HUGO BOSS

ANNUAL REPORT 2019

Due to rounding, numbers presented in this Annual Report may not add up precisely to the totals provided.

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TO OUR SHAREHOLDERS

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In fiscal year 2019, HUGO BOSS made further progress in executing against its strategic initiatives. At the same time, the financial targets for fiscal year 2019 had to be adjusted over the course of the year in view of a persistently difficult environment in some important markets. Thanks to strong sales and earnings growth in the final quarter, the Group ultimately achieved the targets as adjusted in October. The Supervisory Board continued to perform its **duties with the utmost care** in fiscal year 2019, providing comprehensive advice to the Managing Board in a close, trust-based collaboration and monitoring its management activities. It entirely complied with the duties imposed on it by law and by the Company's Articles of Association and its own bylaws.

Collaboration between the Managing Board and the Supervisory Board

The Managing Board informed us regularly, comprehensively and in a timely manner in both written and oral form of all **matters of relevance for HUGO BOSS AG and the Group companies related to strategy, planning, business performance, the risk position, changes in the risk situation and compliance**. Monitoring and control duties particularly focused on the financial performance of the Company. In particular, developments leading to any deviations in the actual course of business from the initial outlook and targets were explained in detail to the Supervisory Board and reviewed on the basis of the documents presented. The Chairman of the Audit Committee and I maintained close and regular dialog with the Managing Board. We were kept promptly informed of significant developments and decisions and we reported on these at the following Supervisory Board and Committee meeting at the latest.

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

Main topics at the meetings of the Supervisory Board

In fiscal year 2019, a total of **five Supervisory Board meetings** were held in March, May, July, September and December, with the September meeting held over two days. In addition, a circular resolution was issued in October and November, respectively. All members attended the five meetings of the Supervisory Board, with the exception of Tanja Silvana Grzesch, Anita Kessel and Gaetano Marzotto, who were each unable to attend one meeting but did participate in the decisions via written votes. In addition, all members were present at the four meetings of the Audit Committee as well as at the five meetings of the Working Committee. All members took part in all nine meetings of the Personnel Committee, as well as in the six meetings of the Nomination Committee, with the exception of Michel Perraudin, who was unable to take part in one meeting of the Nomination Committee.

Participation in meetings of the full Supervisory Board and its committees[1]

Member	Full Supervisory Board (5)	Audit Committee (4)	Working Committee (5)	Personnel Committee (9)	Nomination Committee (6)	Attendance rate (29)
Michel Perraudin, Chairman	5/5	4/4	5/5	9/9	5/6	28/29
Antonio Simina, Deputy Chairman	5/5	4/4	5/5	9/9	–	23/23
Tanja Silvana Grzesch	4/5	–	–	–	–	4/5
Anita Kessel	4/5	–	5/5	–	–	9/10
Kirsten Kistermann-Christophe	5/5	–	–	–	–	5/5
Fridolin Klumpp	5/5	4/4	–	–	–	9/9
Gaetano Marzotto	4/5	–	–	–	6/6	10/11
Luca Marzotto	5/5	–	5/5	9/9	–	19/19
Sinan Piskin	5/5	–	5/5	9/9	–	19/19
Axel Salzmann	5/5	–	–	–	–	5/5
Martin Sambeth	5/5	–	–	–	–	5/5
Hermann Waldemer	5/5	4/4	5/5	–	–	14/14

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

The **meeting of the Supervisory Board in March 2019** focused on the annual financial statements of HUGO BOSS AG and the HUGO BOSS Group as of December 31, 2018 and the audit report prepared by the auditors. At this meeting, the annual financial statements and the consolidated financial statements of HUGO BOSS AG as of December 31, 2018 were approved and ratified. Furthermore, the Supervisory Board's report to the Annual Shareholders' Meeting was discussed and adopted. The proposals for the resolutions at the Annual Shareholders' Meeting of HUGO BOSS AG on May 16, 2019 were adopted following the review of the independence of the proposed auditor for the fiscal year 2019.

In its **meeting in May 2019**, the Supervisory Board considered the current business performance and the possible termination of two real estate leases. In addition, the further development and future design of the compensation system for the Supervisory Board was discussed.

In its **meeting in July 2019**, the Supervisory Board, based on the proposal of the Personnel Committee, dealt with the departure of Bernd Hake from the Managing Board of HUGO BOSS AG.

The main topics of the **meeting in September 2019** were the current business performance, the further development of the organizational structure and the restructuring of the centralized Marketing department. In addition, the key aspects of the audit for fiscal year 2019 were decided.

In **October 2019**, the Supervisory Board decided to terminate a real estate lease for a property at its headquarters in Metzingen. In **November 2019**, the Supervisory Board passed a circular resolution on the termination of a real estate lease for a warehouse in Germany.

The budget for fiscal year 2020 was discussed and passed in the **meeting of the Supervisory Board in December 2019**. In addition, the current business performance as well as the future strategy of BOSS Womenswear and the Group's marketing activities were discussed. Moreover, the findings of the Supervisory Board efficiency audit, which were collected based on a questionnaire and analyzed and presented by an external provider, were discussed in detail. The declaration of compliance with the German Corporate Governance Code and the planning of the internal audit for 2020 were discussed and decided upon. Finally, the compensation system for the Supervisory Board, which was further developed with the support of external consultants, was discussed. At the same time, it was decided that a corresponding amendment to the Articles of Association should be proposed to the Annual Shareholders' Meeting in May 2020.

The development of sales and earnings, investment planning, individual investment projects and the current risk situation of the Company were discussed regularly at the Supervisory Board meetings and approved where necessary. In addition, the meetings of the Supervisory Board involved regular, detailed reports on the contents of the previous committee meetings. In addition, in 2019, the Supervisory Board focused primarily on the further expansion of the online business, the capital structure, cost planning, compliance issues and the requirements of the German Corporate Governance Code.

Work of the Committees in fiscal year 2019

To perform its duties, the Supervisory Board has formed **five Committees**: an Audit Committee, Personnel Committee, Working Committee, Nomination Committee and the legally mandated Mediation Committee. To the extent legally permissible and insofar as they have been given corresponding authorizations, individual Committees make decisions instead of the Supervisory Board as a whole. Otherwise, they prepare decisions and topic areas for the Supervisory Board as a whole. The respective committee chairs report to the Supervisory Board in detail about the work of the committees at regular intervals.

In total, the **Audit Committee** met four times in fiscal year 2019. The main agenda of its meetings concerned the financial reporting of the Company and the Group with respect to the annual, half-yearly and quarterly financial statements, the audit of the annual and consolidated financial statements, monitoring of the risk management and internal control system, compliance matters and risk management. In addition, the Audit Committee requested the declaration of independence from the external auditor and satisfied itself of the auditor’s independence. In addition to defining the main aspects of the audit of the annual and consolidated financial statements for 2019 and mandating the external auditor, it approved non-audit services and placed a cap on the fees payable for such non-audit services. In addition, the results of the audit review of the combined non-financial statement were discussed in accordance with the Act to Strengthen Non-Financial Reporting by Companies in the Management and Group Management Reports (CSR Directive Implementation Act).

