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CONSOLIDATED INCOME STATEMENT

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

Consolidated income statement (in EUR thousand)

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

Consolidated statement of comprehensive income (in EUR thousand)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of the HUGO BOSS Group as of December 31, 2017

Consolidated statement of financial position (in EUR thousand)

Assets	Notes	**2017**	2016
Intangible assets	(9)	182,940	185,449
Property, plant and equipment	(9)	365,661	416,278
Deferred tax assets	(6)	94,420	124,685
Non-current financial assets	(11), (21)	18,301	21,027
Non-current tax receivables	(6)	0	55
Other non-current assets	(11)	1,158	4,233
Non-current assets		**662,480**	**751,727**
Inventories	(12)	536,843	567,971
Trade receivables	(13)	207,626	228,176
Current tax receivables	(6)	49,337	42,617
Current financial assets	(11), (21)	38,834	28,339
Other current assets	(11)	109,227	96,302
Cash and cash equivalents	(14)	115,700	83,490
Current assets		**1,057,567**	**1,046,895**
Total		**1,720,047**	**1,798,622**
Equity and liabilities			
Subscribed capital	(15)	70,400	70,400
Own shares	(15)	(42,363)	(42,363)
Capital reserve		399	399
Retained earnings		868,612	813,289
Accumulated other comprehensive income		18,007	44,778
Equity attributable to equity holders of the parent company		**915,055**	**886,503**
Non-controlling interests		(350)	1,048
Group equity		**914,705**	**887,551**
Non-current provisions	(17), (18)	69,796	78,554
Non-current financial liabilities	(19), (21)	62,966	134,111
Deferred tax liabilities	(6)	10,634	9,193
Other non-current liabilities	(20)	55,132	49,353
Non-current liabilities		**198,528**	**271,211**
Current provisions	(17)	107,468	148,614
Current financial liabilities	(19), (21)	68,827	77,077
Income tax payables	(6)	32,263	27,339
Trade payables		285,778	271,731
Other current liabilities	(20)	112,478	115,099
Current liabilities		**606,814**	**639,860**
Total		**1,720,047**	**1,798,622**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Consolidated statement of changes in equity (in EUR thousand)

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

Consolidated statement of cash flows (in EUR thousand)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2017

General information

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

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

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

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

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

Financial Reporting

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

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

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

IFRS 15: Revenue from contracts with customers

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

IFRS 16: Leases

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

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

Consolidation principles

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

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

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

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

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

Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

Business combinations

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

Goodwill

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

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

Intercompany transactions

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

Determination of the functional currency

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

Foreign currency transactions and balances

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

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

Translation of the separate financial statements

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

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

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

Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

Impairment of non-financial assets

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

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

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

Inventories

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

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

Leases

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

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

Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions for pensions

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

Restructuring provisions

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

Share-based compensation programs

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

Contingent liabilities and contingent assets

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

Exercise of judgment and estimates when applying accounting policies

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

Business combinations/acquisitions of other business units

Takeovers in fiscal year 2017

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

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

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

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

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

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

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

Takeovers in fiscal year 2016

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

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

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

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

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

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

Notes to the Consolidated Income Statement

1 | Sales and cost of sales

(in EUR thousand)

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

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

2 | Selling and marketing expenses

(in EUR thousand)

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

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

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

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

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

3 | Administration expenses

(in EUR thousand)

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

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

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

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

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

4 | Other operating expenses and income

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

Store closures

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

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

Further other operating expenses

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

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

Further other operating income

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

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

5 | Financial result

(in EUR thousand)

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

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

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

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

6 | Income taxes

(in EUR thousand)

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

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

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

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

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

(in EUR thousand)

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

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

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

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

(in EUR thousand)

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

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

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

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

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

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

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

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

(in EUR thousand)

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

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

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

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

7|Earnings per share

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

(in EUR thousand)

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

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

8|Additional disclosures to the consolidated income statement

Personnel expenses

(in EUR thousand)

	2017	2016
Cost of sales	86,031	93,170
Selling and distribution expenses	355,381	338,464
Administration expenses	159,201	154,221
Other operating expenses/income	3,778	18,714
Total	**604,391**	**604,569**

The net expenses resulting from other operating expenses and income in the fiscal year 2017 were EUR 3,778 thousand and are largely attributable to restructuring expenses. In the prior year, net expenses of EUR 18,714 thousand were incurred mainly due to the changes in the Managing Board and organizational changes in the regions.

(in EUR thousand)

	2017	2016
Wages and salaries	514,758	517,174
Social security	84,932	80,342
Expenses and income for retirement and other employee benefits	4,701	7,053
Total	**604,391**	**604,569**

The average headcount for the year was as follows:

Employees

	2017	2016
Industrial employees	4,826	5,048
Commercial and administrative employees	11,144	10,785
Total	**15,970**	**15,833**

Ordinary depreciation

(in EUR thousand)

	2017	2016
Cost of sales	6,434	6,339
Selling and distribution expenses	92,425	102,255
Administration expenses	34,765	30,226
Total	**133,624**	**138,820**

Cost of materials

In the past fiscal year, the cost of materials came to EUR 803,009 thousand (2016: EUR 791,558 thousand).

Notes to the Consolidated Statement of Financial Position

9 | Intangible assets and property, plant and equipment

(in EUR thousand)

2017	Gross Value Jan. 1	Change in the basis of consolidation	Currency differences	Additions	Disposals	Transfers	Gross Value Dec. 31
Software, licences and other rights	**224,268**	0	(2,956)	28,103	(2,054)	0	**247,361**
Brand rights	**14,992**	0	0	0	0	0	**14,992**
Key Money	**47,396**	0	(1,696)	691	(1,017)	0	**45,374**
Internally developed Software	**5,603**	0	0	0	0	0	**5,603**
Goodwill	**54,200**	0	(2,701)	6,117	(286)	0	**57,330**
Intangible Assets	**346,459**	**0**	**(7,353)**	**34,911**	**(3,357)**	**0**	**370,660**
Lands and buildings	**231,804**	0	(20,921)	5,710	(408)	59	**216,244**
Technical equipment and machinery	**80,925**	(5)	(501)	2,707	(2,399)	33	**80,760**
Other equipment, operating and office equipment	**843,298**	(984)	(30,769)	74,553	(36,372)	1,922	**851,648**
Construction in progress	**9,177**	(33)	(768)	10,324	(86)	(2,014)	**16,600**
Property, plant and equipment	**1,165,204**	**(1,022)**	**(52,959)**	**93,294**	**(39,265)**	**0**	**1,165,252**
Total	**1,511,663**	**(1,022)**	**(60,312)**	**128,205**	**(42,622)**	**0**	**1,535,912**

2016	Gross Value Jan. 1	Change in the basis of consolidation	Currency differences	Additions	Disposals	Transfers	Gross Value Dec. 31
Software, licences and other rights	**199,074**	0	(1,940)	28,904	(1,845)	75	**224,268**
Brand rights	**14,992**	0	0	0	0	0	**14,992**
Key Money	**45,130**	0	(738)	3,160	(532)	376	**47,396**
Internally developed Software	**5,603**	0	0	0	0	0	**5,603**
Goodwill	**53,928**	0	73	838	0	(639)	**54,200**
Intangible Assets	**318,727**	**0**	**(2,605)**	**32,902**	**(2,377)**	**(188)**	**346,459**
Lands and buildings	**259,862**	0	(29,127)	1,265	(3,209)	3,013	**231,804**
Technical equipment and machinery	**83,532**	0	32	3,664	(7,494)	1,191	**80,925**
Other equipment, operating and office equipment	**737,998**	0	24,250	113,777	(40,702)	7,975	**843,298**
Construction in progress	**15,085**	0	(1)	5,161	(47)	(11,021)	**9,177**
Property, plant and equipment	**1,096,477**	**0**	**(4,846)**	**123,867**	**(51,452)**	**1,158**	**1,165,204**
Total	**1,415,204**	**0**	**(7,451)**	**156,769**	**(53,829)**	**970**	**1,511,663**

	Accumulated amortization, depreciation and impairment Jan. 1	Change in the basis of consolidation	Currency differences	Depreciation	Impairment	Disposals	Transfers	**Accumulated amortization, depreciation and impairment Dec. 31**	**Net Value Dec. 31**
	129,364	0	(1,780)	26,829	0	(2,041)	0	**152,372**	**94,989**
	0	0	0	0	0	0	0	**0**	**14,992**
	24,491	0	(1,135)	1,950	3,932	(1,017)	0	**28,221**	**17,153**
	5,603	0	0	0	0	0	0	**5,603**	**0**
	1,552	0	(28)	0	286	(286)	0	**1,524**	**55,806**
	161,010	**0**	**(2,943)**	**28,779**	**4,218**	**(3,344)**	**0**	**187,720**	**182,940**
	117,710	0	(16,705)	11,769	0	(407)	0	**112,367**	**103,877**
	61,815	0	(491)	4,948	0	(2,396)	16	**63,892**	**16,868**
	569,398	(67)	(20,376)	88,128	20,982	(34,721)	(15)	**623,329**	**228,319**
	3	0	0	0	0	0	0	**3**	**16,597**
	748,926	**(67)**	**(37,572)**	**104,845**	**20,982**	**(37,524)**	**1**	**799,591**	**365,661**
	909,936	**(67)**	**(40,515)**	**133,624**	**25,200**	**(40,868)**	**1**	**987,311**	**548,601**
	109,102	0	(1,376)	23,460	0	(1,825)	3	**129,364**	**94,904**
	0	0	0	0	0	0	0	**0**	**14,992**
	20,287	0	(317)	2,220	2,833	(532)	0	**24,491**	**22,905**
	5,603	0	0	0	0	0	0	**5,603**	**0**
	1,133	0	419	0	0	0	0	**1,552**	**52,648**
	136,125	**0**	**(1,274)**	**25,680**	**2,833**	**(2,357)**	**3**	**161,010**	**185,449**
	124,670	0	(16,895)	12,900	0	(2,917)	(48)	**117,710**	**114,094**
	63,920	0	47	4,835	0	(6,987)	0	**61,815**	**19,110**
	468,096	0	16,814	95,405	27,526	(38,829)	386	**569,398**	**273,900**
	3	0	0	0	0	0	0	**3**	**9,174**
	656,689	**0**	**(34)**	**113,140**	**27,526**	**(48,733)**	**338**	**748,926**	**416,278**
	792,814	**0**	**(1,308)**	**138,820**	**30,359**	**(51,090)**	**341**	**909,936**	**601,727**

Software, licenses and other rights

The Columbus IT project launched in the fiscal year 2003 led to the acquisition of new software covering all areas of enterprise resource management. Over the full duration of the project, intangible assets with a historical cost of EUR 82,545 thousand (2016: EUR 80,590 thousand) were capitalized in connection with the ERP system, of which EUR 66,055 thousand (2016: EUR 59,159 thousand) had already been amortized as of the reporting date. The remaining amortization period reduced to 2.3 years (2016: 3.1 years). Apart from the aforementioned software, other software licenses totaling EUR 68,994 thousand (2016: EUR 61,081 thousand) are included, whose remaining amortization period is 4.0 years (2016: 4.3 years). The average useful life of software and licenses is in between 3 to 20 years.

