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Combined Management Report

GROUP PROFILE

BUSINESS ACTIVITIES AND GROUP STRUCTURE

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

Group at a glance

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

Positioning in the premium segment of the global apparel market

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

Collections development follows three steps

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

Long-standing collaboration with suppliers supplements own production

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

Sales activities globally focused

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

HUGO BOSS distribution channels

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

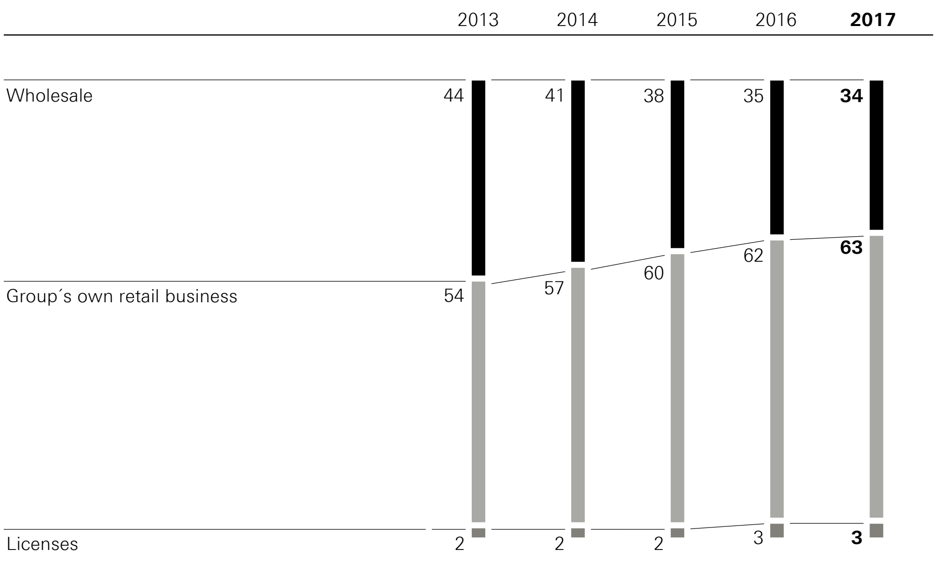
Group’s own retail business is the most important sales channel

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

Different cooperation models in wholesale business

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

Sales by distribution channel (in %)



Legal structure of the Group reflects dual management and control structure

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

Regional alignment of organizational structure

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

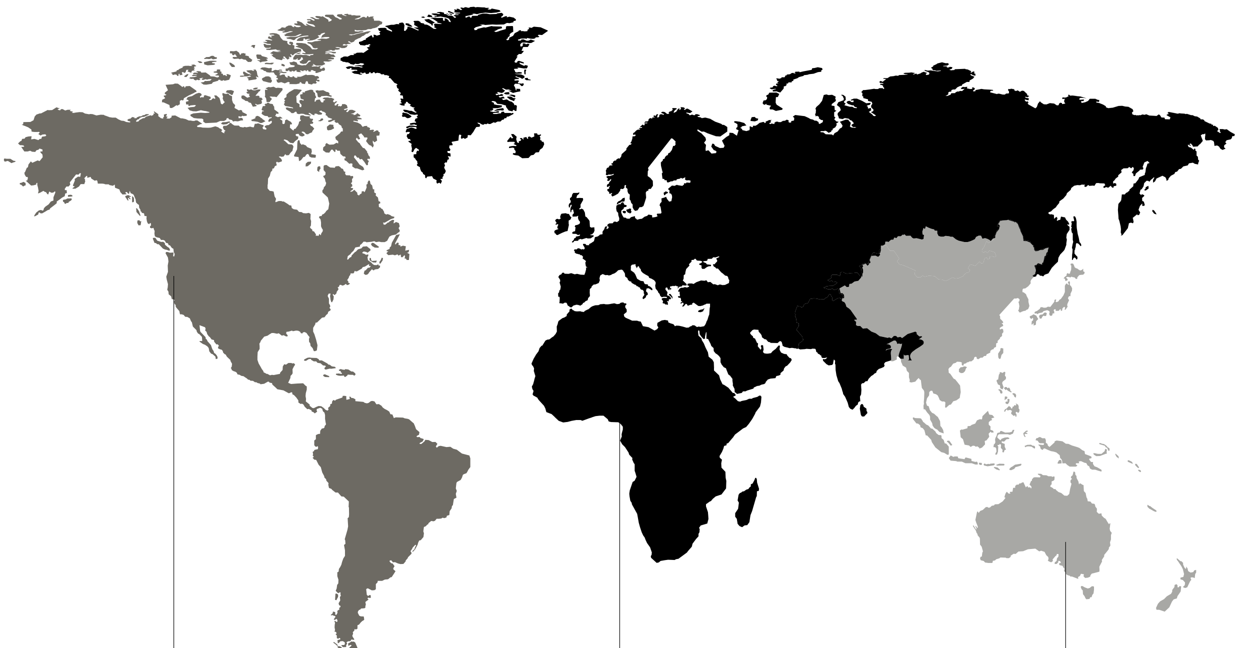
HUGO BOSS Group structure

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

Markets implement Group strategy

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

Key locations/Global market presence



AMERICAS

~ 1,800
Points of sale

90
Freestanding retail stores

2
Showrooms

13% Employees

USA (New York)
Headquarters Americas,
Designstudio Womenswear

USA (Midway)
Distribution center

EUROPE
(including Middle East and Africa)

~ 5,500
Points of sale

192
Freestanding retail stores

10
Showrooms

74% Employees

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

Switzerland (Coldrerio)
Development and pattern design

Turkey (Izmir)
Production

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

Poland (Radom)
Production

ASIA/PACIFIC

~ 500
Points of sale

157
Freestanding retail stores

1
Showroom

13% Employees

Hong Kong
Headquarters, Asia/Pacific

GROUP MANAGEMENT

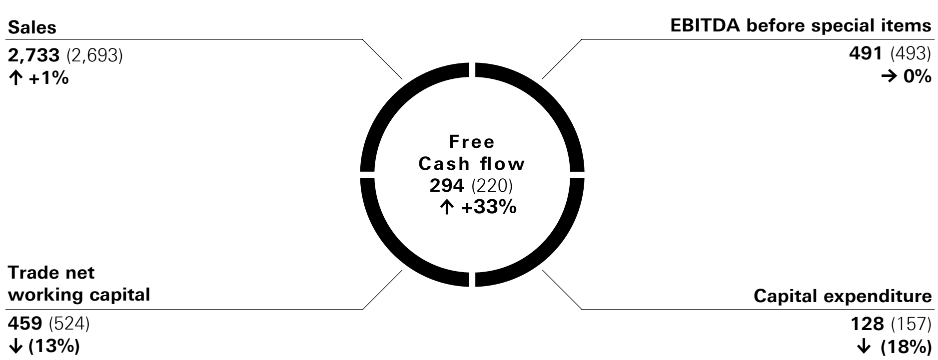
- **Long-term maximization of free cash flow to increase enterprise value**
- **Sales and EBITDA before special items the main performance indicators**
- **Group planning, reporting, investment controlling core elements of Group management**

