances with banks, checks and cash in hand.

As of the end of the reporting date, the line item balances with banks and other cash items contains no short-term deposits (2014: EUR 10,000 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, 2015. 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, 2015, and December 31, 2014.

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)

	2015	2014
Liabilities due to banks	163,604	164,294
Cash and cash equivalents	(81,409)	(128,631)
Net financial liabilities	**82,195**	**35,663**
Operating profit	**594,057**	**590,789**
Total leverage	**0.1**	**0.1**

Despite greater investments in the Group's own retail business and the resultant increase in net financial liabilities, the total leverage ratio was unchanged over the previous year. As in the prior year, the ratio stood at 0.1 on the reporting date and was thus substantially lower than the maximum permissible value pursuant to the covenant agreed as part of the syndicated loan agreement refinanced in fiscal year 2015.

20| OWN SHARES

The number of own shares remains unchanged compared to the prior year:

	2015	2014
Shares	1,383,833	1,383,833
Share of subscribed capital in %	2.0	2.0

At the Annual Shareholders' Meeting of May 12, 2015, a resolution was passed authorizing the Managing Board to acquire the Company's own shares up to a total of 10% of the current share capital until May 11, 2020.

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 54,401 thousand (2014: EUR –15,320 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 0 thousand (2014: EUR 387 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 2015 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 2015, a dividend of EUR 249,839 thousand was paid out for shares outstanding for fiscal year 2014 (in 2014 for 2013: EUR 230,514 thousand). This corresponds to EUR 3.62 per share for 2014 (2013: EUR 3.34 per share).

25| PROVISIONS

(in EUR thousand)

	2015	2014
Provisions for pensions	39,323	45,628
Other non-current provisions	32,759	24,917
Non-current provisions	**72,082**	**70,545**
Current provisions	**102,773**	**115,656**
TOTAL	**174,855**	**186,201**

Other provisions of EUR 135,532 thousand (2014: EUR 140,573 thousand) comprise current provisions of EUR 102,773 thousand (2014: EUR 115,656 thousand) and other non-current provisions of EUR 32,759 thousand (2014: EUR 24,917 thousand).

In fiscal year 2015, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2015	Currency differences	Compounding	Addition	Use	Release	Balance on Dec. 31, 2015
Provisions for personnel expenses	45,538	1,322	26	41,418	(29,741)	(4,173)	54,390
Provisions for goods returned	25,555	708	0	29,084	(24,143)	(1,021)	30,183
Provisions for rebuild obligations	12,284	800	(22)	1,878	(508)	(234)	14,198
Costs of litigation, pending legal disputes	7,470	79	0	2,445	(3,365)	(732)	5,897
Miscellaneous provisions	49,726	1,114	0	19,272	(22,686)	(16,562)	30,864
TOTAL	**140,573**	**4,023**	**4**	**94,097**	**(80,443)**	**(22,722)**	**135,532**

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 16,706 thousand (2014: EUR 11,317 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 other provisions are also recognized for the potential ramifications of legal and tax issues.

The risk-free interest rates used to discount non-current provisions range between 0.1% and 4.5% (2014: between 0.5% and 4.5%) 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. In fiscal year 2014, the general benefits previously granted via the welfare fund were transferred to HUGO BOSS AG as the sponsoring company in return for the 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	
	2015	2014	**2015**	2014	**2015**	2014
Germany	85,085	81,711	70,541	56,633	14,544	25,078
Switzerland	44,952	36,055	28,543	22,333	16,409	13,722
Turkey	5,435	4,146	0	0	5,435	4,146
Others [1]	2,935	2,682	0	0	2,935	2,682
TOTAL	**138,407**	**124,594**	**99,084**	**78,966**	**39,323**	**45,628**

[1] Additional defined benefit plans are in place in Italy, France, Mexico and Austria.

The amount of the pension obligations was determined using actuarial methods in accordance with IAS 19 “Employee Benefits”.

In fiscal year 2015, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2015	2014
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	124,594	107,291
Currency differences	3,318	689
Service cost	7,169	5,686
Interest expense	2,808	3,613
Payments from settlements	0	(3,932)
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	(2,377)	21,218
Actuarial gains/losses due to changes in demographic assumptions	2,317	0
Experience adjustments	(99)	(3,182)
Benefits paid	(2,777)	(10,567)
Contribution by participants of the plan	4,155	2,928
Past service cost	(774)	967
Other changes in benefit obligation	73	(117)
Present value of benefit obligation on December 31	**138,407**	**124,594**
Changes in plan assets		
Fair value of plan assets on January 1	78,966	77,496
Currency differences	2,397	406
Offsetting with plan assets	0	0
Expected return on plan assets	1,651	2,621
Expected return on plan assets (without interest income)	3,839	(373)
Benefits paid	(1,496)	(9,990)
Contribution by the employer	9,572	3,048
Contribution by participants of the plan	4,155	2,928
Asset ceiling pursuant to IAS 19.58	0	2,830
Other changes in benefit obligation	0	0
Fair value of plan assets on December 31	**99,084**	**78,966**
Funding status of the benefits funded by plan assets	**39,323**	**45,628**

As of December 31, 2015 EUR 82,810 thousand (2014: EUR 79,146 thousand) of the present value of the defined benefit obligations was funded through employer’s pension liability insurance and EUR 44,952 thousand (2014: EUR 36,055 thousand) through foundation assets, while the remaining EUR 10,643 thousand (2014: EUR 9,393 thousand) was unfunded.