In addition, the line item “Software, licenses and other rights” contains intangible assets from purchase price allocations. Among others, business licenses and repurchased franchise rights with a useful life of 1 to 10 years were included.

Brand rights

The reported brand rights amounting to EUR 14,992 thousand (2016: EUR 14,992 thousand), which are primarily attributable to the brand rights acquired for the use of the brand names BOSS, HUGO and HUGO BOSS in the United States, are classified as assets with infinite useful lives. The infinite useful life stems from the estimate of an indefinite use of the registered brand name.

Key Money

Key money totaling EUR 17,153 thousand (2016: EUR 22,905 thousand) was recognized as of the reporting date. Of that amount, EUR 5,629 thousand (2016: EUR 5,832 thousand) pertains to key money with an infinite useful life and EUR 11,524 thousand (2016: EUR 17,073 thousand) to key money with a finite useful life. As of December 31, 2017, key money with an infinite useful life only concerns the Group’s own retail stores in France at EUR 5,629 thousand (2016: EUR 5,832 thousand). The key money with a finite useful life has a remaining amortization period of 6.4 years (2016: 9.0 years) and mainly refers to the Group’s own retail stores in Great Britain, Switzerland and Spain. Key money is written down on a straight-line basis over the term of the lease agreement in question.

Property, plant and equipment

Land charges in connection with land and buildings amount to EUR 31,056 thousand (2016: EUR 35,009 thousand).

Impairment losses of EUR 20,982 thousand (2016: EUR 27,526 thousand) is attributable to property, plant and equipment. Most of the impairment losses were recognized on property, plant and equipment for individual areas of the Group’s own retail stores after impairment testing.

In terms of property, plant and equipment, buildings are generally amortized over a useful life of 30 years, technical facilities and machines over a useful life of 5 to 19 years, and other facilities and operating and office equipment over 2 to 15 years.

Purchase obligations

In addition, there are purchase obligations for investments amounting to EUR 10,619 thousand (2016: EUR 2,907 thousand). Of this amount, EUR 10,042 thousand (2016: EUR 2,261 thousand) is attributable to property, plant and equipment and EUR 577 thousand to intangible assets (2016: EUR 647 thousand). The obligations as of December 31, 2017, are due for settlement within one year.

10|Impairment testing in the HUGO BOSS Group

An impairment test must be carried out for all assets within the scope of application of IAS 36, insofar that there is any evidence of impairment ("triggering events") as of the reporting date. Regardless of the existence of any triggering events, the following non-current assets were tested for impairment in the course of annual impairment testing on the reporting date of December 31, 2017:

- Other intangible assets with infinite useful lives (key money)
- Brand rights with an infinite useful life
- Goodwill

Systematically depreciated property, plant and equipment and amortized intangible assets at the level of the Group's own retail stores

In the HUGO BOSS Group, the Group's own retail stores (DOS) have been identified as a CGU, i.e. the smallest group of assets that can independently generate cash flows.

The DOS assets amortized or depreciated on a systematic basis are tested for impairment if there are indications of or changes to planning assumptions suggesting that the carrying amount of the assets is not recoverable. For this purpose, after preparing the annual budget plan, HUGO BOSS conducts a triggering event test at DOS level. If defined year-on-year sales and profitability indicators are not reached, the non-current assets of the DOS in question are tested for impairment.

The recoverable amount of the DOS is determined by calculating the value in use on the basis of discounted cash flow models. The planned cash flows for the DOS from the bottom-up one-year budget approved by the Management of HUGO BOSS AG are used for calculating the value in use. Furthermore, the gross profit margin of the upstream entities and the corporate assets at the level of the subsidiary and at the level of the DOS were taken into consideration. The forecast period is derived based on the expected useful lives for all DOS and is reassessed annually. After the bottom-up budget, the values for the remaining useful lives are determined based on sales and cost developments specific to each country and CGU. The growth rates used for this purpose are based on the expected nominal retail growth in each respective market for the corresponding planning year. Single-digit growth rates were thus determined for all DOS. At the end of the residual useful life, it is assumed that the respective DOS is wound up and that the operating assets are sold. In the calculation of the value in use of the DOS, the cash flows were discounted using a weighted average cost of capital of between 3.1% and 11.2% (2016: between 3.7% and 14.6%). This was based on a risk-free interest rate with an equivalent term of +0.1% (2016: -0.4%) and a market risk mark-up of 6%. Alternatively, the recoverable amount of the DOS is determined with the assistance of external reports which calculate the fair value less the costs to sell at level 3 of the fair value hierarchy in accordance with IFRS 13. Depending on the underlying legal framework and the available information, the fair value, particularly for key money with a finite useful life, is determined by reference to previous and comparable transactions using a multiplication process or as the present value of the differences in rents between the current lease and current market rents; in this case, the valuation period is determined on the basis of the lease.

Scheduled DOS impairment testing in the past fiscal year resulted in impairment losses on non-current assets of EUR 24,711 thousand (2016: EUR 24,060 thousand), which were recognized through profit or loss under "Selling and distribution expenses". The impairments pertain in particular to retail locations in the Americas and Europe.

Based on the calculation of the fair value by external assessors, for the DOS with allocated key money with an infinite useful life impairment losses of EUR 203 thousand were allocated in the fiscal year 2017 (2016: EUR 729 thousand).

Goodwill and intangible assets with infinite useful life

The assessment of impairment is based on detailed planning of results of operations, of the statement of financial position and of investments for the next three years for all units of the Group, which is prepared annually in the Company-wide budget planning process and approved by the Supervisory Board, taking account of the current business situation. For periods beyond the budget's planning horizon, a long-term growth rate is set to project future cash flows in the detailed planning period of two additional years. The long-term growth rates used for this purpose are consistent with external sources of information. Investment and trade net working capital planning is based on budget planning data and is extrapolated on the basis of historical experience. The cost of capital for the HUGO BOSS Group determined using an after-tax WACC model that discounts all forecast cash flows in the local currency factors in both general market and country-specific risk mark-ups (sovereign risk mark-up) as well as a currency risk mark-up (inflation risk mark-up). The after-tax cost of capital rate used as of December 31, 2017, is based on a risk-free interest rate of 1.25% (2016: 0.5%) and a market risk mark-up of 6.0% (2016: 6.0%).

The following table presents the carrying amounts as well as the main assumptions underlying the calculation of the value in use or fair value less costs to sell off the goodwill and intangible assets with infinite useful lives assigned to each group of CGUs. The **goodwill** created in previous fiscal years as a result of the takeover of the monobrand stores of former franchise partners is allocated to the relevant sales units (groups of CGUs). Production units will continue to be regarded as corporate assets. The joint assets are taken into account in the impairment tests of the units. The **intangible assets with infinite useful lives** are pooled at the level of the respective country. The key money with an infinite useful life is allocable to various retail locations in France; viewed individually, these are not material. Brand rights for the use of the brand names in the U.S. and Italian markets are tested for impairment at country level.

(in EUR thousand)

	Carrying amount		Assumptions	
	Goodwill	**Intangible assets with indefinite useful life**	**WACC**	**Long-term growth rate**
2017				
DOS within the sales unit France	0	5,629	5.1%	3.2%
Sales unit Macau	5,930	0	5.2%	3.1%
Sales unit Australia	8,298	0	6.6%	3.5%
Sales unit South Korea	7,379	0	6.0%	3.6%
Sales unit China	8,121	0	6.3%	3.5%
Sales unit U.S.A.	234	13,615	6.2%	2.7%
Sales unit Italy	0	1,377	6.1%	2.2%
Sales unit Dubai	5,540	0	6.7%	3.5%
Other sales units	20,305	0		
Total	**55,807**	**20,621**	**5.1–6.7%**	**2.2–3.6%**
2016				
DOS within the sales unit France	0	5,832	5.3%	3.4%
Sales unit Macau	6,818	0	5.7%	3.6%
Sales unit Australia	8,724	0	6.2%	3.5%
Sales unit South Korea	7,439	0	6.9%	3.5%
Sales unit China	8,704	0	6.2%	3.7%
Sales unit U.S.A.	266	13,615	6.8%	2.9%
Sales unit Italy	0	1,377	6.4%	2.5%
Other sales units	20,696	0		
Total	**52,647**	**20,824**	**5.3–6.9%**	**2.5–3.7%**

The recoverable amount of the respective group of CGUs is derived from the value in use determined using forecast cash flow based on medium-term financial budgets approved by Management. Restructuring measures which the Group has not yet committed to and investments to enhance the earnings power of the group of CGUs tested that is not allocable to current business operations are not taken into account. After the detailed planning phase, country-specific sales growth rates derived from normal retail growth are used.

For all goodwill there were impairment losses of EUR 286 thousand in the fiscal year 2017 (2016: EUR 0 thousand). This is justified for the sales unit in New Zealand due to a change in its business model from own retail to a wholesale model.

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

No impairment losses were recognized on the brand rights with indefinite useful lives in fiscal years 2017 and 2016.

Key assumptions used to calculate the value in use and fair value less costs to sell
The following key assumptions, estimation uncertainties and judgments by Management underlie the calculation of the value in use and fair value less costs to sell off the aforementioned assets:

- Sustainable nominal retail growth
- Gross profit margin
- Fixed cost development
- Discount rates
- Expected useful life of DOS

Management assumes that the underlying assumptions and estimates are appropriate. However, changes in the economic environment and the industry-specific growth assumptions can have consequences for impairment testing resulting in the need to recognize additional impairment losses or to reverse impairment losses in the future.

Estimation of growth rates – Growth rates are generally derived from published industry-related market research that is based on country-specific nominal retail growth. These growth rates were mainly factored in after the detailed planning phase and in the terminal value used to calculate the value in use. Based on past developments and the Management's expectations with regard to market trends, growth rates were applied that differ from the country-specific nominal retail growth.

Estimation of gross profit margin – The planned gross profit margin factors in both efficiency improvements and margin shifts due to differences in the sales mix of the distribution channels. A constant gross profit margin is assumed after the detailed planning phase.

Fixed cost trends – The fixed cost trends are derived from growth of real gross domestic product in each country and the inflation rate in each country.

Discount rates – The discount rates reflect current market assessments of the risks specific to each CGU. This takes into account the interest effect and the risks specific to the assets.

Useful life of DOS – The forecast period is based on the average remaining terms of the lease agreements, which are determined and reviewed on an annual basis. Renewal options are also taken into account when determining the average remaining terms.