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

Key performance indicators

Key performance indicators (in EUR million)

2017 (2016)



Focus on long-term maximization of free cash flow

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

Definition Free cash flow

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

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

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

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

Definition EBITDA before special items

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

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

Focus on increasing productivity and cost discipline

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

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

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

Definition Trade net working capital

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

Active management of efficient capital deployment

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

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

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

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

Free cash flow primarily used to fund the dividend distribution

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

Core elements of the Group's internal management system

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

Rolling update of Group planning

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

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

Continuous reconciliation of actual and forecast data

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

Regular analysis of important early indicators

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

Investment controlling secures Group's profitability targets

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

GROUP STRATEGY

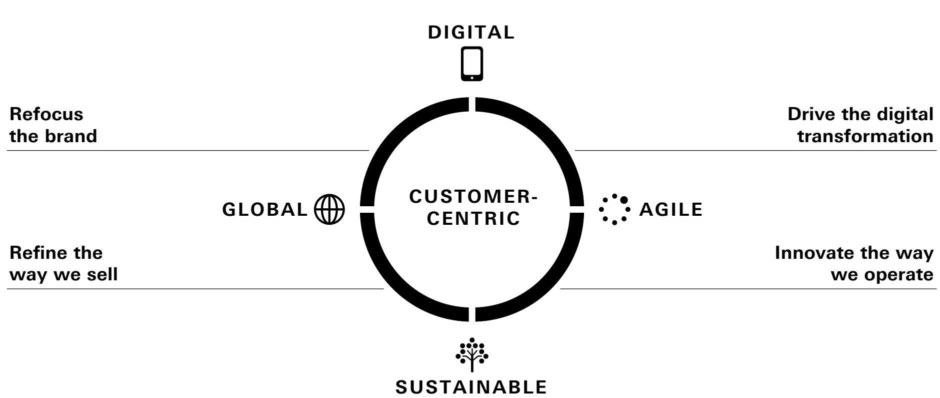
- **Group strategy takes account of changes in environment**
- **Defined on the basis of four strategic fields of action**
- **The goal is to return to sustainable and profitable growth**

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

Group strategy aims at return to sustainable and profitable growth

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

Strategic fields of action



Growth strategy based on four pillars

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

Realigning the brand portfolio

Focus on BOSS and HUGO

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

Two strong brands

BOSS
HUGO BOSS

Brand values
Masculinity/Femininity
Sexiness
Success
Style
Precision

BOSS dresses the drive.

Shared values

Innovation
Premium quality and perfect fit
Sustainability
Trustworthiness
Authenticity

HUGO
HUGO BOSS

Brand values
Globally engaged
Always curious
Authentically expressive

HUGO is the platform of self-expression.

BOSS brand strategy

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

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

Integration of BOSS Orange and BOSS Green completed

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

BOSS addressing differing customer expectations in the upper premium segment

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

Repositioning supported with numerous events and campaigns

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

HUGO brand strategy

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

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

Social media activities to increase market reach

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

Womenswear

Womenswear remains an important part of the business model

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

Further refinement of the distribution strategy

Distribution strategy aligned to customer demand

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

Distribution strategy

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

Licenses (2017: 3%)

Improvement in selling space productivity

Ambitious goals for increasing selling space productivity

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

→ **Group Earnings Development, Sales Development**

Improved service to enhance shopping experience

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

Exploitation of the full potential of online business

Ongoing optimization of the Group's own online store

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

Improvements in brand presentation planned in all digital channels

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

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

Omnichannel services link the website closely with physical stores

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

Cross-channel evaluation of sales potential

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

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

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

Digital transformation of the business model

Digitization of the business model increases customer value and improves efficiency

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

Digitization along the value chain

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

Growing digitization of the product development process

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

Digital transformation of production

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

Strong logistics platform ensures smooth distribution process

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

System-based inventory planning ensures orientation to customer demand

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

HUGO BOSS developing its own digital showroom

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

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

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

Active change in operating model and corporate culture

"Fast track" concept to complement regular collection creation process

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

New working methods accelerate processes Group-wide

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

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

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

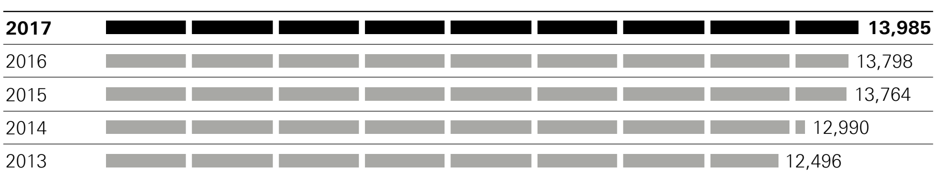
EMPLOYEES

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

Human resource work aligned with mission statement

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

Number of employees as of December 31

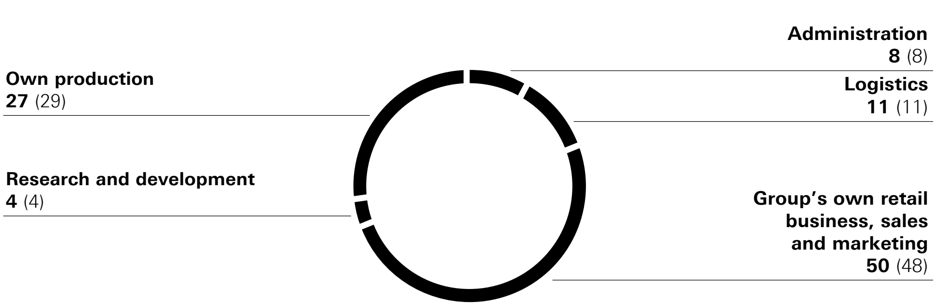


Slight increase in workforce in 2017

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

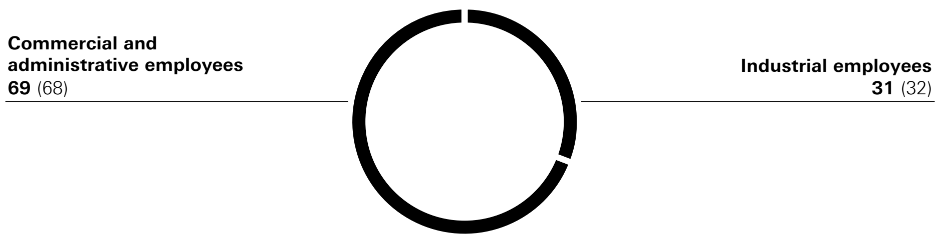
Employees by functional area as of December 31 (in %)