ACTUARIAL ASSUMPTIONS UNDERLYING THE CALCULATION OF THE PRESENT VALUE OF THE PENSION OBLIGATION AS OF DECEMBER 31, 2015

The following premises were defined:

Actuarial assumptions	**2015**	2014
Discount rate		
Germany	2.50%	2.25%
Switzerland	0.90%	1.40%
Turkey	10.00%	8.50%
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	3.00%	3.50%
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, 2015.

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	**2015**	2014
Discount rate		
December 31,		
Increase of 75 basis points	(15,643)	(11,943)
Decline of 75 basis points	19,401	14,883
Future pension increases		
December 31,		
Increase of 25 basis points	4,295	2,069
Decline of 25 basis points	(2,758)	(970)
Future salary increases		
December 31,		
Increase of 50 basis points	1,978	2,246
Decline of 50 basis points	(1,888)	(2,184)
Life expectancy		
December 31,		
Increase of 10 percent	3,741	2,810
Decline of 10 percent	(4,086)	(2,502)

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)

	2015	2014
Current service costs	7,169	5,686
Past service costs	(774)	967
Net interest costs	1,158	992
Recognized pension expenses in the comprehensive statement of income	**7,553**	**7,645**
Expense from plan assets (without interest effects)	(3,839)	373
Recognized actuarial (gains)/losses	(159)	18,037
Asset ceiling (without interest effects of asset ceiling)	0	(2,929)
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**(3,998)**	**15,480**

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 5,438 thousand (2014: EUR 3,010 thousand).

DURATION

The duration of the defined benefit plans of the HUGO BOSS Group on December 31 stood at:

(Duration in years)

	2015	2014
Germany	18	20
Switzerland	15	19
Turkey	8	13

DEFINED CONTRIBUTION PLANS

Employer contributions to defined contribution plans totaled EUR 16,883 thousand in the fiscal year (2014: EUR 16,173 thousand) and are reported under personnel expenses in the income statement. The HUGO BOSS Group's main defined contribution plans are in Germany and the United States. 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)

	2015	2014
Non-current financial liabilities	134,975	153,643
Current financial liabilities	41,475	18,256
TOTAL	**176,450**	**171,899**

(in EUR thousand)	**2015**	**With remaining term up to 1 year**	2014	With remaining term up to 1 year
Financial liabilities due to banks	163,604	38,691	164,293	15,137
Other financial liabilities	12,846	2,783	7,606	3,119
TOTAL	**176,450**	**41,474**	**171,899**	**18,256**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 3,807 thousand (2014: EUR 7,546 thousand) and liabilities under finance leases of EUR 9,039 thousand (2014: EUR 0 thousand).

The following tables show the terms and conditions of financial liabilities:

LIABILITIES DUE TO BANKS

	2015		2014	
Remaining term	**Weighted average interest rate**	**Carrying amount EUR thous.**	Weighted average interest rate	Carrying amount EUR thous.
Up to 1 year	1.28%	38,691	4.01%	15,137
1 to 5 years	0.68%	95,398	1.30%	116,948
More than 5 years	2.95%	29,515	2.97%	32,208

Following the refinancing of the syndicated credit facility in fiscal year 2015, the non-current part of the financial liabilities was reduced and the less expensive current financial facilities utilized.

OTHER FINANCIAL LIABILITIES

	2015		2014	
Remaining term	**Weighted average interest rate**	**Carrying amount EUR thous.**	Weighted average interest rate	Carrying amount EUR thous.
Up to 1 year	2.88%	2,783	0.90%	3,640
1 to 5 years	4.06%	8,090	3.60%	2,967
More than 5 years	4.32%	1,973	5.69%	999

By contrast to the prior year, the share of non-interest-bearing financial liabilities has declined. As of the reporting date, they contain currency derivatives with negative market values.

The table below shows the contractually agreed undiscounted cash flows for non-derivative financial liabilities and for derivative financial instruments with a negative fair value.

(in EUR thousand)

2015		**Expected cash flows**			
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1–5 years**	**> 5 years**
Financial liabilities due to banks	163,604	173,586	39,752	112,235	21,599
Liabilities from finance leases	9,039	9,503	1,441	6,637	1,425
Derivative financial liabilities					
Undesignated derivatives	3,265	3,265	896	1,730	639
Derivatives subject to hedge accounting	542	542	542	0	0
Other financial liabilities	0	0	0	0	0
TOTAL	**176,450**	**186,896**	**42,631**	**120,602**	**23,663**
2014					
Non-derivative financial liabilities					
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**

28| OTHER LIABILITIES

(in EUR thousand)

	2015			2014		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	167,722	125,480	42,242	134,747	96,876	37,871
From accruals of rental obligations for the Group's own retail business	70,845	32,391	38,454	52,144	16,281	35,863
From taxes	38,104	38,104	0	36,630	36,630	0
From social security, accrued vacation, wages and salaries	23,861	23,861	0	23,438	23,438	0

29| TRADE PAYABLES

(in EUR thousand)

	2015	2014
Trade payables	271,506	254,959

Trade payables contain payments on account of EUR 6,870 thousand (2014: EUR 6,237 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)