Sensitivity to changes in assumptions

As of December 31, 2017, scenarios for critical measurement parameters such as the discount rates used and the growth rates underlying forecast cash flows were determined to verify the values in use. The Management of the HUGO BOSS Group considers it possible for the discount rate to increase by 10.0% on average in relative terms. In addition, for the groups of CGUs under review to which goodwill is allocated, an annual relative divergence in growth rates of 15.0% during the detailed planning phase is deemed possible. Furthermore, for the groups of CGUs to which goodwill is allocated, a 15.0% decrease in the relative sales growth rates underlying the extrapolation of forecast cash flows after the detailed planning phase is deemed possible.

In the case of a 10.0% increase in the discount rate, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

In the event of a 15.0% reduction in the annual growth rates during the detailed planning phase, the values in use of all items of goodwill would, as in the prior year, exceed their carrying amounts.

In the event of a 15.0% reduction in the growth rate of sales used to extrapolate the forecast cash flow after the detailed planning period, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

11 | Financial and other assets

(in EUR thousand)

	2017			2016		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	56,322	38,834	17,488	49,331	28,339	20,992
Tax refund claims and prepayments	14,069	14,057	12	14,474	14,418	56
Other assets	96,328	95,170	1,158	86,117	81,884	4,233
Other financial assets	813	0	813	35	0	35
Total	**167,532**	**148,061**	**19,471**	**149,957**	**124,641**	**25,316**

Financial assets include positive market values of currency hedges amounting to EUR 949 thousand (2016: EUR 2,047 thousand) as well as rent deposits for the Group’s own retail stores of EUR 9,393 thousand (2016: EUR 10,052 thousand). Financial assets also include receivables from credit card companies amounting to EUR 31,549 thousand (2016: EUR 21,563 thousand).

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

Other assets contain refund claims from returns in the amount of EUR 22,765 thousand (2016: EUR 16,098 thousand), bonus receivables from supplier arrangements and prepayments for service agreements and leases. In the fiscal year 2017 no impairments were recognized on other assets (2016: EUR 246 thousand).

Also included in other financial assets are interests in entities under joint control accounted for using the equity method. The carrying amount of shares in the property companies whose activities consist of the leasing of buildings and associated properties remains unchanged at EUR 35 thousand. The maximum default risk is equal to this capital contribution. Moreover, as of December 31, 2017 the carrying amount of the shares of HUGO BOSS AL FUTTAIM UAE TRADING L.L.C. stood at EUR 773 thousand. Other financial assets in the fiscal year 2017 also included the investments measured at amortized cost in subsidiaries which have been established but are not consolidated due to their immateriality.

The following is a summary of financial information for entities under joint control accounted for using the equity method. The information contained therein relates to 100% of the jointly controlled entities and not to the Group's share of those associates:

(in EUR thousand)

	Dec. 31, 2017[1]	Dec. 31, 2016
Non-current assets	104,745	108,899
Current assets	10,731	823
Liabilities	125,945	121,471
Sales	28,811	10,929
Depreciation and amortisation	(9,197)	(9,655)
Other interest and similar income	1	0
Interest and similar expenses	(3,948)	(4,102)
Net loss	(1,154)	(3,064)

[1] The financial information is based on the statements under local law and on the provisional, unaudited annual financial statement as of December 31, 2017.

12 | Inventories

(in EUR thousand)

	2017	2016
Finished goods and merchandise	480,824	523,067
Raw materials and supplies	50,534	39,572
Work in progress	5,485	5,332
Total	**536,843**	**567,971**

The carrying amount of inventories recognized at net realizable value amount to EUR 68,222 thousand (2016: EUR 74,863 thousand). In the fiscal year 2017, impairment losses of EUR 11,028 thousand (2016: EUR 22,327 thousand) were recognized particularly on finished goods and raw material. The decrease in impairment losses is primarily attributable to the improved age structure of the stock and thus to stricter inventory management. This was counterbalanced by reversals of impairment losses of EUR 17,034 thousand

(2016: EUR 20,041 thousand), following the sale of finished goods and raw materials on which impairment losses had previously been recognized. Impairment losses on inventories and the reversal of impairment losses previously charged resulted in net income of EUR 6,006 thousand (2016: net expense of EUR 2,231 thousand). This is included in the cost of sales.

Significant estimates were made for inventories as described below: Write-downs provide for inventory risks from slow-moving goods and the resulting reduction in marketability. Write-downs are recognized on raw materials based on analyses of range of coverage and movement rate. Unfinished goods, finished goods and merchandise are measured based on the net realizable value still to be recovered through the Group's own sales channels. Merchandise and finished goods are tested for impairment on the basis of analyses of movement rate, range of coverage and net realizable value.

13|Trade receivables

(in EUR thousand)

	2017	2016
Trade receivables, gross	221,523	243,102
Accumulated allowance	(13,897)	(14,926)
Trade receivables, net	**207,626**	**228,176**

As at December 31, the ageing analysis of trade receivables is as follows:

(in EUR thousand)

	2017	2016
Trade receivables, net	**207,626**	**228,176**
Thereof neither overdue, nor impaired	**153,464**	**182,511**
Thereof overdue, but not impaired	**48,676**	**39,075**
≤ 30 days	20,084	23,013
30 to 60 days	24,721	9,785
60 to 90 days	3,871	6,277
90 to 120 days	0	0
120 to 180 days	0	0
180 to 360 days	0	0
> 360 days	0	0
Thereof: overdue and impaired	**5,486**	**6,590**

Trade receivables are non-interest-bearing and are generally due between 30 and 90 days. Valuation allowances on doubtful debts developed as follows:

(in EUR thousand)

	2017	2016
Allowances for doubtful accounts as of January 1	**14,926**	**15,284**
Additions	6,464	8,660
Use	(3,306)	(5,644)
Release	(3,765)	(3,667)
Currency differences	(422)	293
Allowances for doubtful accounts as of December 31	**13,897**	**14,926**

Any expenses and income from allowances on trade receivables are reported under selling and distribution expenses.

Pursuant to the general terms and conditions for sales, ownership of the goods supplied is transferred to wholesale partners upon complete payment of all receivables. No collateral has been provided in the Group for individual receivables.

The recoverability of trade receivables is assessed based on the estimated likelihood of default. Accordingly, receivables from wholesale customers on whose assets insolvency proceedings have been initiated are written off in full (to the extent that any collateral provided is not recoverable) by recognizing individual bad debt allowances. Individual bad debt allowances ranging between 1% and 100% are recognized on overdue receivables. All subsidiaries of the HUGO BOSS Group have to prepare an analysis of the aging structure of their trade receivables. This permits the recognition of risk-adjusted valuation allowances. External appraisals on the value of collateral were also obtained in the course of assessing the recoverability of receivables.

In the event of the deterioration of the financial position of wholesale customers and concession partners, the amounts actually derecognized can exceed the bad debt allowances already recognized, which can have an adverse impact on the results of operations.

14 | Cash and cash equivalents

(in EUR thousand)

	2017	2016
Balances with banks and other cash items	102,165	70,525
Checks/ec cash	1,174	1,032
Cash in hand	12,361	11,933
Total	**115,700**	**83,490**

15|Equity

Equity is made up of subscribed capital, own shares, capital reserve, retained earnings and accumulated other comprehensive income. Retained earnings contain profits that were generated in the past by the entities included in the consolidated financial statements and effects from the revaluation of pension provisions. Accumulated other comprehensive income contains the differences arising from translation outside profit and loss of the foreign currencies used for the financial statements of foreign subsidiaries as well as the effects of the measurement outside profit and loss of cash flow hedges after tax.

Subscribed capital

Capital Management

The fully paid in share capital of HUGO BOSS AG is unchanged and amounts to EUR 70,400 thousand as of December 31, 2017. It is made up of 70,400,000 no-par value ordinary shares. The shares have an imputed nominal value of EUR 1 each.

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

The primary objective of the HUGO BOSS Group’s capital management is to secure the financial headroom to make value-enhancing investments for further business growth and, in turn, to increase the enterprise value in a sustainable manner.

The Group focuses on maximizing free cash flow over the long term in order to increase its enterprise value. Consistently positive free cash flow safeguards the Group’s independence and solvency at all times. Increasing sales and operating earnings, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items are the main levers for improving free cash flow. In addition, strict management of trade net working capital and value-oriented investment activities support the development of free cash flow. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares.

No changes were made to the objectives, policies and methods as of December 31, 2017, and December 31, 2016.

In addition, efficient use of capital and the capital structure are regularly monitored based on the leverage ratio, i.e. the ratio of net financial liabilities to EBITDA before special items:

(in EUR thousand)

	2017	2016
Liabilities due to banks	122,329	196,674
Cash and cash equivalents	(115,700)	(83,490)
Net financial liabilities	**6,629**	**113,184**
Operating profit	**491,391**	**493,085**
Total leverage	**0.0**	**0.2**

On the reporting date this ratio was thus substantially lower than the maximum permissible value pursuant to the covenant agreed as part of the syndicated loan agreement.

Own Shares

The number of own shares amounts to 1,383,833 (2016: 1,383,833). The overall percentage amounts to 2.0% of subscribed capital (2016: 2.0%).

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

16 | Dividend

Pursuant to the AktG ["Aktiengesetz": German Stock Corporation Act], the dividend that can be distributed to the shareholders is measured based on the net retained profit reported in the financial statements of HUGO BOSS AG amounting to EUR 186,560 thousand. The net retained profit of HUGO BOSS AG for 2017 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 182,893 thousand. This corresponds to EUR 2.65 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 3,667 thousand be carried forward to the new account.

In 2017, a dividend of EUR 179,442 thousand was paid out for shares outstanding for the fiscal year 2016 (in 2016 for 2015: EUR 249,839 thousand). This corresponds to EUR 2.60 per share for 2016 (2015: EUR 3.62 per share).