2017 (2016)



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

2017 (2016)

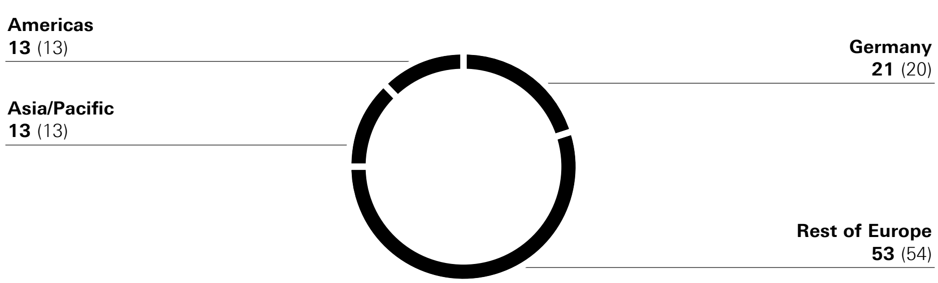


At the end of 2017, 9,683 employees (2016: 9,357) of the total workforce were in **commercial and administrative positions**, while 4,302 employees (2016: 4,441) of the total workforce were assigned to **industrial activities**. → Notes to the Consolidated Financial Statements, Note 8

Regional distribution of employees reflects global orientation

Employees by region as of December 31 (in %)

2017 (2016)



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

Employees in management

47%
Women
(2016: 45%)

53%
Men
(2016: 55%)

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

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

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

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

High proportion of women in management positions maintained

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

Group-wide employee survey conducted for the first time

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

Systematic employee training and development

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

Executive training expanded

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

Flexible working hours growing in importance

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

HUGO BOSS takes the health and safety of its employees seriously

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

Group-wide job assessment project commenced

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

Employee remuneration based on transparent system

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

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

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

HUGO BOSS enhancing its appeal as an employer

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

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

Training offerings to be broadened

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

RESEARCH AND DEVELOPMENT

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

Development activities are spread across five sites

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

Partnerships strengthen innovation

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

BOSS Athleisure is pioneering innovations

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

Product development process at HUGO BOSS

Creative management gathers inspiration via various channels

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

Digital prototypes shorten development times

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

Digital showroom for HUGO menswear collection

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

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

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

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

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

Slight increase in research and development employees

Number of employees in R&D as of December 31

2017	**588**
2016	577
2015	573
2014	555
2013	549

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

	R&D expenses (in EUR million)	**R&D expenses** (in % of sales)
2017	**63**	**2.3**
2016	64	2.4
2015	65	2.3
2014	62	2.4
2013	59	2.4

R&D expenses slightly below prior-year level

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

SOURCING AND PRODUCTION

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

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

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

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

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

Systematic orientation to strategically important partners

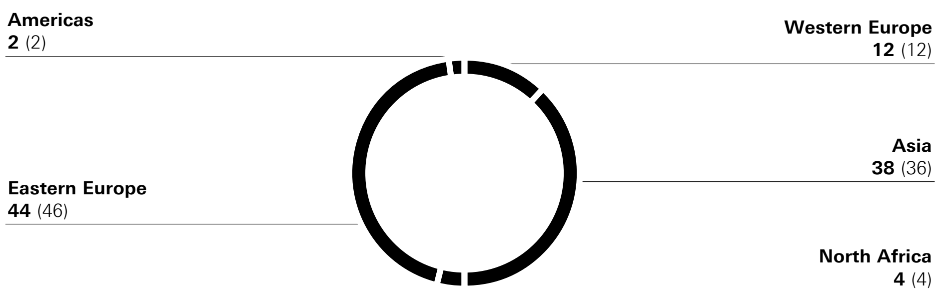
HUGO BOSS attaches key importance to the **careful selection of suppliers** and the establishment and maintenance of long-term strategic relationships. In addition to economic criteria, strict observance of environmental and social standards is of crucial importance in this respect. Product quality also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

Most fabrics are sourced in Europe

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

Regional split of sourcing and production volume (in %)

2017 (2016)



Izmir is the largest own production site

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

Successful digitization of production processes in Izmir

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

Izmir facility a forerunner in digitization

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

Numerous quality assurance measures implemented

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

High quality standards in suppliers' facilities

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

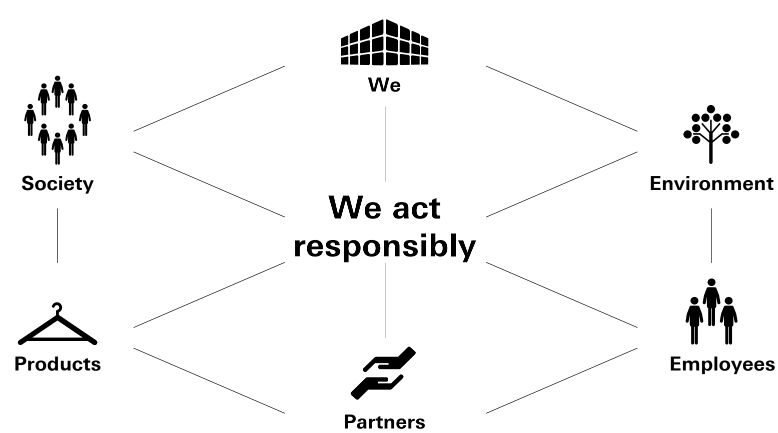
SUSTAINABILITY

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

Sustainability is a firm part of the Group strategy

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

Sustainability fields of action



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

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

We – “creating values together”

HUGO BOSS takes account of stakeholder interests

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

Constructive sharing at the second stakeholder dialog

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

Environment – “Preserving natural resources”