		2015		2014	
Assets	IAS 39 category	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	LaR	81,409	81,409	128,631	128,631
Trade receivables	LaR	239,614	239,614	250,532	250,532
Other financial assets		51,430	51,430	42,276	42,276
Thereof:					
Available-for-sale investments	AfS	461	461	95	95
Undesignated derivatives	FAHfT	5,942	5,942	3,395	3,395
Derivatives subject to hedge accounting	n. a.	736	736	513	513
Other financial assets	LaR	44,291	44,291	38,273	38,273
Liabilities					
Financial liabilities due to banks	FLAC	163,604	165,513	164,293	169,578
Trade payables	FLAC	271,506	271,506	254,959	254,959
Other financial liabilities		12,846	12,846	7,606	7,606
Thereof:					
Undesignated derivatives	FLHfT	3,265	3,265	5,998	5,998
Derivatives subject to hedge accounting	n. a.	542	542	1,548	1,548
Liabilities from finance leases	n. a.	9,039	9,039	0	0
Other financial liabilities	FLAC	0	0	60	60
TOTAL for categories of financial instruments according to IAS 39:					
Loans and Receivables	LaR	365,314	365,314	417,436	417,436
Available-for-Sale investments	AfS	461	461	95	95
Financial Assets Held for Trading	FAHfT	5,942	5,942	3,395	3,395
Financial Liabilities Measured at Amortized Cost	FLAC	435,110	437,019	419,312	424,597
Financial Liabilities Held for Trading	FLHfT	3,265	3,265	5,998	5,998

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, 2015, 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, 2015, 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 2015, 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 6,678 thousand and liabilities to EUR 3,807 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 10,299 thousand (2014: EUR 110,916 thousand) in variable interest finance liabilities were hedged. EUR 0 thousand (2014: 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 24,349 thousand (2014: EUR 12,532 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 1,229 thousand (2014: EUR -1,587 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	2015	2014
Derivatives (FAHfT and FLHfT)	0	6,105	0	0	(16,014)	(9,909)	(5,640)
Loans and Receivables (LaR)	1,190	0	(11,105)	(3,076)	0	(12,991)	1,806
Financial liabilities measured at amortized cost (FLAC)	(4,076)	0	2,853	0	0	(1,223)	(9,692)

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
2015						
Cash and cash equivalents	81,409	0	81,409	0	0	81,409
Trade receivables	252,954	(13,340)	239,614	0	0	239,614
Other financial assets	51,430	0	51,430	(867)	0	50,563
Available-for-sale	461	0	461	0	0	461
Thereof derivatives	6,678	0	6,678	(867)	0	5,811
Thereof other financial assets	44,291	0	44,291	0	0	44,291
TOTAL	**385,793**	**(13,340)**	**372,453**	**(867)**	**0**	**371,586**
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	42,311	0	42,311	(1,473)	0	40,838
Available-for-sale	130	0	130	0	0	130
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	**435,573**	**(14,099)**	**421,474**	**(1,473)**	**0**	**420,001**

(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
2015						
Liabilities due to banks	163,604	0	163,604	0	0	163,604
Trade payables	277,882	(6,376)	271,506	0	0	271,506
Other financial liabilities	12,846	0	12,846	(867)	0	11,979
Thereof derivatives	3,807	0	3,807	(867)	0	2,940
Thereof other financial liabilities	9,039	0	9,039	0	0	9,039
TOTAL	**454,332**	**(6,376)**	**447,956**	**(867)**	**0**	**447,089**
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 liabilities	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**

The liabilities of EUR 13,340 thousand (2014: EUR 14,099 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 6,376 thousand (2014: EUR 4,832 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

Contingent liabilities arising from the provision of collateral for third-party liabilities are valued at EUR 8,547 thousand as at December 31, 2015 (2014: EUR 8,547 thousand) and relate to the consolidated structured entities BIL Leasing Verwaltungs-GmbH & Co. 869 KG, ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG and ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG.

Under terms of the sale of the production site in Cleveland, Ohio, in the second quarter of 2015 and the transfer of production staff to the purchaser, HUGO BOSS Cleveland Inc. accepted subsidiary liability in connection with the termination of its participation in the existing multi-employer pension fund. If the purchaser terminates its participation in the pension plan before the expiry of five years and is unable to pay a settlement amount in favor of the pension fund, HUGO BOSS Cleveland Inc. in its capacity as the seller is liable under the Employee Retirement Income Security Act for an amount equaling the present value of the obligations calculated using actuarial methods, which is capped at about USD 3.7 million. Management considers the case of liability occurring as not likely. Hence no provisions have been set aside as at the reporting date.

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 364,914 thousand were recognized in fiscal year 2015 (2014: EUR 318,442 thousand). Contingent rental expenses amounted to EUR 104,292 thousand (2014: EUR 90,876 thousand).

The following minimum lease payments under operating leases fall due in subsequent periods:

(in EUR thousand)

2015	**Due 2016**	**Due 2017–2020**	**Due after 2020**	**TOTAL**
Sum of future minimum lease payments (operating lease)	254,638	776,587	377,872	**1,409,097**
Other obligations	2,170	4,128	124	**6,422**
TOTAL	**256,808**	**780,715**	**377,996**	**1,415,519**
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**

The other obligations line item contains other service and maintenance agreements.

In fiscal year 2015, the Group earned income of EUR 137 thousand from subleases (2014: EUR 164 thousand). Total future minimum lease payments from subleases as at the reporting date December 31, 2015, which are expected to be received as they pertain to non-cancellable leases, amount to EUR 315 thousand (2014: EUR 493 thousand).