17 | Provisions

(in EUR thousand)

	2017	2016
Provisions for pensions	39,953	46,495
Other non-current provisions	29,843	32,059
Non-current provisions	**69,796**	**78,554**
Current provisions	**107,468**	**148,614**
Total	**177,264**	**227,168**

Other provisions of EUR 137,311 thousand (2016: EUR 180,673 thousand) comprise current provisions of EUR 107,468 thousand (2016: EUR 148,614 thousand) and other non-current provisions of EUR 29,843 thousand (2016: EUR 32,059 thousand). The risk-free interest rates used to discount other non-current provisions range between 1.0% and 4.5% (2016: between 0.1% and 4.5%) depending on the term and currency zone in question. In fiscal year 2017, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2017	Changes in currency and the consolidated group	Com-pounding	Addition	Use	Release	Balance on Dec. 31, 2017
Provisions for personnel expenses	60,194	(1,545)	78	50,168	(36,401)	(12,204)	60,290
Provisions for goods returned	30,363	(781)	0	30,925	(28,202)	(1,508)	30,797
Provisions for rebuild obligations	15,365	(1,089)	92	2,890	(933)	(621)	15,704
Costs of litigation, pending legal disputes	4,372	(75)	0	2,842	(2,165)	(1,583)	3,391
Provisions for store closings	36,883	(77)	0	121	(21,279)	(14,530)	1,118
Miscellaneous provisions	33,496	(722)	0	16,601	(16,407)	(6,957)	26,011
Total	**180,673**	**(4,289)**	**170**	**103,547**	**(105,387)**	**(37,403)**	**137,311**

Provisions for personnel expenses
The provisions for personnel expenses mainly concern the provisions for short and medium-term profit sharing and bonuses, severance payment claims, phased retirement arrangements and overtime. It is expected that EUR 9,145 thousand (2016: EUR 15,435 thousand) will be paid out after more than twelve months.

The long-term incentive (LTI) program initiated at the beginning of the fiscal year 2016 serves as a long-term share-based compensation component for members of the Managing Board and eligible management staff of the HUGO BOSS Group. There are two tranches of the program at present: The first LTI bonus plan 2016–2018 was issued on January 1, 2016 and the second plan 2017–2019 on January 1, 2017. Each plan has a total duration of four years, split into a performance term of three years and a qualifying period of one year.

At the beginning of the performance term, all participants in the plan receive an individual number of virtual shares, so-called "performance shares", which are valued by dividing the individual LTI budget (in EUR) by the average HUGO BOSS share price over the last three months before the beginning of the performance term. The number of shares issued as of December 31, 2017 was 164,429 for the LTI plan 2016–2018 and 199,362 for the 2017–2019 plan. The final entitlement of the participants in the plan depends on the individual number of performance shares, the extent to which the preset targets have been achieved (components) – relative total shareholder return, return on capital employed, degree of employee satisfaction, DJSI (score in the Dow Jones Sustainability Index) over the performance term as well as the average HUGO BOSS share price over the last three months of the qualifying period. The final entitlement is paid out in cash no later than six weeks after the resolution has been passed by the Management of HUGO BOSS regarding the confirmation of the annual financial statement for the corresponding fiscal year 2019 and 2020 respectively.

The long-term incentive program is to be classified as share-based, cash-settled compensation and is therefore accounted for pursuant to the standards of IFRS 2. For the liability, a provision is recognized pro rata over the term to satisfy the payment, which is recalculated on each reporting date. The measurement is conducted using a Monte Carlo simulation, taking into account the degree to which the individual target components are expected to be achieved. The fair values per share option were as of December 31, 2017 for the LTI plan 2016–2018 between EUR 39.64 and EUR 68.37 and for the LTI plan 2017–2019 between EUR 34.20 and EUR 65.73. As of December 31, 2016, the fair values of the LTI plan 2016–2018 ranged between EUR 30.99 and EUR 45.56.

The fair value measurement for the respective plans is based on the following parameters:

	2017	2016
HUGO BOSS share price at reporting date in EUR	70.94	58.13
Expected dividend return in %	4.00	4.00
Expected volatility in %	30.00	30.00
Risk free interest rate in % (LTI Plan 2016)	(0.64)	(0.76)
Risk free interest rate in % (LTI Plan 2017)	(0.50)	/

The provisions recognized in this regard for both plans were valued at a total of EUR 5,346 thousand as of December 31, 2017 (2016: EUR 1,455 thousand). The remaining terms of the respective plans for 2016 – 2018 is two years and for 2017 – 2019 three years. In the fiscal year 2017, total expenses for share-based compensation pursuant to IFRS 2 of EUR 3,891 thousand (2016: EUR 1,455 thousand) were recorded in personnel expenses.

Provisions for goods returned

Provisions for goods returned, which are largely expected to be completed within 12 months, are determined based on historical rates of goods returned.

Provisions for rebuild obligations

Non-current provisions for rebuild obligations relate to Group-operated retail stores, warehouses and office space used by the Group companies. They are recognized on the basis of the expected settlement amounts and the rental period agreed upon. Estimates are made in terms of the cost as well as the actual timing of the utilization.

Provisions for costs of litigation and pending legal disputes

The provisions for costs of litigation and pending legal disputes include various, individually immaterial ongoing litigations as well as litigation costs for the protection of brand rights. These provisions are classified as current.

Provisions for store closures

The provisions for store closures recognized in the prior year were largely utilized or reversed in the fiscal year 2017. The residual amount remaining as of the reporting date particularly relates to the expected compensation payments to lessors, primarily in Europe. The amount of the provisions for the planned store closures carried out in fiscal year 2016 was based on judgments made by Management. The main judgments and estimates concern the type of closure (termination of lease in return for payment of compensation or the continued fulfilment of the lease by subletting the premises below the rental price) and the amount of the expected payments. The provisions recognized are based on the best possible estimate of the compensation payments and subletting proceeds. It is always possible for the actual compensation payable or the actual subletting proceeds received to differ from these assumptions. Any deviations between the original estimates and the actual outcome can impact the Group’s net assets, financial position and results of operations in the given period.

Miscellaneous other provisions
Miscellaneous other provisions are recognized for the potential ramifications of legal issues. Furthermore, an analysis of pending losses incurred from lease agreements has shown that recognition of provisions for pending losses is dispensable due to a low level of risk.

Based on reasonable estimates, provisions are recognized for the potential ramifications of legal issues. Such assessment also takes into account the estimation of local, external experts such as lawyers and tax advisors. Any deviations between the original estimates and the actual outcome can impact the Group's net assets, financial position and results of operations in the given period.

18|Provisions for pensions and similar obligations

Provisions for pensions are recognized for obligations from future and current post-employment benefits to eligible current and former employees of the HUGO BOSS Group. The benefits agreed under the pension plans depend for the most part on the length of service of the eligible employee. In general, company pension plans are classified into two types of plans: defined contribution plans and defined benefit plans. In the HUGO BOSS Group most of the plans are defined benefit plans. In the past year, the main defined benefit plans were granted in Germany and Switzerland. The characteristics of these plans are described in the following.

Defined benefit plans

Germany
Since the fiscal year 2014, there have only been direct pension obligations in Germany. A distinction is also made between general and individually agreed benefits. Under the general benefits granted, each employee who joined the Company prior to July 1, 2012, is entitled to benefits from Company pension plans. Employees who first receive benefits under the plan upon reaching the age of 50 or who have temporary employment agreements are excluded. Benefits comprise a post-employment benefit in the form of an old-age pension, an early-retirement benefit, a disability benefit or a surviving dependents' benefit in the form of a dependent child benefit.

Individually agreed benefits are only granted to active and former members of the Managing Board. Benefits can take the form of a post-employment benefit as an old-age pension or disability annuity and take the form of a surviving dependents' benefit as a surviving spouse or dependent child benefit. All active members of the Managing Board have received pension commitments which are regulated in individual contracts and the amounts of which are measured as a percentage of the contractually agreed pensionable income depending on their duration of membership of the Managing Board. The basis for determining the pensionable income is defined as the basic salary under the service agreement. For Mark Langer, the Chairman of the Managing Board, this is done in the form of a benefit-based commitment (defined benefit). The Managing Board appointed in the fiscal year 2017 was granted a pension commitment. The Group pays an annual pension contribution into an employer's pension liability insurance scheme taken out on the life of the Managing Board member. The contribution corresponds to 40% of the pensionable income, which is determined based on the basic salary under the service agreement. This form of pension commitment also applies to any future appointments to the Managing Board.

In addition, the HUGO BOSS Group offers the Managing Board and management staff the option of acquiring additional pension benefits under deferred compensation agreements. This supplementary pension plan can take the form of retirement benefits or, alternatively, the form of occupational incapacity benefits and/or surviving dependents' benefits and/or the form of a lump-sum death grant. The pension benefits take the form of monthly payments, while surviving dependents' benefits can also be granted in the form of a lump-sum capital payment.

In Germany, the company pension plan for individually agreed benefits and deferred compensation agreements is funded by plan assets for which there is an employer's pension liability insurance, which is a qualifying insurance policy within the meaning of IAS 19.8 in conjunction with IAS 19.113 et seq. The assets concerned can be classified as non-marketable assets. Employer's pension liability insurance has not been taken out for general benefits granted.

Switzerland

In Switzerland, employee pension plans must be allocated to a pension fund that is separate from the employer. The BVG ["Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge": Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans] imposes minimum benefits. HUGO BOSS uses a collective foundation to provide for its employees against the economic consequences of old age, disability and death. Under this model, the foundation assets are the plan assets. The board of trustees of the collective foundation is responsible for the investment policy; at present the majority of plan assets are invested in fixed interest securities such as sovereign bonds. The supreme governing body of the collective foundation comprises an equal number of employer and employee representatives. The plans are financed by employer and employee contributions, which are defined as a percentage of the insured wage. The old-age pension is calculated as the retirement assets accumulated upon reaching a pensionable age multiplied by the conversion rates specified in the fund regulations. Employees can opt to receive their pension benefits as a lump-sum payment from the retirement assets. The benefit payments under the Swiss plans encompass old-age pensions, disability benefits and surviving dependents' benefits. The collective foundation can change its financing system (contributions and future benefits) at any time. In addition, the collective foundation can terminate the affiliation agreement with HUGO BOSS; in such an event, the latter would have to join another welfare fund. Depending on the conditions of the affiliation agreement and the current partial liquidation rules, a deficit and the risks of increasing life expectancy (current pensions) can be transferred.

The pension obligations of the HUGO BOSS Group break down as follows:

(in EUR thousand)

	Present Value of the Defined Benefit Obligation		Fair Value of Plan Assets		Net Defined Benefit Liability	
	2017	2016	**2017**	2016	**2017**	2016
Germany	97,458	100,219	81,896	79,926	15,562	20,293
Switzerland	43,624	46,877	28,985	30,030	14,639	16,847
Others[1]	9,752	9,355	0	0	9,752	9,355
Total	**150,834**	**156,451**	**110,881**	**109,956**	**39,953**	**46,495**

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

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

In the fiscal year 2017, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2017	2016
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	156,451	138,407
Currency differences	(4,929)	(517)
Service cost	5,642	7,701
Interest expense	2,647	3,083
Payments from settlements	(9)	(702)
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	(5,397)	13,003
Actuarial gains/losses due to changes in demographic assumptions	0	(2,204)
Experience adjustments	(988)	(1,186)
Benefits paid	(4,702)	(4,366)
Contribution by participants of the plan	2,847	3,696
Past service cost	(728)	(279)
Other changes in benefit obligation	0	(185)
Present value of benefit obligation on December 31	**150,834**	**156,451**
Changes in plan assets		
Fair value of plan assets on January 1	109,957	99,084
Currency differences	(2,473)	274
Offsetting with plan assets	0	0
Expected return on plan assets	1,660	2,092
Expected return on plan assets (without interest income)	(1,471)	4,961
Benefits paid	(3,271)	(3,576)
Contribution by the employer	3,632	3,481
Contribution by participants of the plan	2,847	3,696
Asset ceiling pursuant to IAS 19.58	0	0
Other changes in benefit obligation	0	(55)
Fair value of plan assets on December 31	**110,881**	**109,957**
Funding status of the benefits funded by plan assets	**39,953**	**46,494**

As of December 31, 2017 EUR 95,189 thousand (2016: EUR 97,827 thousand) of the present value of the defined benefit obligations was funded through employer's pension liability insurance and EUR 43,624 thousand (2016: EUR 46,877 thousand) through foundation assets, while the remaining EUR 12,021 thousand (2016: EUR 11,747 thousand) was unfunded.