Environmental protection has high priority for HUGO BOSS

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

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

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

Optimization of transport routes reduces emissions

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

Employees – "Fostering a fair and responsible culture"

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

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

Employee satisfaction reaches 70%

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

Ongoing internal sharing on sustainability matters

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

Partners – "Achieving joint responsibility"

Long-term partnerships with suppliers

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

Suppliers undertake to observe social standards

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

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

List of suppliers published on the corporate website

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

Cooperations promote observance of jointly defined standards

Products – "Ideas for tomorrow"

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

HUGO BOSS applies highest standards to its products

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

HUGO BOSS is committed to increasing the input of recycled materials

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

HUGO BOSS the recipient of the PETA Vegan Fashion Award

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

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

Society – “Promoting perspectives”

Corporate citizen strategy for unleashing individual potential

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

HUGO BOSS supports access to education

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

Close partnership with Parsons The New School for Design

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

Promoting culture is a key component of corporate citizen activities

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

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

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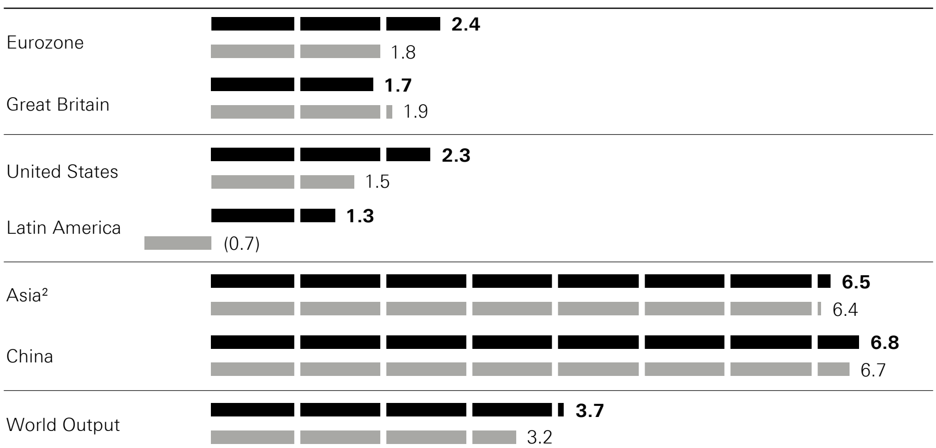
Combined Management Report

THE FISCAL YEAR

GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

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

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



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

Upturn in global economic growth

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

European economy on a growth trajectory

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

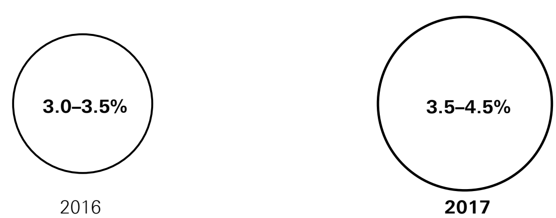
Stronger US economic growth than last year

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

China remains growth engine of Asia region

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

Industry growth[1] (in %)



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

Positive industry development in 2017

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

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

Tourism bolsters industry growth in Europe

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

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

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

China drives industry growth in Asia

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

COMPARISON OF ACTUAL AND FORECAST BUSINESS PERFORMANCE

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

Strategic realignment shows first signs of success

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

Group sales outperform expectations

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

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

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

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

Improved momentum of comp store sales

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

EBITDA before special items stable

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

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

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

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

GROUP EARNINGS DEVELOPMENT

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

Sales performance

Currency-adjusted Group sales up 3%

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

Sales by region

Sales by region (in EUR million)

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

[1] Including Middle East and Africa.

Currency-adjusted sales growth in all regions

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

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

Sales by distribution channel

Sales by distribution channel (in EUR million)

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

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

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

Decline in wholesale channel sales

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

License business up 14%

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

Sales by brand

Sales by brand (in EUR million)

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

Sales growth at BOSS and HUGO

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

Sales by gender

Sales by gender (in EUR million)

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

4% growth in menswear adjusted for currency effects

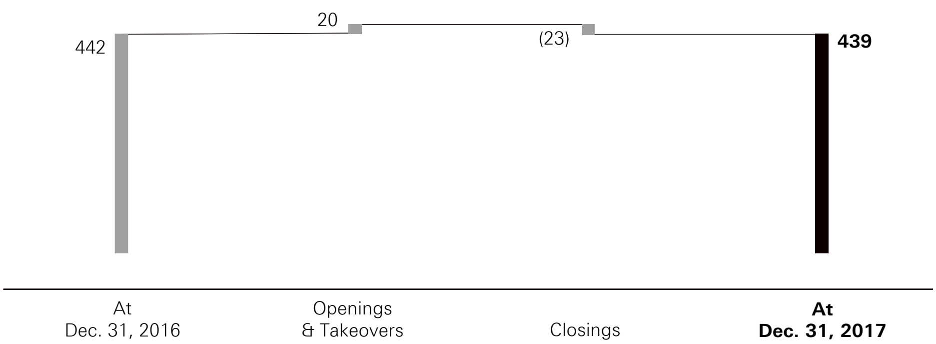
Menswear benefited from the favorable performance of the BOSS and HUGO brands. The sales decline in **womenswear** is attributable to the BOSS brand and related to changes in the marketing and distribution strategy resulting from the strategic realignment which was not fully offset by growth in the HUGO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

Number of group's own retail stores

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

Slight decrease in the number of freestanding retail stores

Number of Group´s own freestanding retail stores

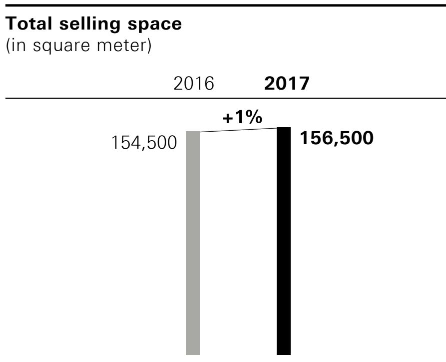


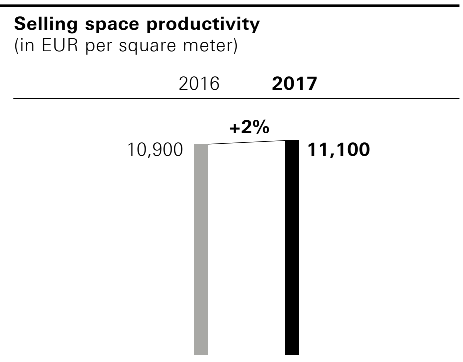
The **closures** particularly affected the sites that were included in the action plan drawn up in 2016 to ensure the sustained profitability of the store network. Individual stores with expiring leases were also closed. This was offset by 20 **new openings**. In some cases, this reflected site relocation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