The **Personnel Committee** met nine times. It focused on the allocation of responsibilities for the business divisions, preparing the renewal of the Managing Board contracts, the target achievement for the prior fiscal year and preparing the target agreements for the Managing Board. In addition, the committee dealt with the termination of the Managing Board contract of Bernd Hake.

The **Working Committee** met five times in the year under review and dealt with current business development, compensation of the Supervisory Board, strategy, and preparations for the Annual Shareholders’ Meeting. In addition, the developments in the online business and customer relationship management, the organizational structure of the Group, the efficiency program as well as the restructuring of the BOSS Womenswear and Marketing departments were discussed. The Working Committee also discussed the Supervisory Board efficiency audit and the Corporate Governance Statement.

The **Nomination Committee** met six times in the past fiscal year to prepare for the new election of the Supervisory Board, which is coming up in 2020.

The **Mediation Committee** did not convene in the last fiscal year.

Corporate governance

The Supervisory Board additionally dealt with the **principles of good corporate governance** within the Company. In December 2019, the Managing Board and the Supervisory Board issued a new declaration of compliance with the German Corporate Governance Code (GCGC). The combined report on corporate governance at the Company in accordance with Sec. 3.10 of the German Corporate Governance Code including the Corporate Governance Statement can be found on page 104 et seq. In relation to the annual efficiency audit of the Supervisory Board's activities recommended by the German Corporate Governance Code, the Supervisory Board decided to remain with the tried and tested method of an audit using a comprehensive questionnaire. External analysis of the completed questionnaires and the improvements suggested were analyzed and discussed at length at the Supervisory Board meeting of Wednesday, December 4, 2019. The Supervisory Board drew a favorable conclusion overall.

Conflicts of interest

No conflicts of interest relating to Managing Board or Supervisory Board members arose in fiscal year 2019. Under the German Corporate Governance Code, such conflicts of interest must be disclosed to the Supervisory Board without delay, as well as to the Annual Shareholders' Meeting.

Audit of annual and consolidated financial statements for 2019

Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, duly audited the consolidated financial statements of HUGO BOSS AG for 2019, including the accounting records, which had been prepared by the Managing Board on the basis of the International Financial Reporting Standards (IFRS) in accordance with Sec. 315e HGB ["Handelsgesetzbuch": German Commercial Code], and issued an **unqualified audit opinion**. This was also the case for the annual financial statements of HUGO BOSS AG for 2019 prepared in accordance with the provisions of the German Commercial Code as well as the combined management report for 2019 of HUGO BOSS AG and the Group. The corresponding audit mandate had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual Shareholders' Meeting held on May 16, 2019. In addition, it was agreed with the auditor that the chair of the Audit Committee would have to be informed during the audit without delay about any possible grounds for disqualification or factors affecting impartiality that could not be rectified immediately. It was also agreed that the external auditor is obliged to report on any findings or events arising during the performance of the audit that are of importance to the duties of the Supervisory Board. He was furthermore required to inform the Supervisory Board or note in the audit report any facts that were ascertained during the audit resulting in any errors in the declaration submitted by the Managing Board and the Supervisory Board in accordance with Sec. 161 (1) Sentence 1 of the AktG (German Stock Corporation Act). The auditors did not issue any such reports in the reporting year. In addition, the Supervisory Board obtained the auditors' declaration of independence in accordance with Sec. 7.2.1 of the German Corporate Governance Code and verified the auditor's independence. The possibility of engaging the auditors to perform non-audit services was also discussed. The Supervisory Board received all accounting documents and the Managing Board's proposal for the appropriation of profit as well as the audit report from the external auditor.

The annual financial statements, proposal for the appropriation of profit, consolidated financial statements and combined management report for 2019 for HUGO BOSS AG and the Group, which also contains the combined non-financial statement for HUGO BOSS AG and the Group, and the audit report were discussed and inspected in advance by the Audit Committee and then by the full Supervisory Board in the presence of the external auditor. The external auditor reported on the main findings of the audit, particularly with respect to the key aspects of the audit that had been determined by the Audit Committee for the year under review. He was also available to answer any questions and provide additional information. No significant shortcomings in the accounting-related internal control system and risk management were identified in connection with this. Similarly, there were no circumstances indicating any partiality on the part of the external auditor. Finally, he reported on the non-audit services that had been provided in the fiscal year under review. The auditor's findings were approved. Following its final review, the Supervisory Board raised no objections.

Consequently, at its meeting of March 3, 2020 the Supervisory Board approved the **financial statements for fiscal year 2019** prepared by the Managing Board. The financial statements of HUGO BOSS AG for fiscal year 2019 were therefore ratified in accordance with Sec. 172 AktG. In addition, the Supervisory Board approved the Managing Board's proposal for the **appropriation of profit** at the same meeting. In this context, the Supervisory Board held detailed discussions on the liquidity position of the Company, the financing of planned investments and the effects on the capital market. In the course of these discussions, the Supervisory Board concluded that the proposal was in the best interests of the Company and its shareholders.

For fiscal year 2019, the Managing Board drafted a **combined non-financial statement** for HUGO BOSS AG and the Group and included this in the combined management report for 2019. The Supervisory Board commissioned Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, to perform an audit to obtain limited assurance of this statement. All Supervisory Board members promptly received the combined non-financial statement for HUGO BOSS AG and the Group for fiscal year 2019 and the independent auditor's limited assurance report. The full Supervisory Board deliberated on the statement and the audit certificate of Ernst & Young on March 3, 2020. The auditors of Ernst & Young participated in this discussion and presented the audit results. No objections were raised based on their own review of the combined non-financial statement for HUGO BOSS AG and the Group, and the result of the audit to obtain limited assurance by Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, was noted with approval.

Acknowledgments

On behalf of the Supervisory Board, I want to thank the members of the Managing Board and all employees for their high level of personal dedication and great commitment. I also want to thank the employee representatives of HUGO BOSS AG for their constructive collaboration in fiscal year 2019.

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

Metzingen, March 3, 2020

The Supervisory Board

Michel Perraudin
Chairman

SUPERVISORY BOARD

Supervisory Board

Shareholder representatives

Michel Perraudin
(Hergiswil, Switzerland)

Management Consultant,
Chairman of the Supervisory Board,
Member since/until 2015/2020

Kirsten Kistermann-Christophe
(Oberursel, Germany)

Managing Director
Société Générale S.A.,
Frankfurt/Main, Germany,
Member since/until 2015/2020

Gaetano Marzotto
(Milan, Italy)

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

Luca Marzotto
(Venice, Italy)

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

Axel Salzmann
(Großhansdorf, Germany)

Chief Financial Officer
Hensoldt Holding GmbH,
Taufkirchen, Germany,
Member since/until 2015/2020

Hermann Waldemer
(Blitzingen, Switzerland)

Management 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
(Inzigkofen, 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)

Business Director
BOSS Womenswear
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2015/2020

Sinan Piskin
(Metzingen, Germany)

Administrative Employee/Deputy
Chairman of the Works Council
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2008/2020

Martin Sambeth
(Tiefenbronn, Germany)

Secretary of the German
Metalworkers´ Union
Baden-Wuerttemberg,
Stuttgart, Germany,
Member since/until 2016/2020

Supervisory Board Committees

Working Committee

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

Nomination Committee

- Gaetano Marzotto
- Michel Perraudin

Personnel Committee

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

Audit Committee

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

Mediation Committee
(in accordance with Se. 27 (3) Mitbestimmungsgesetz [Co-Determination Act])

- **Michel Perraudin (Chairman)**
- Tanja Silvana Grzesch
- Gaetano Marzotto
- Antonio Simina

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COMBINED MANAGEMENT REPORT

The "Compensation Report" (pp. 113–123) and the "Legal Disclosures" (pp. 124–126) are further components of the Combined Management Report.