FINANCE LEASES

Leases under which economic ownership rights to the leased assets are deemed to be held by HUGO BOSS as the lessee have been in force since fiscal year 2015. The leased assets comprise the warehouse and the land on which it is located in Midway, Georgia, U.S.A., and IT servers in Metzingen.

The assets had a net carrying amount of EUR 9,083 thousand as at December 31, 2015 (2014: EUR 0 thousand), which is reported within property, plant and equipment. Interest expenses and depreciation for fiscal year 2015 came to EUR 193 thousand (2014: EUR 0 thousand).

The minimum lease payments under the finance leases in fiscal year 2015 include the rights of utilization for a remaining period of 6.7 years for the warehouse and the land on which it is located in Midway, Georgia, U.S.A., and 4.5 years for the IT servers in Metzingen. The minimum lease payment for these rights stands at a total of EUR 9,173 thousand, the expected future interest payment EUR 134 thousand and the present value of the minimum lease payments EUR 9,039 thousand.

The present values and future minimum lease payments for the remaining terms of these leases, which expire in 2022 and 2020, respectively, break down as follows:

(in EUR thousand)

2015	**Due 2016**	**Due 2017–2020**	**Due after 2020**	**TOTAL**
Minimum lease payments	1,382	6,455	1,336	**9,173**
Estimated amount representing interest	36	96	2	**134**
Present value of minimum lease payments	**1,346**	**6,359**	**1,334**	**9,039**

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)

2015	**Due 2016**	**Due 2017–2020**	**Due after 2020**	**TOTAL**
Advertising and sponsorship contracts	11,808	9,314	0	**21,122**
TOTAL	**11,808**	**9,314**	**0**	**21,122**
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**

In addition, there are purchase obligations for investments amounting to EUR 7,759 thousand (2014: EUR 1,401 thousand). Of this amount, EUR 5,469 thousand (2014: EUR 712 thousand) is attributable to property, plant and equipment and EUR 2,290 thousand (2014: EUR 689 thousand) to intangible assets. The obligations as at December 31, 2015 are due for settlement 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)

	2015		2014	
	Nominal-values	**Fair values**	Nominal-values	Fair values
Assets				
Currency hedging contracs	241,709	6,677	78,262	3,908
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracs	(67,754)	(867)	(80,266)	(2,541)
Interest hedging contracts	(10,299)	(2,940)	(110,916)	(5,005)
TOTAL	**163,656**	**2,870**	**(112,920)**	**(3,638)**

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 2,677 thousand (2014: EUR –2,603 thousand) stems from financial assets and liabilities that were classified as held for trading.

As at December 31, 2015, the effect arising from the measurement of interest hedges at their fair value is no longer recognized in other comprehensive income due to the refinancing operation and the resultant dissolution of the interest hedges (2014: EUR -1,161 thousand). In fiscal year 2015, the total expenses of EUR –1,161 thousand recognized in other comprehensive income were recycled through the income statement (2014: expenses of EUR -411 thousand). The recycled expenses break down into interest expense of EUR –449 thousand (2014: EUR -548 thousand), income from deferred taxes of EUR 112 thousand (2014: EUR 137 thousand), expenses of EUR 824 thousand (2014: EUR 0 thousand) from the premature dissolution of the interest hedges, after the deduction of deferred taxes. The fair value changes came to EUR 0 thousand (2014: EUR -2,511 thousand) after deferred taxes.

The positive effects from the fair value measurement of currency hedges of EUR 194 thousand were recognized in other comprehensive income as at December 31, 2015 (2014: EUR 513 thousand). Of the amount recognized in other comprehensive income, income of EUR 513 thousand was recycled through the income statement in fiscal year 2015 (2014: EUR 0 thousand). The fair value changes came to EUR 194 thousand (2014: EUR 513 thousand).

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 including Middle East and Africa, Americas and Asia/Pacific, in addition to the license division. The regions are allocated to the corresponding distribution companies of the HUGO BOSS Group, while the complete licenses business of HUGO BOSS with third parties is allocated to the license division.

The Managing Board of HUGO BOSS AG is the chief operating decision maker of the HUGO BOSS Group.

Management of the regional business units is aligned to the value added contribution at Group level.

The most important performance indicator used by the Managing Board to make decisions about resources to be allocated to segments is EBITDA before special items. The segment result is thus defined as EBITDA before special items of the sales units plus the gross profit margin of the sourcing units and intercompany license sales.

Group financing (including interest income and expenses) and income taxes are managed on a Group-wide basis and are not allocated to operating segments.

Management of the operating figures inventories and trade receivables is assigned to the sales territories. These items are regularly reported to the Managing Board. Consequently, segment assets only contain trade receivables and inventories.

Liabilities are not part of internal management reporting. The segment liabilities are therefore not disclosed.

The accounting rules applied in the segment information are in line with the accounting rules of the HUGO BOSS Group as described in the accounting policies.

The Managing Board regularly reviews certain effects recognized in the statement of comprehensive income, including in particular amortization, depreciation and impairment losses.

Capital expenditure is also regularly reported to the Managing Board as part of internal reporting, making it a component of segment reporting.

All expenses and assets that cannot be directly allocated to the sales territories or the license segment are reported in the reconciliations below under corporate units/consolidation. All Group-wide central functions are pooled in the corporate units. The remaining expenses of the procurement, production and R&D units make up an operating cost center. No operating income is allocated to the corporate units.