Number of Group's own retail stores by region

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

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





Selling space productivity improves by 2%

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

Earnings Development

Income statement (in EUR million)

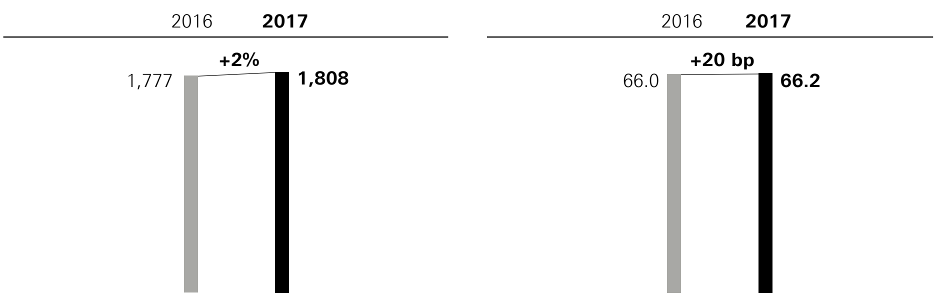
	2017	In % of sales	2016	In % of sales	Change in %
Sales	**2,733**	**100.0**	**2,693**	**100.0**	**1**
Cost of sales	(925)	(33.8)	(916)	(34.0)	(1)
Gross profit	**1,808**	**66.2**	**1,777**	**66.0**	**2**
Selling and distribution expenses	(1,195)	(43.7)	(1,175)	(43.6)	(2)
Administration expenses	(280)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

[1] Basic and diluted earnings per share.

Slight increase in gross profit margin

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

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



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

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

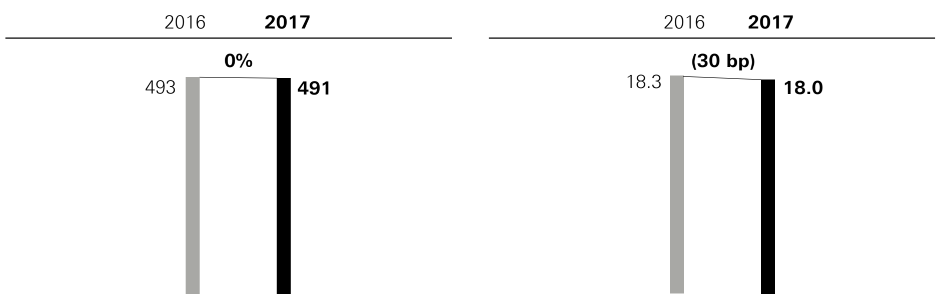
Strict cost management limits increase in administration expenses

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

Other operating income has a positive effect on profit

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

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



EBITDA before special items stable

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

Negative development of exchange rates weighs on financial result

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

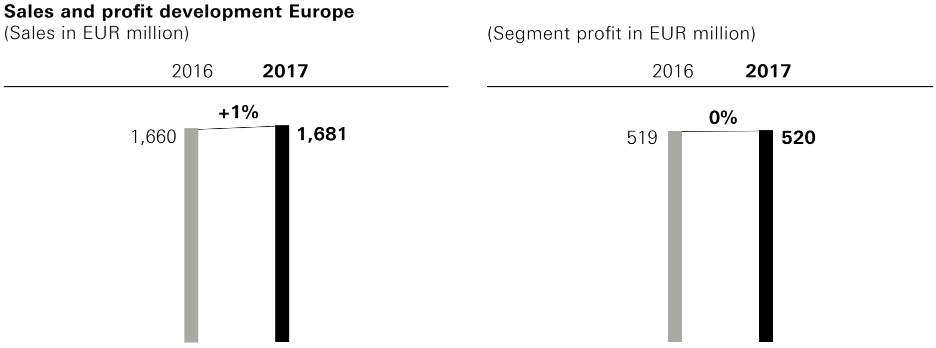
Higher Group tax rate in 2017

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

Sales and profit development of the business segments

Europe

Sales and profit development Europe



Sales increase in both distribution channels

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

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

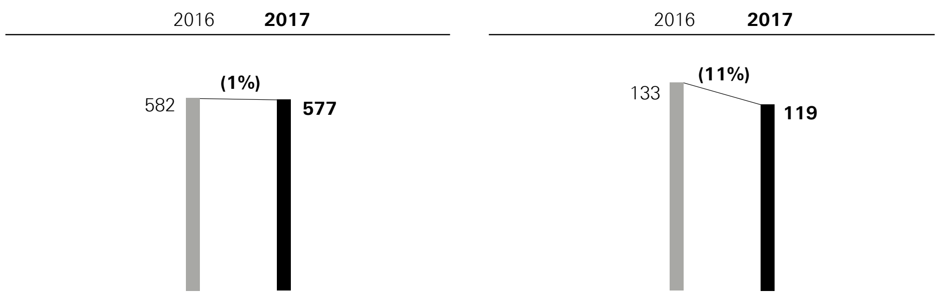
In **Germany**, sales came to EUR 448 million and were thus at the prior year level (2016: EUR 448 million). Sales remained stable both in the Group's own retail business and in the wholesale business. In **Great Britain** both distribution channels saw a growth in sales. Sales in the Group's reporting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

Segment profit stable

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

Americas

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



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

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

Own retail business in the United States grows in 2017

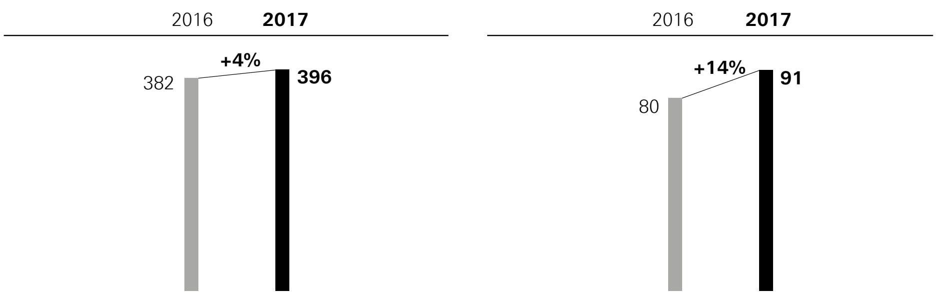
In the **United States**, sales fell by 4% in the reporting currency and by 1% in the local currency to EUR 423 million (2016: EUR 440 million). This was mainly due to a decline in sales with wholesale partners by a rate in the high single-digits. Increases in sales in the Group's own retail business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