BUSINESS ACTIVITIES AND GROUP STRUCTURE

- **Positioning in the premium segment of the global apparel market**
- **Strategic focus on increasing brand desirability of BOSS and HUGO**
- **Distribution via own retail and wholesale business – online and brick-and-mortar retail**

Business activity

Group at a glance

2.9 Sales (billion EUR)	**~14,600** Employees	**128** Countries

As a **global fashion and lifestyle company** in the premium segment, HUGO BOSS, with its approximately 14,600 employees, is one of the leaders in offering high-quality women's and men's apparel. The collections of its **two brands BOSS and HUGO** seek to offer customers a comprehensive selection of modern tailoring, elegant evening wear, casualwear, shoes and accessories. In addition, royalty income is generated from products such as fragrances, eyewear, watches and children's fashion. Sustainably increasing brand desirability is at the forefront of all Group activities and is the focus of the Group's strategic framework. In 2019, the company based in Metzingen (Germany) generated sales of EUR 2.9 billion. → **Group Strategy**

BOSS HUGO BOSS HUGO HUGO BOSS

The four annual **BOSS and HUGO collections**, as well as additional themed capsule collections, are mainly designed and developed at the Group's headquarters in Metzingen (Germany). In addition, the competence center in Coldrerio (Switzerland) is responsible for the innovation and development activities for a number of product groups. → **Research and Development**

HUGO BOSS produces 17% of its total sourcing volumes at its own facilities. **Own production** occurs at four production locations in Europe, with Izmir (Turkey) being by far the largest. 83% are sourced from external contract suppliers or procured as merchandise. Partner operations are mainly located in Asia and Eastern Europe. → **Sourcing and Production**

The BOSS and HUGO collections can be purchased in a total of **128 countries**. The Group's distribution activities are divided into **three regions**. With a share of 63%, Europe contributes by far the largest proportion of sales. 19% of Group sales is generated in the Americas and 15% in Asia. Within the three regions, the **six core markets** – Germany, the United States, Great Britain, China, France and Benelux – contribute a total of around 60% of sales, with the home market of Germany representing the market with the highest sales. 3% of Group sales is generated from license business. → **Earnings Development, Sales and Earnings Development of the Business Segments**

HUGO BOSS distribution channels

	Own retail	Wholesale
Brick-and-mortar	**Freestanding stores** Freestanding stores operated by the Group in prime locations	**Multi-brand points of sale** Category business on selling space with limited own branding
	Shop-in-shops Shops operated by the Group on retail space of partners	**Shop-in-shops** BOSS and HUGO shops operated by partners
	Factory outlets Sale of prior season´s merchandise in specialist stores in high-traffic peripheral zones	**Franchise business** Freestanding BOSS stores operated by partners
Online	**Online store hugoboss.com** Digital flahship store with seperate brand evironments for BOSS and HUGO	**Online distribution via partners** Distribution of the brands BOSS and HUGO via specialized online retailers
	Partnerships with online retailers Own distribution on multibrand platforms via the concession model	

The BOSS and HUGO brands are sold via the own retail business and wholesale business, both online and brick-and-mortar retail. **Own retail** constitutes the most important distribution channel, and has been further expanded in recent years. In doing so, the company further increases the proximity to customers and on their needs. In 2019, the own retail business accounted for 65% of Group sales (2018: 63%). At the end of the year, the Group was operating 431 freestanding retail stores around the world (2018: 419). In addition, HUGO BOSS operates outlets as well as self-managed shop-in-shops in department stores as part of the concession model. Through a variety of omnichannel services, the brick-and-mortar retail business is closely linked to the own online business. Via the hugoboss.com website, customers can experience the brand worlds of BOSS and HUGO and order products online in a total of 15 countries (2018: 11 countries). In addition to the further expansion of its own online store, hugoboss.com, HUGO BOSS is also seeing additional growth potential through the further expansion of the concession model to the online business, which has already been stepped up over the past few years. → **Group Strategy**

The **wholesale channel** contributed 32% to Group sales in the past fiscal year (2018: 34%). The Group's wholesale partners include department stores, specialist retailers, which are frequently family-owned, and franchisees. Moreover, cooperation with specialized online retailers is gaining ever greater importance. While department stores and specialist retailers sell the BOSS and HUGO products either in separate shop-in-shops or in a multibrand setting, franchise partners independently operate freestanding stores, mainly based in small markets not addressed by the Group's own retail business. All in all, wholesale business encompasses around 6,300 points of sale (2018: 6,500). Including its own freestanding retail stores, shop-in-shops and outlets, the Group enables customers to purchase BOSS and HUGO products at around 7,450 sales points worldwide (2018: around 7,600). → **Group Strategy**, → **Earnings Development**

Group structure

All main management functions are based at the Group's headquarters in Metzingen (Germany). As the **parent company**, HUGO BOSS AG, which has a dual management and control structure as a German stock corporation, is responsible for managing the Group. The Managing Board has overall responsibility for the strategy and management of the Group and is monitored by the Supervisory Board. The Supervisory Board is also on hand to advise the Managing Board. In addition to HUGO BOSS AG, the HUGO BOSS Group is made up of **60 consolidated subsidiaries** that are solely responsible for their local business activities. 38 subsidiaries are organized as distribution companies and three as production companies. → **Notes to the Consolidated Financial Statements, Basis of Consolidation**