Actuarial assumptions underlying the calculation of the present value of the pension obligations as of December 31, 2017

Discretion is exercised to the extent that the expense from benefit-based plans is determined based on actuarial calculations. This involves making assumptions about discount rates, future wage and salary increases, mortality rates and future pension increases. The discount rates used are based on the market yields of high-quality, fixed-interest corporate bonds.

The following premises were defined:

Actuarial assumptions	2017	2016
Discount rate		
Germany	2.10%	1.80%
Switzerland	0.70%	0.70%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	3.00%	3.00%

Pension benefits in Germany are determined on the basis of biometric principles in accordance with the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. The BVG 2010 mortality tables are used to measure the obligations of Swiss companies.

Sensitivity analysis of key actuarial assumptions

The HUGO BOSS Group is exposed to special risks in connection with the aforementioned defined benefit plans. The funding status of pension obligations is influenced by both changes in the present value of the defined benefit obligations and changes in the fair value of plan assets. These are determined using actuarial methods that make assumptions concerning discount rates, future pension increases, future wage and salary increases and mortality rates. Future deviations between actual conditions and the underlying assumptions can lead to an increase or a decrease in the present value of the defined benefit obligations or the fair value of plan assets.

In addition, future amendments to the accounting standards governing the accounting treatment of pension obligations can affect the pertinent items of net assets, financial position and results of operations of the HUGO BOSS Group.

A change in the key actuarial parameters according to the scenarios presented below has the effects presented in the table below on the present value of the pension obligations as of December 31, 2017.

When conducting the sensitivity analysis, each parameter was altered ceteris paribus and not in combination with changes in other assumptions, thus excluding interdependencies between parameters. In addition, only ranges of values deemed to be reasonably plausible up to the date of preparing the HUGO BOSS Group's next set of consolidated financial statements were selected.

(in EUR thousand)

Change in present value of the pension obligations	**2017**	2016
Discount rate		
December 31,		
Increase of 75 basis points	(16,844)	(18,469)
Decline of 75 basis points	20,766	22,537
Future pension increases		
December 31,		
Increase of 25 basis points	4,826	5,138
Decline of 25 basis points	(3,267)	(3,400)
Future salary increases		
December 31,		
Increase of 50 basis points	1,415	1,587
Decline of 50 basis points	(1,364)	(1,535)
Life expectancy		
December 31,		
Increase of 10 percent	4,212	4,773
Decline of 10 percent	(4,224)	(4,769)

Breakdown of the pension expenses in the period

The pension expenses of the period is composed of the following items:

(in EUR thousand)

	2017	2016
Current service costs	5,642	7,701
Past service costs	(728)	(279)
Net interest costs	987	990
Recognized pension expenses in the comprehensive statement of income	**5,901**	**8,412**
Expense from plan assets (without interest effects)	1,471	(4,961)
Recognized actuarial (gains)/losses	(6,385)	9,613
Asset ceiling (without interest effects of asset ceiling)	0	0
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**(4,914)**	**4,652**

The net interest expense is calculated by multiplying the net pension obligation by the discount rate underlying the measurement of the defined benefit obligation (DBO).

In the case of deferred compensation commitments, current service cost is only incurred in the year of deferral. An increase in the service rendered does not increase the benefits granted.

For fiscal year 2018, the Group expects employer contributions to plan assets of EUR 3,671 thousand (2017: EUR 3,500 thousand).

Duration

The duration of the benefit-based plans of the HUGO BOSS Group on December 31 stood at 18 years for Germany (2016: 18 years) and 15 years for Switzerland (2016: 16 years).

Defined contribution plans

Employer contributions to contribution-based plans totaled EUR 18,474 thousand in the past fiscal year (2016: EUR 17,852 thousand) and are reported under personnel expenses. The HUGO BOSS Group's main contribution-based plans are in Germany and the United States. They receive the contributions to statutory pension insurance and the employer's contribution to employer-funded direct insurance in Germany.

19 | Financial liabilities

All interest-bearing and non-interest-bearing obligations as of the respective reporting date are reported under financial liabilities. They break down as follows:

(in EUR thousand)

	2017	**With remaining term up to 1 year**	2016	With remaining term up to 1 year
Financial liabilities due to banks	122,328	67,603	196,674	73,191
Other financial liabilities	9,465	3,215	14,514	5,877
Total	**131,793**	**70,818**	**211,188**	**79,068**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 3,672 thousand (2016: EUR 6,577 thousand) and liabilities under finance leases of EUR 5,793 thousand (2016: EUR 7,936 thousand).

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

	2017		2016	
Remaining term	**Weighted average interest rate**	**Carrying amount in EUR thous.**	Weighted average interest rate	Carrying amount in EUR thous.
Liabilities due to banks				
Up to 1 year	0.28%	67,603	0.28%	73,191
1 to 5 years	1.29%	43,149	0.71%	107,868
More than 5 years	4.35%	11,576	4.00%	15,615
Other financial liabilities				
Up to 1 year	2.07%	3,215	1.41%	5,877
1 to 5 years	4.22%	6,059	4.12%	8,182
More than 5 years	5.73%	191	5.72%	455

Interest-bearing financial liabilities have been reduced due to a lower utilisation of the syndicated loan and the repayment of other loans. In comparison to the prior year, the share of non-interest-bearing financial liabilities has declined. As of the reporting date, they contain currency derivatives with negative market values.

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

(in EUR thousand)

2017			**Expected cash flows**		
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1–5 years**	**> 5 years**
Financial liabilities due to banks	122,328	127,945	78,899	36,812	12,234
Liabilities from finance leases	5,793	6,098	1,343	4,755	0
Derivative financial liabilities					
Undesignated derivatives	2,511	2,511	946	1,374	191
Derivatives subject to hedge accounting	1,161	1,161	1,161	0	0
Other financial liabilities	0	0	0	0	0
Total	**131,793**	**137,715**	**82,349**	**42,941**	**12,425**
2016					
Non-derivative financial liabilities					
Financial liabilities due to banks	196,674	204,804	70,839	116,976	16,989
Liabilities from finance leases	7,936	8,286	1,476	6,810	0
Derivative financial liabilities					
Undesignated derivatives	4,519	4,519	2,399	1,666	454
Derivatives subject to hedge accounting	2,058	2,058	2,058	0	0
Other financial liabilities	0	0	0	0	0
Total	**211,188**	**219,667**	**76,772**	**125,452**	**17,443**

20 | Other liabilities

(in EUR thousand)

	2017			2016		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	167,610	112,478	55,132	164,452	115,099	49,353
From accruals of rental obligations for the Group's own retail business	76,198	21,158	55,040	80,071	32,848	47,223
From taxes	43,708	43,708	0	40,516	40,516	0
From social security, accrued vacation, wages and salaries	25,761	25,761	0	22,931	22,931	0

21 | Additional disclosures on financial instruments

Carrying amounts and fair values by category of financial instruments

(in EUR thousand)

		2017		2016	
Assets	**IAS 39 category**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	LaR	115,700	115,700	83,490	83,490
Trade receivables	LaR	207,626	207,626	228,176	228,176
Other financial assets		56,322	56,322	49,331	49,331
Thereof:					
Available-for-sale investments	AfS	0	0	0	0
Undesignated derivatives	FAHfT	949	949	2,047	2,047
Derivatives subject to hedge accounting	n. a.	0	0	0	0
Other financial assets	LaR	55,373	55,373	47,284	47,284
Liabilities					
Financial liabilities due to banks	FLAC	122,328	124,541	196,674	199,403
Trade payables	FLAC	285,778	285,778	271,731	271,731
Other financial liabilities		9,465	9,465	14,514	14,514
Thereof:					
Undesignated derivatives	FLHfT	2,511	2,511	4,519	4,519
Derivatives subject to hedge accounting	n. a.	1,161	1,161	2,058	2,058
Liabilities from finance leases	n. a.	5,793	5,793	7,937	7,937
Other financial liabilities	FLAC	0	0	0	0

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, other financial assets, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of loans from banks and other financial liabilities, obligations under finance leases and other non-current financial liabilities is calculated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

As of December 31, 2017, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The credit risk of the counterparty did not lead to any significant effects.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value and are not based on observable market data.

As of December 31, 2017, as in the prior year, all financial instruments measured at fair value in the categories FAHfT, FLHfT and derivatives designated to a hedge relationship were assigned to level 2. During fiscal year 2017, there were no transfers between level 1 and level 2 or from level 3. The financial instruments measured at fair value comprised forward exchange contracts, currency swaps and interest derivatives. The assets amounted to EUR 949 thousand and liabilities to EUR 3,672 thousand. The fair value of financial instruments carried at amortized cost in the statement of financial position was likewise determined using a level 2 method.

Interest and currency risk hedges
To hedge against interest and currency risks, the HUGO BOSS Group enters into hedging transactions in some areas to mitigate risk. As of the reporting date, EUR 8,946 thousand (2016: EUR 9,627 thousand) in variable interest finance liabilities were hedged through interest rate swaps. Moreover, as of the reporting date, future cash flows in foreign currencies of EUR 20,174 thousand (2016: EUR 24,978 thousand) were hedged and fully designated as an effective hedging instrument. The change in unrealized gains/losses from marking hedges to market in other comprehensive income amounted to EUR 897 thousand (2016: EUR -2,252 thousand).

Net result by measurement category

(in EUR thousand)

	Interest income and expenses	Changes in fair value	Currency translation	Bad debt losses	Disposal of financial instruments	2017	2016
Derivatives (FAHfT and FLHfT)	0	920	0	0	9,645	10,565	(12,698)
Loans and Receivables (LaR)	1,607	0	(14,904)	(3,785)	0	(17,082)	2,663
Financial liabilities measured at amortized cost (FLAC)	(2,098)	0	(1,854)	0	0	(3,952)	(15)

Interest on financial instruments is reported in the interest result (cf. notes to the consolidated income statement, Note 5).