Decline in segment profit

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

Asia/Pacific

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



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

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

China and Japan the strongest growing markets in the region

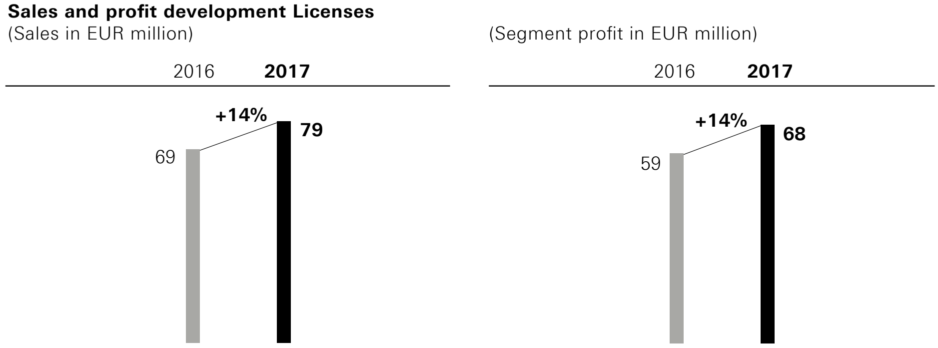
At EUR 221 million, sales in **China** were up 5% on the prior year (2016: EUR 211 million). This is equivalent to a currency-adjusted increase in sales of 8%. Business in mainland China was stronger than in Hong Kong and Macau. At EUR 61 million, sales in **Oceania** increased 1% in the Group's reporting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

Growth in segment profit

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

Licenses

Sales and profit development Licenses



License business grows 14% in sales and earnings

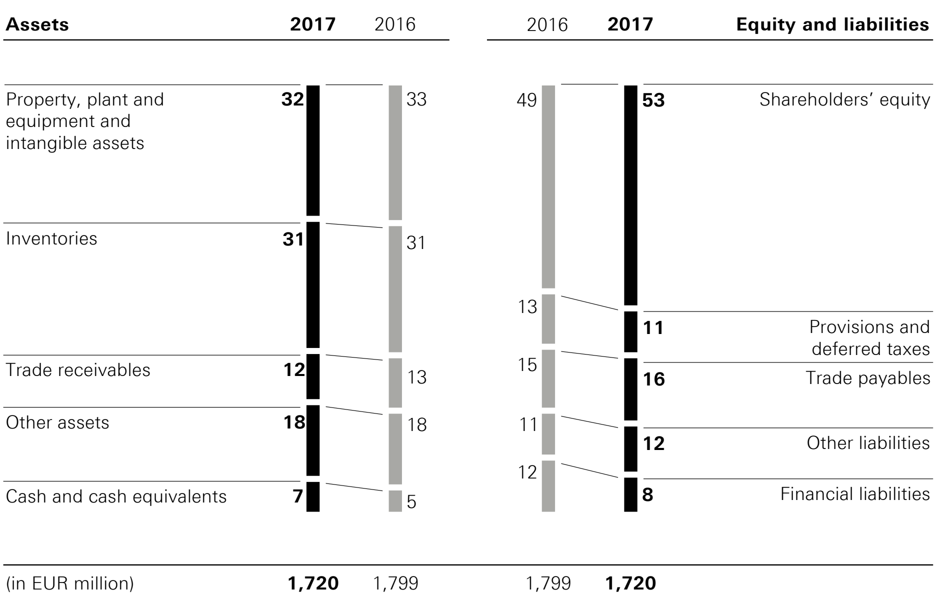
License business performed well in fiscal year 2017. → Group Earnings Development, Sales by Distribution Channel

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

NET ASSETS

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

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



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

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

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

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

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

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

Positive development of trade net working capital

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

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

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

Lower amount of debt as of the reporting date

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

FINANCIAL POSITION

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

Principles and goals of financial management

Central control of Group-wide financial management

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

"In-house bank" concept reduces cost of capital

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

Cash pooling lowers external financing requirements

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

Use of derivatives mitigates financial risks

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

Central management of counterparty risk

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

Capital structure and financing

Syndicated loan secures long-term financial flexibility

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

Financial leverage ratio substantially exceeds requirements in covenants

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

Lower debt as of the reporting date

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

Financial liabilities mainly subject to variable interest rates

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

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

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

Significant financial obligations under operating leases

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

Statement of cash flows

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

Statement of cash flows (in EUR million)

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

Strong increase in free cash flow

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

Cash inflow from operating activities above prior-year level

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

Reduction in cash outflow from investing activities

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

Lower debt causes increased cash outflow from financing activity

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

Net financial liabilities

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

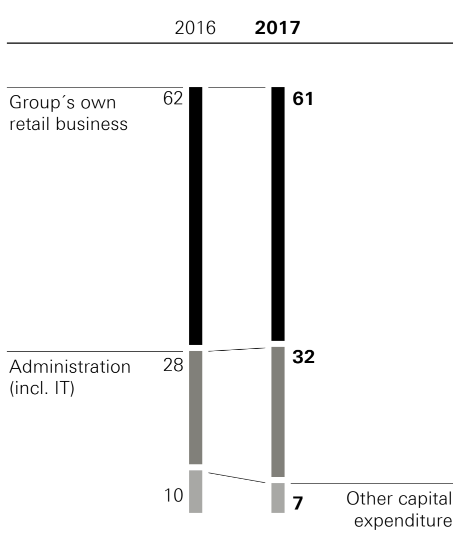
Net financial liabilities are the total of all financial liabilities due to banks less cash and cash equivalents. Liabilities from finance and operating leases are not included in the calculation of this indicator. The net financial liabilities decreased substantially as of the end of fiscal year 2017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

Capital expenditure

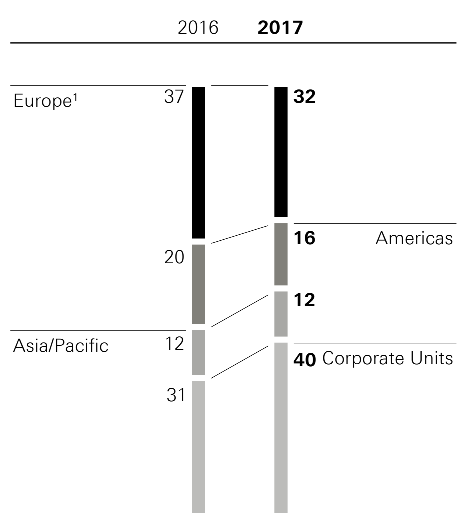
Lower investments in the fiscal year 2017

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

Capital expenditure by functional area (in %)



Capital expenditure by region (in %)



[1] Including Middle East and Africa.