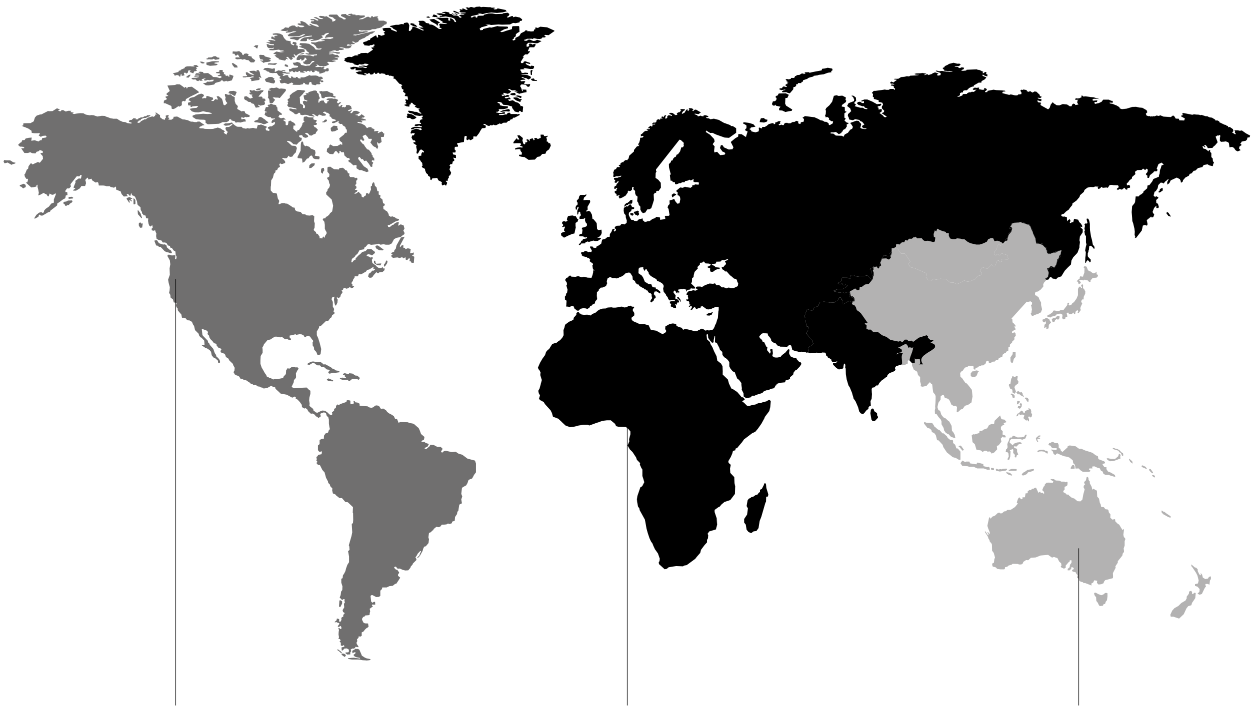
The HUGO BOSS Group is **structured by region**. The Group's business segments are Europe (including the Middle East and Africa), the Americas and Asia/Pacific as well as the license business.

HUGO BOSS Group structure

	Managing Board			
Central departments	Brand Management		Investor Relations	
	Central Services		IT	
	Communication		Legal/Compliance	
	Controlling/Risk Management		License Management	
	Corporate Strategy		Logistics	
	Finance/Tax		Own Retail	
	Global Marketing		Product Creation	
	Global Sustainability		Real Estate	
	Human Resources		Sourcing/Production	
	Internal Audit		Wholesale	
Operating segments	**Europe** incl. Middle East and Africa	**Americas**	**Asia/Pacific**	**Licenses**
Hubs/Individual markets	Northern/Southern Europe	United States/Canada/Latin America	China	
	Central Europe		South East Asia/Pacific	

The functions established in the **central departments** of HUGO BOSS AG cover all significant parts of the value chain, particularly the development, production, sourcing, and distribution of the collections to the respective markets. The centrally developed Group strategy is implemented and executed locally to ensure strict customer orientation and enable a timely reaction to market-specific trends. The **individual markets** are placed in hubs, with local management reporting directly to the Chief Executive Officer of HUGO BOSS AG. This is intended to ensure close alignment with the central functions as well as short decision-making processes. In addition, certain functions are pooled in the hubs and in the central departments across countries to make the most effective use of specialist skills and to generate cost benefits.

Key locations/Global market presence



AMERICAS	EUROPE (including Middle East and Africa)	ASIA/PACIFIC
~1,650 Points of sale	**~5,250 Points of sale**	**~550 Points of sale**
94 Freestanding retail stores	**203 Freestanding retail stores**	**134 Freestanding retail stores**
2 Showrooms	**10 Showrooms**	**1 Showroom**
12% Employees	**74%** Employees	**14%** Employees

AMERICAS

USA (New York)
Headquarters Americas,
Design studio Womenswear

USA (Midway)
Distribution center

EUROPE

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

Switzerland (Coldrerio)
Development and pattern design

Turkey (Izmir)
Production

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

Poland (Radom)
Production

ASIA/PACIFIC

China (Hong Kong)
Headquarters, Asia/Pacific

China (Shanghai)
Headquarters, China

GROUP STRATEGY

- **Group pursues two-brand strategy centred around BOSS and HUGO**
- **Focus on strategic growth drivers to secure future sales growth**
- **Strategy aims at sustainable profitable growth**

HUGO BOSS has the **vision of being the most desirable fashion and lifestyle brand** in the premium segment of the global apparel market. The Group is convinced that the desirability of its two brands, BOSS and HUGO, is the most important factor for its long-term success. The Group strategy is therefore fully focused on this objective, taking into account past as well as current changes in the operating environment and in customer expectations.

Growth in the **premium apparel industry**, particularly in the area of businesswear, has slowed in recent years. At the same time, the casualwear and athleisurewear segments as well as the contemporary fashion segment of the global apparel market have been recording above-average growth in recent years. **Customer expectations** have also changed: Consumers are increasingly using digital channels to get inspired and discuss current trends and the offerings of individual brands. In particular, customers are increasingly closely connected with brands and influencers through social media. They demand a noticeably faster reflection of current trends in the collections, and their availability at any time – both in brick-and-mortar and online retail. They also expect that both distribution channels will complement each other as seamlessly as possible and that the shopping experience will be characterized by a more individual customer approach and personalized services. Customer demand for sustainable product offerings is also growing.

Focus on personalization and speed

In order to take account of changes in the environment and customer expectations, HUGO BOSS is focusing primarily on **personalization** and **speed**. With a variety of strategic initiatives from a brand, sales and operational perspective, the Group intends to sustainably increase the desirability of its brands, BOSS and HUGO.

In the coming years, HUGO BOSS intends to significantly increase its **focus on personalized offers and services**. The intent is to increase customer satisfaction sustainably by employing a more individualized customer approach, expanding the personalized product range of BOSS and HUGO, and enhancing the shopping experience. In doing so, HUGO BOSS is building on its global store network of around 1,100 own points of sale, its central customer relationship management and its long-term experience in made-to-measure apparel. → **Consistent Execution of a Two-Brand Strategy**

In addition, HUGO BOSS is seeking to **further accelerate central business processes** and to make them significantly more agile. This is intended to enable the Group to respond even faster and more flexible to customer needs and new market trends in the coming years. The further digitization of the business model is of particular importance here. The associated potentials are to be exploited along the entire value chain. → **Digitization aims at Transforming the Business Model**

Consistent execution of a two-brand strategy

The Group operates with two brands – **BOSS and HUGO** – to approach customers in a clear and consistent manner. Both brands offer their customers an extensive selection of modern tailoring, elegant evening wear, casualwear, shoes and accessories in both the **menswear** and in the **womenswear** segments. Although the two brands differentiate from each other in terms of their individual attributes and address different customer groups, they both embody the same exacting values in terms of quality, fit and innovation. Sustainability is also playing a decisive part in regards to compliance with ambitious social and environmental standards as well as sustainably manufactured products for both brands. → **Sustainability**

Two strong brands

BOSS
HUGO BOSS

HUGO
HUGO BOSS

Brand values
Masculinity/Femininity
Sexiness
Success
Style
Precision

BOSS dresses the drive.

Shared values

Innovation
Premium quality and perfect fit
Sustainability
Trustworthiness
Authenticity

Brand values
Globally engaged
Always curious
Authentically expressive

HUGO is the platform of self-expression.