The bad debt allowances recognized on trade receivables allocable to the loans and receivables measurement category are reported under selling and distribution expenses.

Exchange gains and losses from the translation of foreign currency receivables and liabilities as well as fair value changes and effects of disposals of exchange rate hedges are reported in the other financial result.

Changes in liabilities from financial activity

(in EUR thousand)

	Gross Value Jan 1, 2017	Cash flows	Currency translation effects	Gross Value Dec 31, 2017
Short-term liabilities arising from financing activities				
Financial liabilities due to banks	73,191	(5,692)	104	67,603
Liabilities from finance leases	1,420	(104)	(81)	1,235
Long-term liabilities arising from financing activities				
Financial liabilities due to banks	123,483	(67,573)	(1,185)	54,725
Liabilities from finance leases	6,516	(1,280)	(678)	4,558
Total	**204,610**	**(74,649)**	**(1,840)**	**128,121**

In the fiscal year 2017, there were no changes from the acquisition or sale of subsidiaries, fair value changes or other categories.

Offsetting of financial instruments

(in EUR thousand)

	Gross amounts recognized assets	Gross amounts offset liabilities	Net asset amounts disclosed in statement of fin. pos.	Liabilities not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2017						
Trade receivables	220,101	(12,475)	207,626	0	0	207,626
Other financial assets	56,322	0	56,322	(171)	0	56,151
Thereof derivatives	949	0	949	(171)	0	778
Total	**276,423**	**(12,475)**	**263,948**	**(171)**	**0**	**263,777**
2016						
Trade receivables	245,579	(17,403)	228,176	0	0	228,176
Other financial assets	49,331	0	49,331	(1,187)	0	48,144
Thereof derivatives	2,047	0	2,047	(1,187)	0	860
Total	**294,910**	**(17,403)**	**277,507**	**(1,187)**	**0**	**276,320**

(in EUR thousand)

	Gross amounts recognized liabilities	Gross amounts offset assets	Net liabilities amounts disclosed in statement of fin. pos.	Assets not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2017						
Trade payables	296,595	(10,817)	285,778	0	0	285,778
Other financial liabilities	9,465	0	9,465	(171)	0	9,294
Thereof derivatives	3,672	0	3,672	(171)	0	3,501
Total	**306,060**	**(10,817)**	**295,243**	**(171)**	**0**	**295,072**
2016						
Trade payables	277,882	(6,151)	271,731	0	0	271,731
Other financial liabilities	14,514	0	14,514	(1,187)	0	13,327
Thereof derivatives	6,577	0	6,577	(1,187)	0	5,390
Total	**292,396**	**(6,151)**	**286,245**	**(1,187)**	**0**	**285,058**

The liabilities of EUR 12,475 thousand (2016: EUR 17,403 thousand) offset against trade receivables as of the reporting date are outstanding credit notes to customers. The assets offset against trade payables are receivables in the form of supplier credit notes of the HUGO BOSS Group. These amounted to EUR 10,817 thousand (2016: EUR 6,151 thousand).

Standard master agreements for financial future contracts are in place between the HUGO BOSS Group and its counterparties governing the offsetting of derivatives. These prescribe that derivative assets and derivative liabilities with the same counterparty can be combined into a single offsetting receivable.

Hedging policy and financial derivatives

The following presentation shows the nominal amounts and the fair value of derivative financial instruments:

(in EUR thousand)

	2017		2016	
	Nominal values	**Fair values**	Nominal values	Fair values
Assets				
Currency hedging contracts	133,997	949	135,549	2,047
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracts	(96,240)	(1,602)	(159,002)	(3,917)
Interest hedging contracts	(8,946)	(2,070)	(9,627)	(2,661)
Total	**28,811**	**(2,723)**	**(33,080)**	**(4,531)**

The nominal values are the amount hedged by the corresponding hedge. The fair values of derivative financial instruments are recognized as other financial assets or as other financial liabilities. They do not necessarily correspond to the amounts that will be generated in the future under normal market conditions.

Of the reported fair value from derivative financial instruments, an amount of EUR -1,562 thousand (2016: EUR -2,472 thousand) stems from financial assets and liabilities that were classified as held for trading.

The negative effects from the fair value measurement of currency hedges of EUR -1,161 thousand were recognized in other comprehensive income as of December 31, 2017 (2016: EUR -2,058 thousand). Of the amount recognized in other comprehensive income, losses of EUR -3,068 thousand on securities falling due were recycled into operating earnings in the fiscal year 2017 (2016: EUR 194 thousand).

Other Notes

22|Contingent liabilities

Contingent liabilities arising from the provision of collateral for third-party liabilities are valued at EUR 8,547 thousand as of December 31, 2017 (2016: EUR 8,547 thousand) and relate to the consolidated structured entities BIL Leasing Verwaltungs-GmbH & Co. 869 KG, ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG and ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG.

Under terms of the sale of the production site in Cleveland, Ohio, in the second quarter of 2015 and the transfer of production staff to the purchaser, HUGO BOSS Cleveland Inc. accepted subsidiary liability in connection with the termination of its participation in the existing multi-employer pension fund. If the purchaser terminates its participation in the pension plan before the expiry of five years and is unable to pay a settlement amount in favor of the pension fund, HUGO BOSS Cleveland Inc. in its capacity as the seller is liable under the Employee Retirement Income Security Act for an amount equaling the present value of the obligations calculated using actuarial methods, which is capped at about USD 7.3 million. Management considers the case of liability occurring as not likely. Hence no provisions have been set aside as of the reporting date.

23|Other financial obligations

Operating leases

The Group has entered into a substantial number of leases for retail stores, office spaces and warehouses. Some of the agreements include purchase and renewal options. These leases are classified as operating leases on the basis of the customary limits for determining the proportion of the useful life of the assets and the present value of the minimum lease payments. In this connection, it has been determined that the opportunities and risks related to ownership of these properties remain with the corresponding property companies and lessors.

Rental expenses under operating leases of EUR 407,625 thousand were recognized in the fiscal year 2017 (2016: EUR 405,475 thousand). This includes contingent sales-based rental expenses of EUR 181,669 thousand (2016: EUR 135,353 thousand).

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

(in EUR thousand)

	31. Dec. 2017	31. Dec. 2016
Due within one year	260,131	278,186
Due between one and five years	702,192	782,080
Due after five years	426,921	372,789
Total	**1,389,244**	**1,433,055**

In the fiscal year 2017, the Group earned income of EUR 658 thousand from subleases (2016: EUR 163 thousand). In view of the expiring subleases, no future minimum lease payments under subleases are expected (2016: EUR 161 thousand).

Finance leases

An analysis of leases for a warehouse and the land on which it is located in Midway, Georgia, U.S., and for IT servers at the headquarters in Metzingen showed that the material opportunities and risks arising from ownership are transferred to the lessee. Accordingly, they are classified as finance leases.

The assets had a net carrying amount of EUR 7,069 thousand as of December 31, 2017 (2016: EUR 8,632 thousand), which is reported within property, plant and equipment. This figure includes IT servers in the amount of EUR 814 thousand (2016: EUR 1,140 thousand) and a warehouse and the land on which it is located in the amount of EUR 6,255 thousand (2016: EUR 7,493 thousand). Interest expenses and depreciation for fiscal year 2017 came to EUR 688 thousand (2016: EUR 737 thousand).

(in EUR thousand)

2017	**Due 2018**	**Due 2019–2022**	**Due after 2022**	**Total**
Minimum lease payments	1,258	4,596	0	**5,854**
Estimated amount representing interest	23	38	0	**61**
Present value of minimum lease payments	**1,235**	**4,558**	**0**	**5,793**

2016	Due 2017	Due 2018–2021	Due after 2021	**Total**
Minimum lease payments	1,452	6,586	0	**8,037**
Estimated amount representing interest	32	69	0	**101**
Present value of minimum lease payments	**1,420**	**6,516**	**0**	**7,936**

24 | Notes to the statement of cash flows

The statement of cash flows of the HUGO BOSS Group shows the change in cash and cash equivalents over the reporting period using cash transactions. In accordance with IAS 7, the sources and applications of cash flows are categorized according to whether they relate to operating, investing or financing activities. The cash inflows and outflows from operating activities are calculated indirectly on the basis of the Group's net profit for the period. By contrast, cash flows from investing and financing activities are directly derived from the cash inflows and outflows. The changes in the items of the statement of financial position presented in the statement of cash flows cannot be derived directly from the statement of financial position on account of exchange rate translations.

A more detailed description of cash flows reported in the consolidated statement of cash flows is available in the chapter "Cash and cash equivalents".

Non-cash expenses and income concern in particular unrealized exchange rate gains and losses, fair value changes of derivative financial instruments recognized in profit or loss and non-cash changes in financial liabilities.

25 | Segment reporting

The Managing Board of HUGO BOSS AG manages the company by geographic areas. The HUGO BOSS national companies are responsible for the sale of all HUGO BOSS products that are not sold as licensed products by third parties in their respective sales territories. The managing directors of the national companies report to

the regional directors in charge in each case, who in turn report to the Managing Board of HUGO BOSS AG. This organizational structure enables the direct implementation of Group objectives while taking into account specific market conditions.

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

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

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

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

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

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

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

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

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

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

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

(in EUR thousand)

	Europe[1]	Americas	Asia/Pacific	Licenses	Total operating segments
2017					
Sales	**1,680,725**	**577,359**	**395,434**	**79,055**	**2,732,573**
Segment profit	**520,031**	**119,040**	**90,933**	**67,653**	**797,657**
In % of sales	30.9	20.6	23.0	85.6	29.2
Segment assets	232,389	157,008	74,020	23,977	487,394
Capital expenditure	40,108	19,970	16,094	0	76,172
Impairments	(14,285)	(7,600)	(3,603)	0	(25,488)
Thereof property, plant and equipment	(10,431)	(7,599)	(3,240)	0	(21,270)
Thereof intangible assets	(3,854)	(1)	(363)	0	(4,218)
Depreciation/amortization	(49,932)	(23,067)	(20,950)	0	(93,949)
2016					
Sales	**1,660,006**	**581,862**	**381,492**	**69,486**	**2,692,846**
Segment profit	**518,628**	**133,192**	**79,528**	**59,162**	**790,510**
In % of sales	31.2	22.9	20.8	85.1	29.4
Segment assets	245,669	202,729	86,980	23,700	559,078
Capital expenditure	58,352	31,206	19,157	0	108,715
Impairments	(10,005)	(14,649)	(5,720)	0	(30,374)
Thereof property, plant and equipment	(7,769)	(14,461)	(5,310)	0	(27,540)
Thereof intangible assets	(2,236)	(188)	(410)	0	(2,834)
Depreciation/amortization	(50,257)	(26,879)	(25,401)	0	(102,537)

[1] Including Middle East/Africa.