Capital expenditure remains focused on own retail business

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

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

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

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

COMPENSATION REPORT

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

Compensation of the Managing Board

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

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

Main features of the compensation system for the Managing Board

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

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

Non-performance-related (fixed) compensation components

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

Performance-related (variable) compensation components

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

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

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

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

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

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

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

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

Target achievement for STI target components

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Multiple-year bonus

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

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

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

Pension provision and provision for surviving dependents

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

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

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

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

Contribution-based pension commitments

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

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

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

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

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

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

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

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

Supplementary pension plan

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

Pension commitments (in EUR thousand)

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

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

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

Benefits in the event of premature termination of employment

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

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

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

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

Total compensation (in EUR thousand)

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

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

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

Benefits granted for fiscal year 2017 under GCGC

Benefits granted

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

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

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

Benefits received for fiscal year 2017 under GCGC

Benefits received

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

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

Other compensation components

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

Total compensation of former members of the Managing Board

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

Compensation of the Supervisory Board

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

LEGAL DISCLOSURES

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

Corporate governance statement

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

Non-financial statement

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

Disclosures under takeover law

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

Composition of subscribed capital

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

Restrictions on voting rights or the transfer of shares

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

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

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

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

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

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

Shares with special rights granting control authority

There are no shares with special rights granting control authority.

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

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

Appointment and dismissal of the Managing Board

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

Amendments to the Articles of Association

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

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

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

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

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

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

Change of control regulations

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

Compensation agreements

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

REPORT ON RISKS AND OPPORTUNITIES

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

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

Risk report

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

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

Risk management system

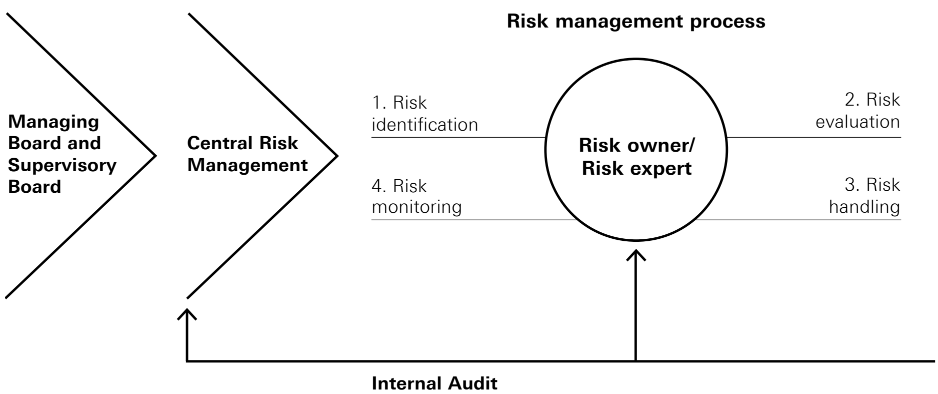
Clear definition of responsibilities

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

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

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

Main features of the HUGO BOSS risk management system



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

Risk identification

Risks should be identified at the earliest possible stage

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

Risk evaluation

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

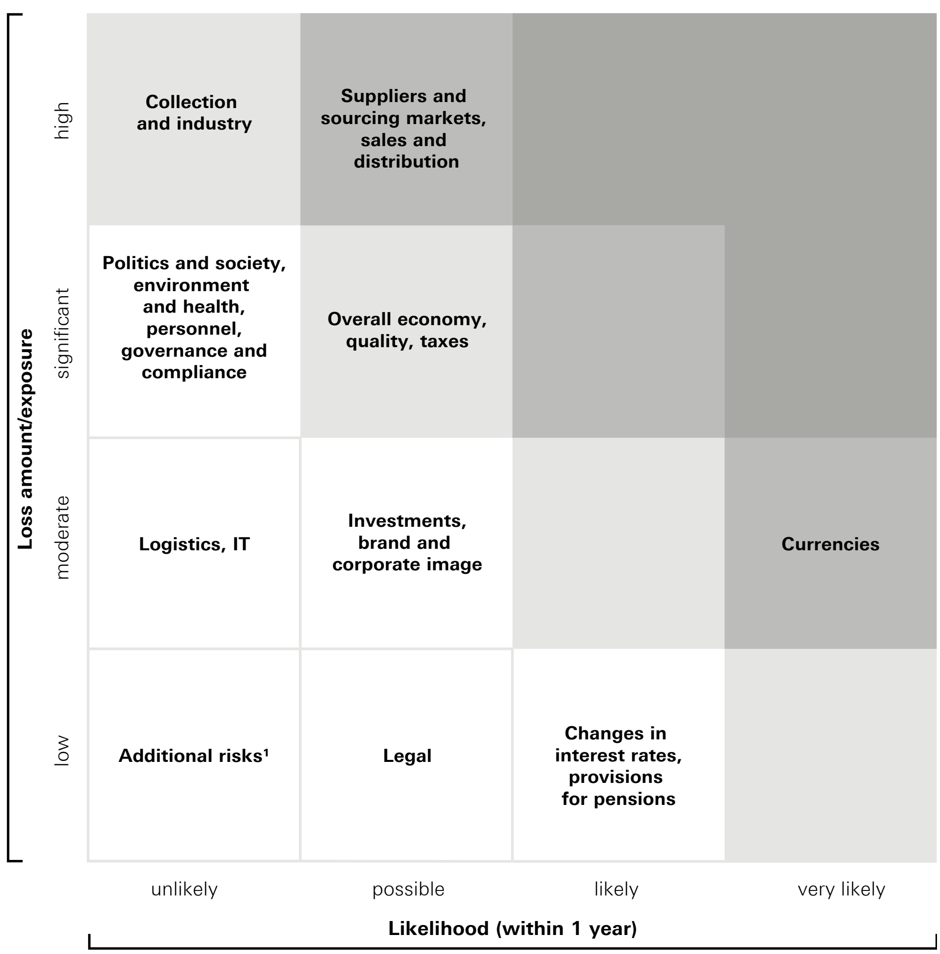
Measurement criteria for business risks

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

Evaluating the Likelihood of occurrence and financial impact

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

Risk overview - riskmap (aggregated risks)



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

The risk presentation follows a net view

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

Risks are evaluated using scenario analyses

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

Risk handling

Coordinated implementation of risk mitigation measures

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

Risk monitoring and reporting

Continuous monitoring of the risk situation

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

Regular risk reporting to the Managing Board and Audit Committee

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

Development and composition of total risk exposure

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

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

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

Assessment of the risk situation by the Managing Board

No risks exist that may jeopardize the existence of the Company

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

Illustration of material risks

Residual risks remain despite a modern risk management system

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

Risk categories

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

Material risks are shown in bold.