BOSS brand strategy

With its **BOSS** brand, the Company is reaching out to a status-oriented, rationally-minded **customer** who wants to dress in a classic yet modern and high-quality style. BOSS is targeting customers who have the highest standards in terms of quality and fit and attach great importance to an adequate value-for-money proposition. The shopping experience should also meet the highest standards, particularly with regard to personal service. BOSS offers customers in the upper premium segment businesswear and casualwear with impressive quality, design and fit.

In response to a modern lifestyle, the greater interplay of modern tailoring with casualwear elements in the BOSS collections is becoming increasingly relevant. The Company attaches great importance to flexible suit combinations, for example via the **"Mix & Match" range**, and the integration of innovative materials and performance elements, such as in the case of suits in the **"Stretch Tailoring" program**. Through **BOSS Tailored**, the brand also satisfies high customer requirements in tailoring, including in the casualwear segment. The **full-canvas suits** manufactured in Germany embody precise design and masterful craftsmanship. The same quality of workmanship is found at the top of the collection in the personalized **"Made to Measure"** range. "Made to Measure" products include suits, coats and ties, and are adapted to the customers' individual wishes. They are tailored at the Group's headquarters in Metzingen after an in-depth personal advise.

In 2019, the Company expanded its personalized product range with the introduction of **"BOSS Made for Me"**. Customers can use this service to freely combine the outer materials, lining and buttons on their new BOSS suit. Casualwear products, such as jackets and sneakers can also be individually adapted to the customer's wishes within the scope of the offer. Already today, "BOSS Made for Me" is available in selected stores in Europe and Asia.

In order to increase brand desirability, BOSS regularly presents itself at international **fashion shows**. In 2019, BOSS menswear and BOSS womenswear presented their new collections together in Shanghai, New York and Milan. A 360° approach is intended to ensure the consistency of **marketing campaigns**, from online and social media appearances through external advertising to window displays in retail stores. The Company is looking to increasingly use social media campaigns going forward to step up interaction with consumers via digital channels. The Company also **sponsors** premium sports such as golf, sailing, motor sports and soccer to convey brand values such as success, precision, innovation and sustainability. In addition to **cooperations**, such as those with the automaker Porsche or the porcelain manufacturer Meissen in 2019, the Company aims at increasing the desirability of the BOSS brand also with the help of **brand ambassadors and influencers**.

HUGO brand strategy

In contrast to BOSS, the HUGO brand is targeting **customers** who are significantly more expressive and consider their style to be an important element in expressing their own personality. **HUGO** is aimed at an open-minded, individual and spontaneous customer who is increasingly purchasing online or on the go. HUGO seeks to offer this broad segment of customers, who tend to be younger, modern casualwear and businesswear collections, which are characterized by progressive designs and a clear fashion statement. In doing so, HUGO remains anchored in the premium segment of the apparel market. With its focus on contemporary fashion, however, the brand stands apart from BOSS in terms of its fashion statement. HUGO offers various opportunities for **personalizing products** in the area of casualwear. For example, in 2019, customers were able to personalize T-shirts and sweaters using custom, back-to-front letters both online and in selected stores.

A variety of primarily digital **events and campaigns** are intended to further raise HUGO's profile and desirability. As part of its **social media activities**, the Company is increasingly focusing on collaborations with brand ambassadors, musicians and influencers. For example, in 2019, HUGO and British singer and artist Liam Payne presented a jointly developed capsule collection at Berlin Fashion Week. The new styles were presented digitally and were immediately available online. As a global **brand ambassador** for HUGO, Liam Payne will continue to accompany important marketing campaigns and exclusive collections in future. Measures such as these are intended to raise HUGO's international recognition and credibility, as well as increase its global reach.

Digitization aims at transforming the business model

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

For example, the progressive **digitization of product development** will enable further reductions in lead times. Already today, the development of around one-third of the styles of the HUGO collections is completely digitized. In the coming years, that share will increase further and the technology will also be transferred to the BOSS brand. Moreover, an increased use of digital trend detection and a digital fabrics and trimmings database are expected to further shorten the collection development phase. → **Research and Development**

In the production process, the Company is focusing the digital transformation of its largest production plant in Izmir (Turkey). On its way to become a **"smart factory"**, key milestones have already been achieved with the digital networking of all production machinery, employees, processes and products. This already allows the real-time tracking of various production data. Moreover, the increased use of artificial intelligence is expected to lead to a further improvement in production processes. → **Sourcing and Production**

HUGO BOSS intends to further increase the effectiveness of its marketing budget in the coming years. Around three-quarters of the marketing budget will be allocated in future to **digital marketing channels** (2019: around 70%). One focus will be on expanding the Company's presence in relevant social networks. By using advanced analytics, the effectiveness of digital marketing activities can be measured efficiently and useful conclusions for future marketing activities can be drawn.

In sales and distribution, the Group is increasingly working on the **expansion of its own online business**. In addition to its own online store, the company is consistently strengthening partnerships with so called multibrand platforms. Digital elements also play an important role for HUGO BOSS in brick-and-mortar retail. In particular, the integration of **omnichannel services** is designed to offer customers an elevated shopping experience. In order to enhance the shopping experience even further, the Group is increasingly using large touchscreens to have customers order all BOSS and HUGO products conveniently. Already today, the Group is making use of a **digital showroom** when distributing the HUGO collections to wholesale partners. This offers trading partners a flexible, convenient and fast alternative to conventional ordering, covering aspects such as the inspiration for the collection, the selection of individual products and the completion of the ordering process. In the medium term, both brands will be distributed to wholesale partners by means of digital showrooms.

Focus on implementing the strategic growth drivers

HUGO BOSS has identified **four strategic growth drivers**, the consistent implementation of which is intended to contribute significantly to the future growth of the company: the online business, retail productivity, the Asian market and the strengthening of HUGO in the contemporary fashion segment.

Strategic growth drivers

Online	Retail productivity	Asia	HUGO

Exploiting the full potential of online

HUGO BOSS sees great growth opportunities above all in **expanding its online business**. With above-average growth, the online business is expected to contribute significantly to achieving the Group's targets in the coming years. To this end, the Group is focusing on further expanding the concession model to the online business and tapping the full potential of its own online store hugoboss.com. The Group plans to roughly quadruple sales in its own online business by 2022 (base year 2018: EUR 110 million).

HUGO BOSS is selectively seeking close collaborations with multibrand platforms whose presentation best matches the brand values of BOSS and HUGO. A significant measure in this is the **expansion of the concession model** to the online business. The Group already introduced the concession model into its business years ago with brick-and-mortar retailers in which HUGO BOSS sells to end customers on its own behalf and on its own account. This enables HUGO BOSS to directly manage the presentation and distribution of its brands in a third party environment, while at the same time ensuring a consistent and stringent pricing. In this context, the Group has already been able to intensify a large number of strategic partnerships in the past year. In 2020 and beyond, the Asia/Pacific region and Europe will be the focal points for the expansion of the online concession model. This will enable HUGO BOSS to serve customer demands even better in the future.