(in EUR thousand)

	Europe[1]	Americas	Asia/Pacific	Licenses	TOTAL operating segments
2015					
Sales	**1,683,249**	**670,480**	**392,929**	**62,088**	**2,808,746**
Segment profit	**535,382**	**187,443**	**99,963**	**51,634**	**874,422**
In % of sales	31.8	28.0	25.4	83.2	31.1
Segment assets	258,285	239,598	115,246	18,404	631,533
Capital expenditure	65,989	46,089	41,879	0	153,957
Impairments	(6,053)	(6,255)	(5,418)	0	(17,726)
Thereof property, plant and equipment	(4,931)	(6,224)	(5,418)	0	(16,573)
Thereof intangible assets	(1,122)	(31)	0	0	(1,153)
Depreciation/amortization	(32,685)	(25,079)	(24,454)	0	(82,218)
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)

[1] Including Middle East/Africa.

RECONCILIATION

SALES

(in EUR thousand)

	2015	2014
Sales – operating segments	**2,808,746**	**2,571,616**
Corporate units	0	0
Consolidation	0	0
TOTAL	**2,808,746**	**2,571,616**

OPERATING INCOME

(in EUR thousand)

	2015	2014
Segment profit – operating segments	**874,422**	**848,500**
Depreciation/amortization – operating segments	(82,218)	(75,801)
Impairments – operating segments	(17,726)	(15,281)
Special items – operating segments	(2,323)	(9,884)
Operating income (EBIT) – operating segments	**772,155**	**747,534**
Corporate units	(329,120)	(287,104)
Consolidation	4,677	(11,709)
Operating income (EBIT) HUGO BOSS Group	**447,712**	**448,721**
Net interest income/expenses	**(5,901)**	**(4,518)**
Other financial items	**(21,837)**	**(7,055)**
Earnings before taxes HUGO BOSS Group	**419,974**	**437,148**

SEGMENT ASSETS

(in EUR thousand)

	2015	2014
Segment assets – operating segments	**631,533**	**553,157**
Corporate units	167,590	204,783
Consolidation	0	0
Current tax receivables	21,124	8,291
Current financial assets	29,017	22,528
Other current assets	104,582	83,022
Cash and cash equivalents	81,409	128,631
Non-current assets held for sale	487	1,136
Current assets HUGO BOSS Group	**1,035,742**	**1,001,548**
Non-current assets	764,603	660,252
Total assets HUGO BOSS Group	**1,800,345**	**1,661,800**

CAPITAL EXPENDITURES

(in EUR thousand)

	2015	2014
Capital expenditure – operating segments	**153,957**	**99,838**
Corporate units	66,384	34,898
Consolidation	0	0
TOTAL	**220,341**	**134,736**

IMPAIRMENTS

(in EUR thousand)

	2015	2014
Impairment – operating segments	**17,726**	**15,281**
Corporate units	0	0
Consolidation	0	0
TOTAL	**17,726**	**15,281**

DEPRECIATION/AMORTIZATION

(in EUR thousand)

	2015	2014
Depreciation/amortization – operating segments	**82,218**	**75,801**
Corporate units	42,155	31,678
Consolidation	0	0
TOTAL	**124,373**	**107,479**

GEOGRAPHIC INFORMATION

(in EUR thousand)

	Third party sales		Non-current assets	
	2015	2014	2015	2014
Germany	464,753	446,246	203,769	180,682
Other European markets	1,218,510	1,117,688	218,314	185,479
U.S.A.	529,799	464,496	68,891	58,790
Other North, Central and South American markets	140,667	123,971	18,441	13,581
China	232,271	215,695	42,004	36,456
Other Asian markets	160,658	145,856	61,052	50,200
Licenses	62,088	57,664	15,014	15,029
TOTAL	**2,808,746**	**2,571,616**	**627,485**	**540,217**

37| RELATED PARTY DISCLOSURES

In the reporting period from January 1 to December 31, 2015, the following transactions requiring disclosure were conducted with related parties:

PARENT COMPANY

As at January 1, 2015, Red & Black Lux S.à r.l., Luxembourg, held 31.82% of the voting rights in HUGO BOSS AG. Red & Black Lux S.à r.l., Luxembourg, sold all of the voting rights which it held in HUGO BOSS AG effective March 17, 2015. The period of office of the six members of the Supervisory Board representing the shareholders, thereof two representatives of the Permira Group, expired at the end of the Annual Shareholders' Meeting on May 12, 2015.

Following the sale of all their share holdings, Permira Holdings Limited, Guernsey, and the parties related to it, no longer constitute related parties as defined in IAS 24 as at December 31, 2015. In the period from January 1 until May 12, 2015, as in the prior year, no legal transactions were conducted with Permira Holdings Limited, Guernsey, as the former ultimate parent company of the HUGO BOSS Group, or with companies affiliated with this company.

NON-CONSOLIDATED SUBSIDIARIES

In fiscal year 2015, sales of EUR 575 thousand arose from business relations with non-consolidated subsidiaries and were matched by outstanding receivables of the same amount as at December 31, 2015. In the prior year no transactions were conducted with the subsidiary HUGO BOSS Korea Ltd., Seoul, South Korea, which was not consolidated at the time. The company has been included in the basis of consolidation since fiscal year 2015.