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

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

Material external risks

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

Macroeconomic risks

Industry development dependent on global economy

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

Continuous monitoring of early indicators ensures responsiveness

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

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

Growth expected for global economy and the industry

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

Political and social risks

Political and social risks can influence consumer behavior

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

Continuing uncertainties set to shape events in 2018

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

Brexit negotiations carry risks

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

HUGO BOSS addresses the increasing significance of political and social risks

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

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

Diversifying the sales markets reduces country risk

Environmental and health risks

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

Water scarcity has long-term risk potential

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

HUGO BOSS has implemented a central emergency management system

Material strategic risks

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

Collection and industry risks

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

Changes in trends cause collection and industry risks

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

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

Early alignment towards increased demand for casual and athleisurewear

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

Realignment of the brand strategy involves collection risk

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

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

Risks to the brand and corporate image

A wide range of risks to the brand and corporate image

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

Safeguarding the brand image a high priority

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

Corporate communication in constant dialog with stakeholders

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

Investment risks

Own retail activity involves investment risk

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

Risk of impairment of non-financial assets

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

Investment controlling secures Group's profitability targets

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

Material financial risks

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

Currency risks

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

Currency risks from global sourcing and sales activities

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

Significant financing loans hedged using forward exchange contracts

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

Balance sheet and income statement influenced by translation risk

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

Currency risks are managed centrally

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

Cash flow hedging reduces currency risk from production activities

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

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

Transaction risk quantified by sensitivity analysis

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

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

Swiss franc and Russian ruble pose transaction risk

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

Translation effects to weigh heavily on earnings growth in 2018

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

Tax risks

Group tax department is responsible for the management of tax risks

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

Known tax risks are covered by provisions

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

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

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

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

Material operational risks

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

Risks associated with the suppliers and sourcing markets

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

Dependency on individual suppliers should be avoided

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

A wide range of measures implemented at production site in Turkey

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

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

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

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

Continuously improving the quality of forecasts should reduce scheduling risks

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

Quality risks

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

Ensuring product quality by means of an extensive range of measures

Logistics risks

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

Central distribution centers near to the corporate headquarters guarantee smooth logistics

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

A comprehensive fire protection and safety concept has been implemented

Sales and distribution risks

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

Central inventory and discount management system to reduce the inventory risk

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

A uniform, Group-wide process to value the inventory

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

A balanced customer structure to avoid overdependence

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

Receivables management follows uniform standards

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

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

Material organizational risks

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

IT risks

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

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

HUGO BOSS considers cyber attacks as an emerging risk

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

Personnel risks

The Group's personnel strategy addresses personnel risks

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

Governance and compliance risks

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

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

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

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

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

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

Using efficient IT systems

A uniform ERP system across the Group ensures control quality

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

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

SAP Security Policy protects the content relevant for accounting purposes

Clear definition of responsibilities

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

Central definition of reporting obligations and deadlines

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

The finance department develops guidelines for all accounting-related processes

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

Finance managers are responsible for accounting of Group companies

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

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

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

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

Training and development of employees

Regular training sessions on accounting-related topics

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

Opportunities report

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

Decentralized organization of opportunity management

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

Ongoing monitoring and close links to Group planning

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

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

External opportunities

Favorable macroeconomic developments

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

Changes in consumer behavior

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

Regulatory changes in the market environment

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

Financial opportunities

Favorable exchange rate and interest rate fluctuations

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

Strategic and operational opportunities

Growth in the relevant customer segment

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

Increased interest in fashion among men

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

Growing demand for casualwear and athleisurewear

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

Growth in contemporary fashion segment above market average

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

Increasing digitization of shopping habits and lifestyles

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

Growing need for individuality

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

Improvements in operational processes

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

Organizational opportunities

An active change to the corporate culture

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

Targeted employee development

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

Sustainable business model

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

SUBSEQUENT EVENTS AND OUTLOOK

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

Subsequent events

No reportable events

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

Outlook

Forward-looking statements are subject to opportunities and risks

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

External factors influence development of business

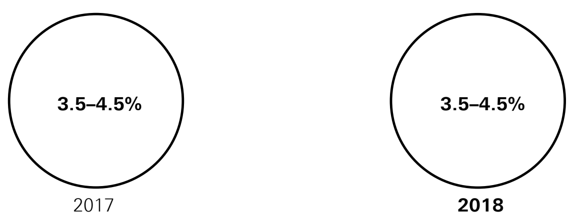
Economic and industry-specific developments have a major influence on the development of the Company's operations and financial position. The Group must accordingly base its forecasts for expected business performance on assumptions regarding global economic and industry trends. These assumptions are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

Continued upturn in global economic growth expected

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

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

Estimates of industry growth[1] (in %)



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

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

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

Athleisure segment also set to outperform the market in 2018

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

Continued strong demand expected in Europe

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

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

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

Industry growth in Asia expected to accelerate

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

Industry-related conditions remain challenging

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

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

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

All regions to contribute towards sales growth in 2018

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

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

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

Size of store network likely to remain stable

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

Wholesale business predicted to return to growth in 2018

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

Gross profit margin predicted to remain largely stable

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

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

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

Currency effects and cost increases weigh on earnings outlook

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

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

Increase in trade net working capital relative to sales expected

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

Increase in investment forecasted

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

Substantial decrease in free cash flow expected

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

Dividend of EUR 2.65 per share proposed

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

The occurrence of opportunities or risks may influence annual financial results

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

Target achievement and outlook

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

[1] On a currency-adjusted basis.