Reconciliation

The reconciliation of segment figures to Group figures is presented below.

Sales

(in EUR thousand)

	2017	2016
Sales – operating segments	**2,732,573**	**2,692,846**
Corporate units	0	0
Consolidation	0	0
Total	**2,732,573**	**2,692,846**

Operating income

(in EUR thousand)

	2017	2016
Segment profit – operating segments	**797,657**	**790,510**
Depreciation/amortization – operating segments	(93,949)	(102,537)
Impairments – operating segments	(25,488)	(30,374)
Other operating expense/income – operating segments	12,029	(53,029)
Operating income (EBIT) – operating segments	**690,249**	**604,570**
Corporate units	(349,338)	(337,340)
Consolidation	143	(3,727)
Operating income (EBIT) HUGO BOSS Group	**341,054**	**263,503**
Net interest income/expenses	(2,703)	(2,162)
Other financial items	(7,059)	(5,705)
Earnings before taxes HUGO BOSS Group	**331,292**	**255,636**

Segment assets

(in EUR thousand)

	2017	2016
Segment assets – operating segments	**487,394**	**559,078**
Corporate units	257,075	237,069
Consolidation	0	0
Current tax receivables	49,337	42,617
Current financial assets	38,834	28,339
Other current assets	109,227	96,302
Cash and cash equivalents	115,700	83,490
Non-current assets held for sale	0	0
Current assets HUGO BOSS Group	**1,057,567**	**1,046,895**
Non-current assets	662,480	751,727
Total assets HUGO BOSS Group	**1,720,047**	**1,798,622**

Capital expenditures

(in EUR thousand)

	2017	2016
Capital expenditure – operating segments	**76,172**	**108,715**
Corporate units	51,936	48,041
Consolidation	0	0
Total	**128,108**	**156,756**

Impairments

(in EUR thousand)

	2017	2016
Impairment – operating segments	**25,488**	**30,374**
Corporate units	(288)	(15)
Consolidation	0	0
Total	**25,200**	**30,359**

Depreciation/amortization

(in EUR thousand)

	2017	2016
Depreciation/amortization – operating segments	**93,949**	**102,537**
Corporate units	39,675	36,283
Consolidation	0	0
Total	**133,624**	**138,820**

Geographic information

(in EUR thousand)

	Third party sales		**Non-current assets**	
	2017	2016	**2017**	2016
Germany	447,905	448,375	212,080	211,825
Other European markets	1,232,843	1,211,631	189,187	210,414
U.S.A.	423,428	439,925	43,868	64,763
Other North, Central and South American markets	153,931	141,934	17,119	15,701
China	221,001	211,466	30,548	31,984
Other Asian markets	174,435	170,029	42,778	56,362
Licenses	79,030	69,486	14,993	15,001
Total	**2,732,573**	**2,692,846**	**550,573**	**606,050**

26 | Related party disclosures

In the reporting period from January 1 to December 31, 2017, the following transactions requiring disclosure were conducted with related parties:

Non-consolidated subsidiaries

As in the fiscal year 2016, no transactions were conducted with non-consolidated subsidiaries in the fiscal year 2017.

Entities under joint control

Within the scope of existing real estate lease agreements, rents in the amount of EUR 11,696 thousand were paid to companies under joint control in the fiscal year 2017 (2016: EUR 11,693 thousand). There were no open receivables or liabilities relating to these business transactions as of December 31, 2017. The lease agreements also include purchase options for the respective property at expected marked value. In addition, the agreement with Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG contains a renewal option to market conditions. The remaining term of the non-cancellable lease agreements is ten years at GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG and eight years at Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

A construction support services agreement is also in place between Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG and HUGO BOSS AG. Prior to the commencement of operations at the flat-packed goods distribution center, this encompassed the preparation, execution and supervision of construction projects, including preparation of building applications, validation of invoicing and the conclusion of agreements on behalf and for the account of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. This amount was due for payment upon the distribution center going into operation. The construction services contract was extended after the distribution center went into operation to ensure that structural and technical modifications could be made in the period from 2015 until 2024. In the fiscal year 2017, HUGO BOSS AG received EUR 10 thousand in consideration of the further construction support services (2016: EUR 10 thousand).

In the fiscal year, 2017, HUGO BOSS together with HUGO BOSS AL FUTTAIM UAE TRADING L.L.C., Dubai, U.A.E., which was established together with the AL FUTTAIM Group in Dubai and in which HUGO BOSS Middle East FZ-LLC, Dubai, U.A.E., holds 49% of the shares, generated sales revenue of EUR 18,457 thousand and receivables amounting to EUR 246 thousand.

Related parties

Related parties comprise members of the Managing Board and Supervisory Board. Members of the Supervisory Board and Managing Board are reported on pages 205 to 206.

Compensation for the Managing Board

The expense for short-term employee benefits totaled EUR 4,231 thousand in 2017 (2016: EUR 2,387 thousand). In 2017, a service cost of EUR 1,344 thousand was incurred for company pension plans (2016: EUR 1,360 thousand). For share-based compensation, the expense in 2017 was EUR 904 thousand (2016: EUR 193 thousand).

Total compensation of the members of the Managing Board within the meaning of Sec. 314 (1) No. 6 a) Clauses 1 to 4 HGB came to EUR 6,327 thousand in the fiscal year 2017 (2016: EUR 3,613 thousand). Of this amount, EUR 2,227 thousand was attributable to the basic compensation including fringe benefits (2016: EUR 2,261 thousand). In the fiscal year 2017 there was granted a special remuneration of EUR 340 thousand (2016: EUR 13 thousand). An amount of EUR 1,664 thousand (2016: EUR 113 thousand) is accounted for by the Short Term Incentive (STI) agreed for the fiscal year 2017. The multiple-year bonus for the period from 2015 until 2017 accounts for a total of EUR 46 thousand (2016: EUR 167 thousand). The LTI for 2017 – 2019 relates to an amount of EUR 2,050 thousand, which results in 37,771 subscription rights in 2017. The STI for 2017 and the multiple-year bonus for 2014 to 2017 will be paid in the fiscal year 2018 within a week of the Supervisory Board approving the consolidated financial statements for 2017 for payment.

As of December 31,2017, a down payment in the amount of EUR 540 thousand is still to be made and will be offset against the 2017 bonus payment.

In 2017, former members of the Managing Board and their surviving dependents received total compensation of EUR 297 thousand (2016: EUR 12,051 thousand). In 2017 no compensation was paid due to termination of employment.

There are pension obligations of EUR 47,779 thousand for former members of the Managing Board and their surviving dependents (2016: EUR 47,355 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 35,205 thousand (2016: EUR 34,459 thousand).

Compensation of the Supervisory Board

The Supervisory Board received compensation for its activities in 2016 amounting to EUR 1,561 thousand. For fiscal year 2017, total compensation is expected to come to EUR 1,493 thousand. This figure includes a variable component of EUR 738 thousand (2016: EUR 785 thousand), which is calculated on the basis of expected earnings per share in the consolidated financial statements.

Other related party disclosures

In total, the members of the Managing Board and Supervisory Board hold less than 1% (2016: less than 1%) of the shares issued by HUGO BOSS AG.

Members of the Managing Board and Supervisory Board purchase HUGO BOSS products at reduced prices as part of the compensation in kind granted to them supplementary to their salary and for their personal use. Besides this, no significant transactions were concluded between companies of the HUGO BOSS Group and key management personnel and their close family members.

27 | Subsequent events

Between the end of fiscal year 2017 and the release for publication of this report on February 20, 2018 there were no notable macroeconomic, socio-political, industry-related or company-specific changes which could have a material impact on the Company's results of operations, net assets and financial position according to the expectations of management.

28 | German Corporate Governance Code

In December 2017, the Managing Board and Supervisory Board of HUGO BOSS AG issued the declaration of compliance prescribed by Sec. 161 AktG. It is available for shareholders on the Company's website.

29 | Group auditor fees

(in EUR thousand)

	2017	2016
Audit services	1,715	1,873
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	474	485
Other assurance services	152	177
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	109	114
Tax advisory services	122	480
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	10	92
Other services	53	5
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	0	1
Total	**2,042**	**2,535**

Services provided by group auditors, beyond those related to the financial statement audit, mainly include sales examination, sustainability report confirmation, tax advisory and transfer pricing.

Managing Board

Member of the Managing Board	Responsibility
Mark Langer (Stuttgart, Germany) Chairman of the Managing Board from January 15, 2010 Member of the Managing Board, from May 19, 2016 Chairman of the Managing Board	Corporate Strategy and Communication, Legal/Compliance, Human Resources, Global Sourcing and Production, Supply Chain Management
Bernd Hake (Eningen, Germany) from March 1, 2016 Member of the Managing Board	Own Retail, Wholesale, Global Merchandising
Yves Müller (Hamburg, Germany) from December 1, 2017 Member of the Managing Board	Controlling, Finance & Tax, Investor Relations, Internal Audit, IT, Central Services
Ingo Wilts (Amsterdam, Netherlands) from August 15, 2016 Member of the Managing Board	Creative Management, Brand Management, License Management, PR Fashion, Global Advertising

Supervisory Board

Shareholder representatives

Michel Perraudin
(Hergiswil, Switzerland)

Management Consultant
Chairman of the Supervisory Board

Member since/until 2015/2020

Kirsten Kistermann-Christophe
(Oberursel, Germany)

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

Member since/until 2015/2020

Gaetano Marzotto
(Milan, Italy)

Chairman of the Supervisory Board
Gruppo Santa Margherita S.p.A.,
Fossalta di Portogruaro, Italy

Member since/until 2010/2020

Luca Marzotto
(Venice, Italy)

Chief Executive Officer Zignago Holding S.p.A.,
Fossalta di Portogruaro, Italy

Member since/until 2010/2020

Axel Salzmann
(Großhansdorf, Germany)

Chief Financial Officer Hensoldt Holding GmbH,
Taufkirchen, Germany

Member since/until 2015/2020

Hermann Waldemer
(Blitzingen, Switzerland)

Consultant

Member since/until 2015/2020

Employee representatives

Antonio Simina
(Metzingen, Germany)

Tailor/Chairman of the Works Council HUGO BOSS AG,
Metzingen, Germany
Deputy Chairman of the Supervisory Board

Member since/until 1985/2020

Tanja Silvana Grzesch
(Sonnenbühl, Germany)

Chairperson and Treasurer of the German Metalworkers´
Union (IG Metall) Reutlingen-Tuebingen,
Reutlingen, Germany

Member since/until 2015/2020

Anita Kessel
(Metzingen, Germany)

Administrative Employee HUGO BOSS AG,
Metzingen, Germany

Member since/until 2015/2020

Fridolin Klumpp
(Caslano, Switzerland)

Senior Vice President Global Human Resources
HUGO BOSS AG,
Metzingen, Germany

Member since/until 2015/2020

Sinan Piskin
(Metzingen, Germany)

Administrative Employee HUGO BOSS AG,
Metzingen, Germany

Member since/until 2008/2020

Martin Sambeth
(Tiefenbronn, Germany)

Secretary of the German Metalworkers´ Union
Baden-Wuerttemberg,
Stuttgart, Germany

Member since/until 2016/2020

Additional disclosures on the members of the Supervisory Board and the Managing Board

The members of the Company's Supervisory Board are also members of a supervisor board at the following companies:[1]

Michel Perraudin	ODLO Sports Holding AG[2]	Huenenberg, Switzerland
Kirsten Kistermann-Christophe	GSW Immobilien AG[3]	Berlin, Germany
Gaetano Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Alpitour S.p.A.	Turin, Italy
	Clouditalia Telecommunicazioni S.p.A.	Rome, Italy
	Tipo S.p.A.	Milan, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Gama Investments S.r.l.	Vicenza, Italy
	Style Capital SGR S.p.A.[2]	Milan, Italy
Luca Marzotto	Santa Margherita S.p.A.	Fossalta di Portogruaro, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Lumar S.r.l.	Vicenza, Italy
	Centervue S.p.A.[2]	Padua, Italy

[1] The members not named have no seats on executive or supervisory boards at other companies.
[2] Member holds position of Chairman.
[3] Listed company.