Moreover, HUGO BOSS intends to fully utilize the potential of its **online store hugoboss.com** in the future and develop it into a digital flagship store. To do so, the Group is continuously optimizing the user-friendliness of its website, which as of today is already present in 15 important international markets. In 2019, in addition to expanding hugoboss.com to the markets of Denmark, Sweden, Finland and Ireland, further improvements were made in the page layout and in the navigation of the website and mobile app. For 2020, the Group is planning to extend hugoboss.com to further online markets. The Group also sees potential for intensifying the commercial use of digital channels, such as Instagram or WeChat.

Improving retail productivity
Improving sales productivity in its own brick-and-mortar retail business represents another strategic growth driver for HUGO BOSS. The Group aims to increase its sales per square meter by an average of 4% per year by 2022 (base year 2018: EUR 10,700 per sqm). The continuous **optimization of the global retail network** and the further **enhancement of the shopping experience** are expected to contribute significantly to this.

The consistent **renovation of existing BOSS stores** to the most recent store concept is crucial in order to optimize the store network. The integration of modern architectural elements and various digital services are intended to significantly enhance the shopping experience. Also in 2019, numerous strategically significant retail stores, such as the world's largest BOSS store on the Champs-Élysées in Paris, were upgraded to the latest store concept. Customers can now experience the BOSS brand in a new environment already at around 100 locations worldwide. In 2020, the Group will continue to invest in the modernization of BOSS stores with the latest concept. In addition, the Group is striving to expand its global distribution with **selective new store openings**. Particularly in mainland China, the Group sees potential to open up more BOSS stores in the coming years. Conversely, the Group will use **expiring lease agreements** to reduce the size of, relocate or ultimately close those stores that are not meeting productivity and profitability requirements. Consequently, HUGO BOSS anticipates total selling space of its own retail store network to remain broadly stable in the coming years.
→ **Earnings Development, Sales Performance**

In addition to the continuous **optimization of the product range** in the stores, the further **improvement of service** also plays a crucial role in the enhancement of the shopping experience. In order to further increase the quality of customer service, the Group will continue to invest in structured training offerings for its sales staff. In addition, the further **expansion of omnichannel services** is expected to enhance the shopping experience in the long term. Already today, for example, customers can check whether a product offered in the online store is also available in the nearest brick-and-mortar BOSS store. In Europe and the United States, services like "Click & Collect" – in-store pick-up of items purchased online – or "Order from Store" – online ordering of missing sizes or items in the store – are also available.

Realizing growth potential in Asia
HUGO BOSS is convinced that its brands have significant growth potential in **Asia** in particular. Therefore, exploiting the potential in this region represents another strategic growth driver. The share of sales in the Asia/Pacific region is expected to grow to around 20% by 2022 (base year 2018: 15%). **Chinese consumers** are playing a key role in this context. In particular, the Group sees potential to open up **additional retail stores** in mainland China in the coming years. In addition, the **online business** in China is expected to contribute to the above-average growth of the region.

The Group intends to raise brand awareness and brand desirability for both BOSS and HUGO in the region, with **marketing measures** specifically targeted at Chinese customers. This includes, for example, the partnership established in early 2020 between BOSS and the Chinese actor and singer Li Yifeng, who is expected to accompany important campaigns as a **brand ambassador**. Last year, BOSS was also represented at a **fashion show** in Shanghai for the first time since 2013, underlining the importance of the Chinese market for the Group.

Strengthening the HUGO brand in the contemporary fashion segment

The Group also sees great potential for its **HUGO** brand. The focus on the dynamic contemporary fashion segment, which has already achieved higher growth rates in recent years than classic tailoring, for example, should also contribute to above-average growth of HUGO in the coming years. This entails taking full advantage of the potential of the brand in the **casualwear** segment. For example, it is expected that products inspired by graphic reinterpretations of the HUGO logo in particular, such as sweaters, hoodies and T-shirts, will continue to grow at an above-average rate.

Following the opening of the first **HUGO stores** with their own store concept in the last two years, the Group will continue to examine potential for the selective opening of other HUGO stores, especially in Europe and the Americas. By intensifying selected **wholesale business partnerships**, further growth opportunities in the contemporary fashion segment should also be tapped both in brick-and-mortar retail and online. In order to increase HUGO's international recognition and desirability, partnerships with **brand ambassadors and influencers**, such as those with British musician and artist Liam Payne, and keeping up a strong focus on the **social media activities** of the brand are also intended to continue contributing to this.

Medium-term increase in profitability

The Group's operating result (EBIT) is expected to increase faster than sales in the coming years. As a result, the Group has set itself the target of improving the **EBIT margin** significantly in the medium term. An improved gross profit margin and a Group-wide efficiency program with a strong focus on a more efficient use of operational expenses should contribute to this development.

In order to improve the **gross profit margin**, the aim is to reduce the complexity of the BOSS and HUGO collections, to improve the markdown management, and to reduce the sales share of the outlet business. In addition, further increasing the sales share of the Group's own retail business is expected to contribute to a higher gross profit margin. In this distribution channel, the Group achieves a higher gross profit margin than in the wholesale business. The **efficiency program** aims at improving the profitability of the Group's own retail business, using marketing budgets more effectively, and further optimizing the organizational structure of the Group. Additional **investments in digitizing the business model** will partly offset the savings achieved.

Consistency of the dividend policy

HUGO BOSS expects to be able to generate significantly positive free cash flow through its business model in the coming years. The free cash flow generated by the Group will primarily be used to fund the **dividend distribution** in future. HUGO BOSS aims at regularly distributing between 60% and 80% of the Group's net income (excluding the effects of IFRS 16) to its shareholders.

GROUP MANAGEMENT

- **Long-term maximization of free cash flow to increase enterprise value**
- **Sales and EBIT the most important key performance indicators**
- **Group planning, reporting and investment controlling form core elements of Group management**

Key performance indicators

HUGO BOSS aims at **sustainably increasing the enterprise value**. The Group's internal management system is intended to help the Managing Board and the management of the business units to focus all business processes on this objective. In order to increase its enterprise value, the Group focuses on **maximizing free cash flow over the long term**. Consistently generating positive free cash flow is expected to safeguard the HUGO BOSS Group's independence and solvency at all times.

Definition Free cash flow

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

Increasing **sales** and **operating profit (EBIT)** are the main levers for improving free cash flow. In addition, strict management of **trade net working capital** and a value-oriented **capital expenditure** approach support the development of free cash flow. HUGO BOSS has therefore identified four key performance indicators all aimed at maximizing free cash flow over the long term: sales, EBIT, trade net working capital and capital expenditure.

Four key performance indicators

HUGO BOSS is striving to sustainably increase its profitability and therefore attaches particular importance to **profitable sales growth**. All initiatives aimed at increasing sales will therefore also be measured by their potential to generate a sustainable increase in EBIT and EBIT margin (ratio of EBIT to sales).