ENTITIES UNDER JOINT CONTROL

Within the scope of existing real estate lease agreements, rents in the amount of EUR 11,576 thousand were paid to companies under joint control in fiscal year 2015 (2014: EUR 7,069 thousand). There were no open liabilities relating to these business transactions as at December 31, 2015. 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 12 years at GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG and 10 years at Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

A construction support services agreement is also in place between Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG and HUGO BOSS AG. Prior to the commencement of operations at the flat-packed goods distribution center, this encompassed the preparation, execution and supervision of construction projects, including preparation of building applications, validation of invoicing and the conclusion of agreements on behalf and for the account of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. In 2014, HUGO BOSS AG received a lump-sum amount of EUR 250 thousand in consideration of the construction support services provided. This amount was due for payment upon the distribution center going into operation in 2014.

The construction services contract was extended after the distribution center went into operation to ensure that structural and technical modifications could be made in the period from 2015 until 2024. In 2015, HUGO BOSS AG received EUR 10 thousand in consideration of the further construction support services. No further lump-sum payments are planned.

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 253 to 255.

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 4,498 thousand in 2015 (2014: EUR 4,434 thousand). In 2015, a service cost of EUR 2,033 thousand was incurred for company pension plans (2014: EUR 2,148 thousand). An expense of EUR 564 thousand was incurred for other long-term employee benefits reportable in 2015 (2014: EUR 534 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.

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 4,918 thousand in fiscal year 2015 (2014: EUR 4,434 thousand). Of this amount, EUR 3,690 thousand was attributable to fixed salary components including fringe benefits (2014: EUR 3,682 thousand).

An amount of EUR 644 thousand (2014: EUR 752 thousand) was for the annual bonus agreed for fiscal year 2015. The multiple-year bonus for the period from 2013 until 2015 accounts for a total of EUR 584 thousand (2014: EUR 0 thousand). The annual bonus for 2015 and the multiple-year bonus for 2013 until 2015 will be paid in fiscal year 2016 within a week of the Supervisory Board approving the consolidated financial statements for 2015.

In fiscal year 2015, the Managing Board received an advance installment totaling EUR 2,844 thousand towards the multiple-year bonus for 2014 (2014: EUR 2,844 thousand advance towards the multiple-year bonus for 2013), the final amount of which is calculated on the basis of target achievement for the multiple-year period from 2014 until 2016. Total advances towards the multiple-year bonuses for 2013 until 2015 and for 2014 until 2016 stood at EUR 5,688 thousand as at the reporting date (2014: EUR 2,844 thousand).

Moreover, no loans were granted to nor contingent liabilities assumed in favor of members of the Managing Board in fiscal year 2015.

Compensation of former members of the Managing Board

In 2015, former members of the Managing Board and their surviving dependents received total compensation of EUR 245 thousand (2014: EUR 197 thousand).

There are pension obligations of EUR 26,525 thousand for former members of the Managing Board and their surviving dependents (2014: EUR 27,700 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 17,982 thousand (2014: EUR 17,801 thousand).

Compensation of the Supervisory Board
The Supervisory Board received compensation for its activities in 2014 amounting to EUR 2,184 thousand. For fiscal year 2015, total compensation is expected to come to EUR 2,087 thousand. This figure includes a variable component of EUR 1,332 thousand (2014: EUR 1,454 thousand), which is calculated on the basis of the expected earnings per share in the consolidated financial statements.

Other related party disclosures
In total, the members of the Managing Board and Supervisory Board hold less than 1% (2014: 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, 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

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 one-time payment. Following the restructuring performed at the end of 2009, Red & Black TopCo S.à r.l. had a direct 100% holding in Valentino Fashion Group S.p.A via Red & Black Lux S.à r.l. up until its sale in 2012 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 of the managers in Red & Black TopCo S.à r.l. was held via a German partnership with "Red & Black Management Beteiligungs GmbH & Co. KG ("MPP KG"). The managers were limited partners in MPP KG and entered in the commercial register. The limited-partnership share capital was contributed in cash by the partners. The amount of the limited-partnership share equaled the market value of the shares granted in return.

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 previous managers continued to hold the shares in MPP KG they acquired in 2008.

Via the shares held in MPP KG, the management of HUGO BOSS was able to participate in the proceeds from a stock-market flotation or the sales of the shares in HUGO BOSS AG. The right to participate in these MPP proceeds arose pro rata temporis over a multi-year vesting period ending on December 31, 2014. Entitlement to a share of the proceeds was only granted if the manager concerned had not yet left the HUGO BOSS Group on the date of the sale. If a manager left the company prematurely, Red & Black TopCo S.à r.l. had the right to acquire the interests held by the manager concerned.

Red & Black Lux S.à r.l. sold all of the voting rights which it held in HUGO BOSS AG effective March 17, 2015. In connection with this, MPP KG was wound up, the proceeds of the sale distributed to the shareholders and MPP terminated. As a result of the structure of the MPP, this did not have any effect on profit and loss in the HUGO BOSS Group; nor was it required to recognize any assets or liabilities as at the reporting date.

39| SUBSEQUENT EVENTS

Between the end of fiscal year 2015 and the release for publication of this report on February 23, 2016 there were no notable macroeconomic, socio-political, industry-related or company-specific changes which could have a material impact on the Company's results of operations, net assets and financial position according to the expectations of management.