The members of the Company's Managing Board do not have any mandates in executive or supervisory bodies of other companies.

Publication

The annual and consolidated financial statements of HUGO BOSS AG are published in the German Federal Gazette and on the website of HUGO BOSS.

Metzingen, February 20, 2018

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Yves Müller
Ingo Wilts

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report, which is combined with the management report of HUGO BOSS AG, includes a fair review of the development and performance of the business and the position of the HUGO BOSS Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Metzingen, February 20, 2018

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Yves Müller
Ingo Wilts

INDEPENDANT AUDITOR´S REPORT

To HUGO BOSS AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of HUGO BOSS AG, Metzingen, and its subsidiaries (the Group), which comprise the consolidated income statement for the fiscal year from 1 January to 31 December 2017, the statement of comprehensive income for the fiscal year from 1 January to 31 December 2017, the consolidated statement of financial position as of 1 December 2017, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of HUGO BOSS AG, which has been combined with the management report, for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance contained in the group management report, which has been combined with the management report of the company, pursuant to Sec. 289f HGB [“Handelsgesetzbuch”: German Commercial Code].

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report, which has been combined with the management report of the company, does not cover the content of the statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation,

we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1) Impairment of the non-current assets assigned to the Group's own retail operations (DOS)

Reasons why the matter was determined to be a key audit matter:

A significant portion of the HUGO BOSS Group's business is conducted via the Group's own retail operations (DOS - directly operated stores). DOS make up the bulk of non-current assets of the HUGO BOSS Group and account for approx. 7% of total assets. For the purpose of the impairment test, the DOS are defined as independent cash-generating units (CGUs).

In light of the high capital expenditure in DOS in the past as well as the varying development of regional and local sales markets, the valuation model applied, the calculation of indicators for the impairment testing of individual DOS (particularly the development of sales and profitability indicators), the calculation of the discount rate as well as the calculation of expected future cash inflows necessitate to a great extent estimates and assumptions particularly with regard to specific growth rates used to roll forward the budget of the Company.

Auditor's response:

We discussed with the Company and assessed the method applied for the calculation of impairments. With the support of internal valuation experts, we examined the discounted cash flow valuation model, particularly its mathematical accuracy, the derivation of the carrying amounts of the assets assigned as well as the discount rates used. We verified the Company's inclusion of individual DOS in the impairment testing based on defined indicators by comparing the actual data and the planning data of profitability indicators of each of the DOS. We verified the individual components used to determine the discount rate with the support of our internal valuation experts by analyzing the peer group, comparing market data with external evidence and examining the mathematical accuracy of the calculation.

For a deliberately selected sample of DOS, we verified the mathematical accuracy of the valuation model used as well as the derivation of the carrying amounts of the assets assigned. We checked on a test basis that the planning assumptions used in the detailed forecasts of each of the DOS are in line with the business plan of the Company approved by the Managing Board and Supervisory Board. We also verified the retail growth rates applied for the remaining useful lives of the DOS and the development of fixed costs used to roll forward the budget by comparing internal and external data. We also analyzed the forecasts of individual DOS with regard to adherence to the budget in the past, discussed this with the Company and obtained evidence substantiating the individual assumptions of the forecasts in individual cases.

In cases where impairment testing was not based on the value in use but rather on the net realizable value, we compared the calculation of the net realizable value with the valuations of the expert opinion available to the Company and the internal calculations made by the Company.

We also examined the completeness of the disclosures in the notes to the consolidated financial statements.

Our audit procedures regarding the assessment of the impairment of the non-current assets assigned to the Group's own retail operations (DOS) by the Company did not lead to any reservations.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the impairment of the non-current assets assigned to the Group's own retail operations (DOS) can be found in the notes to the consolidated financial statements on pages 155 f. as well as 173 ff.

2) Measurement of inventories

Reasons why the matter was determined to be a key audit matter:
HUGO BOSS is active in the high-end segment of the fashion and apparel industry and is therefore confronted with continuously changing customer demand. A rapidly changing market leads to increased inventory risks and uncertainty in the measurement of inventories.

In particular, the calculation of the write-down rates using the Company's IT-supported write-down procedure as well as the calculation of additional manual write-downs, where necessary, which are not taken into account in this write-down procedure, are subject to the estimates made by the executive directors of the Company.

Auditor's response:
In our audit, we first examined the procedures and controls for determining impairments recognized associated with slow-moving goods and marketability.

We verified the suitability of the IT-supported write-down procedure for the assessment of inventory risks for movement rate, range of coverage and net realizable value. We assessed the system-based implementation of the write-down procedure in IT with the assistance of internal IT experts. If there were any changes in the write-down procedure in the current year, we examined these changes. We compared the computational logic of the model with the accounting and measurement policies used by the Company and arithmetically verified it on a test basis. We further assessed the write-down rates used by the Company based on past experience through analytical comparisons with the write-downs applied for each country in prior years.

The results of the IT-supported write-down procedure are in line with our expectations.

We discussed additional, manual write-downs with the Company, obtained evidence and performed further audit procedures in particular cases, which did not lead to any objections with regard to the valuation of manual write-downs.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the measurement of inventories can be found in the notes to the consolidated financial statements on pages 156 as well as 178 f.

3) Recognition and assessment of deferred tax assets and other tax receivables

Reasons why the matter was determined to be a key audit matter:
Tax issues are highly complex due to country-specific tax regulations and are subject to the exercise of judgment with regard to the enforceability of tax receivables as well as the existence of future taxable income. The recoverability of deferred tax assets from temporary differences and unused tax losses is based on the assessment of usability in the future through future taxable income. The recognition and recoverability of other tax receivables mainly depends on the Company's assessment with respect to the enforceability of the underlying issues.

Auditor's response:
Due to the complexity of the tax calculations taking into account the local tax regulations and legislation, we consulted internal tax experts for the assessment of deferred tax assets and other tax receivables. These internal tax experts supported us in the assessment of the underlying regulations and enforceability of tax claims.

To assess the recoverability of deferred tax assets resulting from temporary differences as well as from unused tax losses, we examined whether the existing tax forecasts were suitably derived from the business plan of the Company approved by the Managing Board and Supervisory Board. For this purpose, we discussed with the Company the significant assumptions of the tax forecasts for the entities in the USA, Germany and China, in particular on the future taxable earnings of the individual group entities, and assessed the reconciliation items for the business plan of the Company. Furthermore, we confirmed the assumptions of the tax planning of the individual entities based on the taxable income generated in the past.

This did not result in any reservations concerning the recognition and assessment of deferred tax assets and other tax receivables.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the recognition and assessment of deferred tax assets and other tax receivables can be found in the notes to the consolidated financial statements on pages 154 as well as 164 ff.

4) Treatment of rental and lease agreements

Reasons why the matter was determined to be a key audit matter:
The Group uses rental and lease agreements to a considerable extent for the rental and leasing of retail stores, office and warehouse space and properties. Finance leases as well as future operating lease commitments are recognized in the consolidated financial statements.

Significant estimates and assessments with regard to the classification of existing rental and lease agreements as finance leases or operating leases in the consolidated financial statements mainly relate to the assessment of significant opportunities and risks with respect to leased and rented assets, in particular the estimation of the useful life and the advantage of contractually guaranteed purchase and prolongation options.

Significant estimates and assessments with regard to the inclusion of leasing entities in the consolidated financial statements are the assessment of the ability to direct relevant activities, consisting of the utilization of the properties at the end of the rental/lease term, and thus the variable returns, such as the assessment of economic advantage of contractually guaranteed purchase options through company shares.

Auditor's response:
With respect to rental and lease agreements, we verified on a test basis newly concluded agreements of the subsidiaries as to their classification as finance or operating leases. We verified existing purchase or prolongation options, in particular, in addition to the contractual rental/lease term in relation to useful life. We verified on a test basis the Company's assessment, in particular of the extent to which purchase and prolongation options are to be considered advantageous in light of current market expectations. In doing so, we examined the assessments made by the Company and their external experts.

For leasing entities, we examined the Company's ability to direct relevant activities, in particular with regard to the influence over the disposal of the rented/leased assets. In cases where there are purchase options for shares in leasing entities, we verified the assessment of the advantage of these purchase rights in light of current market expectations made by the Company with the support of external third parties engaged by the Company. We examined the mathematical accuracy of the valuation model used. We also examined the Company's assessments on significant valuation factors and compared these on a test basis against external sources and reviewed any changes in these assessments in comparison to the prior year.

Our audit did not lead to any reservations concerning the classification of existing rental and lease agreements or the recognition of leasing entities.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the treatment of rental and lease agreements can be found in the notes to the consolidated financial statements on pages 151, 156 as well as 197 f.

Other information
The Supervisory Board is responsible for the report of the Supervisory Board. In other respects, the executive directors are responsible for other information. The other information comprises the disclosures contained in section 1 and 5 of the annual report "To our shareholders" and "Other notes", respectively, as well as the statement on corporate governance pursuant to Sec. 289f HGB, which is referred to in the group management report and has been combined with the management report of the Company.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as group auditor by the annual shareholder's meeting on 23 May 2017. We were engaged by the Supervisory Board on 23 August 2017. We have been the group auditor of HUGO BOSS AG without interruption since fiscal year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Mr. Martin Matischiok.

Stuttgart, February 20, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Matischiok	Sturm
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]