Definition EBIT	
	Earnings before taxes
–	Financial result
=	**Operating result (EBIT)**

To **increase the EBIT margin**, the Group focuses on improving the gross profit margin and executing its Group-wide efficiency program. The latter aims at improving the profitability of the Group's own retail business, using marketing expenditures more effectively, and further optimizing the organizational structure. → **Group Strategy, Medium-term Increase in Profitability**

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

Definition Trade net working capital	
	Inventories
+	Trade receivables
–	Trade payables
=	**Trade net working capital**

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

The management of the HUGO BOSS Group is directly responsible for profitable growth. As a result, their **short-term incentive program (STI)** is linked to the achievement of the targets for sales and EBIT. The ratio of trade net working capital to sales is the third component of the short-term incentive program. The compensation scheme for management at the two levels below the Managing Board also includes a **long-term incentive program (LTI)**, the design of which corresponds to that of the Managing Board. → **Compensation Report, Performance-related (Variable) Compensation Components**

The **investment activity** is focused on the renovation and modernization of existing retail locations, selective new openings and the expansion of the IT infrastructure in the course of the further digitization of the business model. A specific approval process exists for major investment projects. Apart from qualitative analyses, e.g. with respect to potential store locations, this also includes an analysis of each project's present value. → **Financial Position, Capital Expenditure**

HUGO BOSS pursues a profit-based dividend policy that is intended to allow the shareholders to participate appropriately in the Group's earnings development. The free cash flow generated by the Group is primarily used to **fund the dividend distribution**. Between 60% and 80% of net income is to be distributed to shareholders on a regular basis. Any liquidity available over and above this is used to further decrease financial liabilities or retained as a cash reserve. The Group analyzes its balance sheet structure at least once a year to determine its efficiency and ability to support future growth, and to simultaneously provide sufficient security in the event that economic performance falls short of expectations. → **Financial Position, Capital Structure and Financing**

Core elements of the Group's internal management system

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

Group planning relates to a rolling three-year period and is prepared as part of the annual, Group-wide budget process, taking into account the current business situation and the medium-term goals of HUGO BOSS. Based on targets set by the Managing Board, the Group companies prepare complete earnings and investment budgets for their respective markets or divisions. A similar planning model is used for trade net working capital. Building on this, the development and sourcing units derive mid-term capacity planning. Group controlling checks all of these plans for plausibility and aggregates them to form the overall Group planning. The latter is updated at regular intervals to factor in the actual business performance and any opportunities and risks.

Additionally, regular **liquidity outlook** reports are also prepared, based on the expected cash flow. This aims at the early recognition of financial risks and the adoption of measures concerning financing and investment requirements. → **Financial Position, Principles and Goals of Financial Management**

The Managing Board and management of Group subsidiaries are informed about the development of business operations through standardized, IT-enabled reports of varying detail. They are supplemented by ad hoc analysis. Actual data compiled by the **Group-wide, IT-based reporting system** is compared against budget data each month. Any deviations are explained and planned countermeasures presented. Developments with a significant impact on the Group's net assets, financial position and results of operations are reported to the Managing Board without delay.

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

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

EMPLOYEES

- **Almost 14,600 employees work for HUGO BOSS**
- **Focus of human resource management on employee recruitment and employee retention**
- **Numerous awards are proof of successful human resource management**

HUGO BOSS firmly believes that its employees are key to its success and to the realization of its corporate vision – "be the most desirable fashion and lifestyle brand in the premium segment". For this reason, the global **human resource management** has made it a fundamental task to win over the best employees in the industry and to retain them in the Company for as long as possible. The five corporate values – quality, passion, respect, cooperation and innovation – form the **principles underlying daily working relationships**.

Recruitment

HUGO BOSS aims at further strengthening its position as a top employer among relevant target groups. This is intended to enable the Company to continue to win suitable candidates for HUGO BOSS in the future. The Company's **global recruitment strategy** is increasingly focused on addressing qualified candidates directly. In addition, talented staff are to be acquired through a target group-specific approach via digital platforms, such as the HUGO BOSS careers website or social networks. In the further selection process, the continuous **development of digital communication channels** represents a focal point of the personnel work. The core component of digital recruiting activities is the global employer branding campaign "That's my HUGO BOSS", which was further developed across various channels in 2019. In addition to its digital presence, the Company also regularly presents itself to potential applicants at career fairs.

In order to attract young talent, the Company offers school-leaving students a **variety of vocational training options** and dual study programs. In the past year, there were 76 apprentices and students at HUGO BOSS AG (2018: 79). 25 new apprentices and students began their professional education in 2019 (2018: 31). The professional education offered at HUGO BOSS is tailored to the needs of the apprentices and is continuously adapted to the strategic priorities of the Company.

HUGO BOSS is seeking to constantly improve its external reputation and awareness among potential applicants. For this reason, the Company operates **active reputation management** on relevant rating platforms and social networks. Numerous awards attest to the success of the human resource management at HUGO BOSS and at the same time serve to increase the awareness of the Company among potential applicants. In 2019, HUGO BOSS was once again among the **top 100 most attractive employers** in Germany, according to an annual survey conducted by the Universum and Trendence institutes. In addition, the Company ranked third in the "Working in Fashion" study conducted by the German textile industry magazine "Textilwirtschaft" (2018: eighth place). Notably, in the areas of further training opportunities, work-life balance, international work and salary levels, HUGO BOSS performed particularly well last year.

Employee retention

HUGO BOSS determines the satisfaction and the needs of its employees as part of an employee survey conducted annually in cooperation with Great Place to Work® Germany. The knowledge gained provides the Company with an important impetus for the further development of its human resource management and the corporate culture. With a Group-wide participation rate of 66%, **overall satisfaction** rose in 2019 to 70% (2018: overall satisfaction of 68% with a participation rate of 66%). → **Combined Non-Financial Statement, Employee Matters**

Previous employee surveys have shown that **fair compensation** is key for employee satisfaction. By means of a fair and transparent compensation structure, HUGO BOSS seeks to strengthen the motivation of its employees and their loyalty to the Company. Based on an assessment carried out in 2018 of all the positions in Germany and Group-wide key positions, salary ranges were developed for all positions in Germany for the first time in 2019 and communicated to the respective employees. The salary ranges are based on external salary benchmarks and are intended to help increase transparency. HUGO BOSS sees this as a key component for further increasing the satisfaction of its employees and, at the same time, its attractiveness as an employer.

The **compensation system** at HUGO BOSS includes fixed and variable salary components, bonuses above the collective bargaining scale, non-cash compensation and other intangible benefits. It complies with industry and collective bargaining agreements and incorporates national and regional benchmarks. There are also works agreements for HUGO BOSS AG that govern compensation components such as the employee performance bonus. Non-tariff employees receive a basic salary plus a 13th monthly salary installment as well as a short-term incentive, of which half is linked to Group targets and half to the achievement of personal goals. The compensation scheme at the two levels below the Managing Board also includes a long-term incentive program that extends over several years and matches the targets of the Managing Board. → **Compensation Report**

HUGO BOSS offers its employees a wide range of options to **best combine work and family life**. The "New Ways of Working" project already enables most of the employees on the Metzingen campus to work in an agile cross-divisional environment in the form of more flexible and cross-functional spatial concepts. In addition, so called "coworking spaces" are intended to offer the opportunity for productive work in a creative atmosphere and at the same time promote networking between employees. Trust-based working hours, tailored part-time models and the home office concept complement the offer and are intended to help increase employee commitment and satisfaction. The home office concept was used by around 1,500 employees at the headquarters in Metzingen last year (2018: 1,100) and is also already available to employees at several Group companies, including in France, Switzerland, and Australia. In addition, HUGO BOSS promotes a good work-life balance through numerous family-friendly offers, which are described in more detail in the chapter entitled "combined non-financial statement". → **Combined Non-Financial Statement, Employee Matters**

HUGO BOSS also attaches great importance to promoting the **health and performance** of its employees. The Company offers a large number of sports activities. For example, employees in Germany, Switzerland and Turkey can use the Company's own fitness centers free of charge and participate in a wide range of different sports courses. In addition, a balanced nutritional concept in the Group's own company restaurants is intended to improve the personal well-being of the employees. Health measures in the form of movement breaks, massages and back training courses are also available at the central distribution centers in Germany and for production employees in Metzingen. Based on comprehensive measures for promoting health and wellbeing, HUGO BOSS ranked first in the "Consumer goods" category of the German **Corporate Health Awards** in 2019.