40| GERMAN CORPORATE GOVERNANCE CODE

In December 2015, 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)

	2015	2014
Audit services	1,760	1,467
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	481	388
Other assurance services	134	104
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	50	45
Tax advisory services	652	374
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	433	228
Other services	171	180
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	59	56
TOTAL	**2,717**	**2,125**

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

MICHEL PERRAUDIN (from May 12, 2015) Hergiswil, Switzerland	Management Consultant Chairman of the Supervisory Board
DR. HELLMUT ALBRECHT (till May 12, 2015) 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 (till May 12, 2015) Reutlingen, Germany	First Authorized Representative of the German Metalworkers´ Union (IG Metall), Reutlingen/Tübingen, Germany Employee representative
HELMUT BRUST (till May 12, 2015) Bad Urach, Germany	Senior Head of Corporate Culture, Health & Safety HUGO BOSS AG, Metzingen, Germany Employee representative
DAMON MARCUS BUFFINI (till May 12, 2015) Surrey, Great Britain	Managing Director Permira Advisers LLP, London, Great Britain
TANJA SILVANA GRZESCH (from May 12, 2015) Sonnenbuehl, Germany	Deputy Chairperson and Treasurer of the German Metalworkers´ Union (IG Metall), Reutlingen/Tübingen, Germany Employee representative
ANITA KESSEL (from May 12, 2015) Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
KIRSTEN KISTERMANN-CHRISTOPHE (from May 12, 2015) Oberursel, Germany	Managing Director Société Générale S.A., Frankfurt/Main, Germany
FRIDOLIN KLUMPP (from May 12, 2015) Caslano, Switzerland	Senior Vice President Global Human Resources HUGO BOSS AG, Metzingen, Germany Employee representative
MONIKA LERSMACHER Kornwestheim, Germany	Secretary of the German Metalworkers´ Union IG Metall Area Headquarters Baden-Württemberg, Stuttgart, Germany Employee representative

DR. KLAUS MAIER (till May 12, 2015) 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
AXEL SALZMANN (from May 12, 2015) Großhansdorf, Germany	Chief Financial Officer Bilfinger SE, Mannheim, Germany
BERND SIMBECK (till May 12, 2015) Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative
HERMANN WALDEMER (from May 12, 2015) Blitzingen, Switzerland	Consultant
DR. MARTIN WECKWERTH (till May 12, 2015) 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]

Michel Perraudin	ODLO Sports Holding AG[2]	Huenenberg, Switzerland
Kirsten Kistermann-Christophe	GSW Immobilien AG	Berlin, Germany
Monika Lersmacher	Berthold Leibinger GmbH	Ditzingen, Germany
Hermann Waldemer	FCA US LLC	Auburn Hills, MI, United States
Gaetano Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Alpitour S.p.A.	Turin, Italy
	Clouditaly Telecommunicazioni S.p.A.	Rome, Italy
	GGDB Holding S.p.A.	Milan, Italy
	Tipo S.p.A.	Milan, Italy
Luca Marzotto	Zignago Holding S.p.A.[2]	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.	Fossalta di Portogruaro, Italy
	Centervue S.p.A.	Padua, Italy
	Cà del Bosco Srl - Società Agricola	Erbusco, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Golden Goose S.p.A.	Milan, Italy
	GGDB Holding S.p.A.	Milan, Italy
	Telecom Italia S.p.A.	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, Deutschland

[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 23, 2016

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 23, 2016

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 2015. 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 23, 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Matischiok
Wirtschaftsprüfer
[German Public Auditor]

Biller
Wirtschaftsprüferin
[German Public Auditor]

ADDITIONAL INFORMATION

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ADDITIONAL INFORMATION

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 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

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.

CLICK & COLLECT
Click & Collect indicates the process of collecting online ordered pieces in bricks-and-mortar stores.

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.

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.

DEFERRED TAXES
In accordance with IAS 12, deferred taxes are recognized to allow for any differences in the tax base. It arises in connection with temporary differences between the consolidated financial statements and the applicable tax base so that tax expense can be presented appropriately within consolidated net profit.

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.

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
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.

FULL CANVAS
Full canvas is a special finishing type of suits, where the inlay of the jacket is not glued, but completely sewn in. This has the effect that, while being worn, it can better adapt to the shape of the body. By waiving the use of glue, the suit gains longevity, especially when worn often.

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 26000

The management guideline ISO 26000 supports companies by providing recommendations for ethical activity. This includes sustainable development, compliance with applicable law and the observance of international ethical standards.

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 writing instruments.

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.

MONOBRAND ENVIRONMENT
Monobrand environment 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.

MULTIBRAND ENVIRONMENT
Multibrand environment are used to offer different brands at one point of sale.

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

OFF-PRICE CHANNELS
Off-price channels are an option to sell remaining stocks at favourable conditions. At HUGO BOSS this is managed via the outlet channel.

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.

ONLINE FULFILLMENT
Coordination of online retail store activities such as order-processing, send-out of orders, return management or costumer service. HUGO BOSS will operate these processes by itself in the future.

ONLINE STORE FRONTEND
Website of the online store that is used by the costumer. It is the opposite of the backend, which is the content management system of the online store.

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 PERSUANT 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 non-recurring 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

TAILORING

Garments such as suits or business shirts which are manufactured in series-production and primarily worn for professional purposes or on formal occasions.

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 CALENDAR 2016

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MARCH
Press and Analysts' Conference

3

MAY
Publication of the
First Quarter Report 2016

19

MAY
Annual Shareholders' Meeting

5

AUGUST
Publication of the
First Half Year Report 2016

4

NOVEMBER
Publication of the
Nine Months Report 2016

HUGO BOSS TEN-YEAR-OVERVIEW

	2015	2014
Net sales (in EUR million)	2,808.7	2,571.6
Net sales by segments		
Europe incl. Middle East and Africa	1,683.2	1,566.5
Americas	670.5	586.6
Asia/Pacific	392.9	360.8
Licenses	62.1	57.7
Net sales by distribution channel		
Group's own retail business	1,688.8	1,471.3
Wholesale	1,057.8	1,042.6
Licenses	62.1	57.7
Results of operations (in EUR million)		
Gross profit	1,852.8	1,699.1
Gross profit margin in %	66.0	66.1
EBITDA	589.9	571.5
EBITDA before special items	594.1	590.8
Adjusted EBITDA margin in %[1]	21.2	23.0
EBIT	447.7	448.7
Net income attributable to equity holders of the parent company	319.3	333.3
Net assets and liabiltiy structure as of December 31 (in EUR million)		
Trade net working capital	527.6	503.0
Non-current assets	764.6	660.3
Equity	955.7	843.9
Equity ratio in %	53.1	50.8
Total assets	1,800.3	1,661.8
Financial position and dividend (in EUR million)		
Free cash flow	207.6	268.4
Net financial liabilities (as of December 31)	82.2	35.7
Capital expenditure	220.3	134.7
Depreciation/amortization	142.1	122.8
Total leverage (as of December 31)[2]	0.1	0.1
Amount distributed	249.8[3]	249.8
Additional key figures		
Employees (as of December 31)	13,764	12,990
Personnel expenses (in EUR million)	562.8	514.4
Number of Group's own retail stores	1,113	1,041
Shares (in EUR)		
Earnings per share		
Ordinary share	4.63	4.83
Preferred share	–	–
Dividend per share		
Ordinary share	3.62[3]	3.62
Preferred share	–	–
Last share price (as of December 31)		
Ordinary share	76.60	101.70
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.
[3] Dividend proposal.
[4] Special dividend payment of EUR 345.1 million and EUR 5.00 per ordinary and preferred share.

2013	2012	2011	2010	2009	2008	2007	2006
2,432.1	2,345.9	2,058.8	1,729.4	1,561.9	1,686.1	1,632.0	1,495.5
1,457.3	1,378.0	1,245.4	1,073.2	1,041.3	1,170.0	1,151.1	1,056.8
570.1	558.7	454.8	380.7	312.2	307.0	298.0	273.1
346.8	352.7	309.3	230.4	164.7	162.1	134.0	122.5
57.9	56.5	49.3	45.1	43.7	47.0	48.9	43.1
1,314.1	1,149.7	924.2	691.1	510.3	455.8	416.1	358.2
1,060.1	1,139.7	1,085.3	993.2	1,007.9	1,183.3	1,167.0	1,094.3
57.9	56.5	49.3	45.1	43.7	47.0	48.9	43.1
1,579.6	1,444.1	1,252.0	1,022.4	836.2	891.0	845.0	759.8
64.9	61.6	60.8	59.1	53.5	52.8	51.8	50.8
561.4	523.9	468.0	340.1	226.5	235.8	284.2	235.3
564.7	528.1	469.5	353.7	269.2	272.2	271.8	235.3
23.2	22.5	22.8	20.5	17.2	16.1	16.7	15.7
456.2	432.0	394.6	267.9	157.4	174.8	216.8	186.3
329.0	306.5	284.9	188.9	105.5	112.0	152.0	130.3
431.8	408.5	399.6	322.7	295.6	458.3	421.7	339.6
611.5	587.7	503.2	454.5	435.0	463.0	400.5	397.9
740.3	631.6	517.3	361.2	205.5	202.9	550.7	499.9
49.3	40.0	36.4	26.9	19.3	17.5	53.0	53.0
1,501.3	1,577.2	1,419.6	1,342.8	1,065.4	1,161.6	1,039.3	943.1
230.0	220.6	194.9	246.3	299.5	48.1	33.0	76.1
57.0	130.4	149.1	201.1	379.1	583.2	168.2	112.1
185.3	165.8	108.5	55.6	48.3	118.8	84.7	98.5
105.3	91.9	73.4	72.2	69.1	61.0	67.4	49.0
0.1	0.2	0.3	0.6	1.4	2.1	0.6	0.5
230.5	215.3	199.1	139.7	66.6	94.9	100.4[4]	82.5
12,496	11,852	11,004	9,944	9,027	9,593	9,123	8,441
483.1	450.1	373.7	364.5	329.4	353.0	302.6	275.5
1,010	840	622	537	438	390	333	249
4.77	4.44	4.12	2.73	1.52	1.62	2.20	1.88
–	–	4.13	2.74	1.53	1.63	2.21	1.89
3.34	3.12	2.88	2.02	0.96	1.37	1.45[4]	1.19
–	–	2.89	2.03	0.97	1.38	1.46[4]	1.20
103.50	79.80	55.19	49.23	20.22	17.30	39.60	41.00
–	–	56.90	56.50	24.55	14.40	39.00	38.92
70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000
70,400,000	70,400,000	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