In order to boost employee motivation, readiness for duty and qualification, the Group also offers its employees a wide range of **training and development opportunities**. These are described in detail in the chapter entitled "combined non-financial statement". → **Combined Non-Financial Statement, Employee Matters**

In order to improve employee retention in the long term, HUGO BOSS strives to strengthen the identification of its **employees with the Company** and its objectives. A large number of different communication measures which aim to foster the exchange of employees with each other are intended to contribute to this. In addition to internal CEO newsletters, regular townhall meetings and presentation meetings in various specialist areas, the Company's own **employee app "We are HUGO BOSS"** was introduced in 2019. This enables HUGO BOSS to communicate content tailored to the app on all significant topics – from news about the BOSS and HUGO brands and the global store network through to sustainability topics – in real time to employees in 20 countries. The app also offers various ways to interact with employees, which are designed to strengthen the exchange of ideas and a global sense of belonging with the Company.

Employee figures

Number of employees as of December 31

2019	**14,633**
2018	14,685
2017	13,985
2016	13,798
2015	13,764

At the end of fiscal year 2019, HUGO BOSS had 14,633 employees. As such, the number of employees was roughly on the prior year level (2018: 14,685 employees). The average age of the workforce remained unchanged at 36 years.

Employees as of December 31 (in %)

By region
2019 (2018)

Americas	**12** (13)
Asia/Pacific	**14** (13)
Germany	**21** (21)
Rest of Europe	**53** (53)

By functional area
2019 (2018)

R&D	**4** (4)
Administration (incl. IT)	**9** (9)
Logistics	**11** (11)
Own production	**26** (27)
Own retail business, sales and marketing	**50** (49)

Industrial, commercial and administrative 2019 (2018)

Industrial employees	**31** (31)
Commercial and administrative employees	**69** (69)

The Company's **global positioning** is also reflected in the employee numbers. Last fiscal year, 79% of the Group's employees were based outside Germany (2017: 79%). Whereas 10,167 employees (2018: 10,067) worked in the **commercial and administrative sector** at the end of 2019, 4,465 employees (2018: 4,618) were assigned to **industrial activities**.

Employees in management

50% **Women** (2018: 48%)

50% **Men** (2018: 52%)

Thereof first management level
Women: **25%** (2018: 26%)
Men: **75%** (2018: 74%)

Thereof second management level
Women: **48%** (2018: 46%)
Men: **52%** (2018: 54%)

At 59%, **women** once again accounted for the majority of the Group's workforce (2018: 59%). In **management**, women held 50% of the positions across all four management levels at the end of December 2019 (2018: 48%). Women accounted for 25% of the first management level below the Managing Board, while they accounted for 48% of the second management level (2018: 26% and 46% respectively). → **Corporate Governance Report including the Corporate Governance Statement**

RESEARCH AND DEVELOPMENT

- **Five development centers drive innovation and development work**
- **Partnerships and collaborations to further increase brand desirability**
- **Growing relevance around digital product development**

The aim of the **research and development work at HUGO BOSS** is to develop products that combine the highest level of quality with a sophisticated design, while adhering to ethical standards and relevant environmental and health requirements. While products of the BOSS and HUGO brands differ in their fashionable style, they embody the same high standards in terms of quality and fit, innovation and sustainability. As such, the research and development work directly contributes to the Group's vision of being the most desirable fashion and lifestyle brand in the premium sector.

Research and development (R&D) at HUGO BOSS is based around the product development process, which involves the transformation of a creative idea into a commercial product. Innovation and development work is carried out across **five development centers** in Metzingen (Germany), New York City (United States), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). At the Group headquarters in **Metzingen**, HUGO BOSS develops the majority of its collections. The Company makes use of its Technical Center in Metzingen and its own production sites in Izmir to test innovative production methods and produce prototypes. Products that are used as part of the fashion show and customized designs from BOSS womenswear are also developed in a design studio in **New York City**. The **Coldrerio** competence center is responsible for the development of the product groups shirts, ties and knitwear and also for the design and development of shoes, leather accessories and bodywear. High-quality shoes and leather accessories are developed in **Morrovalle** and **Scandicci**.

Partnerships and collaborations

In order to further increase the desirability of its brands, HUGO BOSS increasingly focuses on partnerships and collaborations with internationally renowned designers, artists and premium companies as part of its R&D activities. These are embedded in the four regularly developed annual collections. This is intended to provide additional creative stimuli and drive innovations forward. For example, the 2019 holiday collection **"BOSS x MEISSEN"** was inspired by the "Big Five" group of figures of the porcelain manufacturer Meissen. The five animal motifs – elephant, rhinoceros, lion, buffalo and leopard – can be found in embroidered, printed and woven form throughout the entire collection. In addition, as part of the cooperation in the field of Formula E, BOSS and Porsche developed a second **"Porsche x BOSS"** collection, which was launched in 2019. The collection was inspired by Porsche sports cars and is intended to reflect the expectations on design, innovation and performance that the two brands share. As part of a comprehensive collaboration, the HUGO brand was able to win singer and songwriter Liam Payne as a global brand ambassador in 2019. In the fall of 2019, this partnership produced a ten-part **"HUGO x Liam Payne"** collection inspired by the musician's personal style. In 2020, HUGO will intensify the collaboration with Liam Payne and jointly develop further capsule collections.

In 2019, **sustainability** once again played a crucial role in product development. For example, HUGO BOSS launched products made from leather which are tanned from a 100% natural extract from leaves of the olive tree. The process was used in the Fall/Winter 2019 collection in various products, such as jackets, gloves and shoes. In addition, HUGO BOSS launched another BOSS shoe collection made of a natural material derived from pineapple leaf fibers. → **Sustainability**

HUGO BOSS also continued to promote **product personalization** initiatives in 2019. With **"BOSS Made for Me"**, from now on customers have the opportunity to personalize the details of their look. This includes, for example, the outer material, the lining and the buttons of their new BOSS suit. In addition to custom-made suits, personalizable sneakers and outerwear jackets are also available in selected stores. Insights into market potential, products, processes and systems are constantly being incorporated in order to optimize the "BOSS Made for Me" offer within the framework of an agile project management approach.

Product development process

Product development process at HUGO BOSS

The **creative idea** marks the beginning of the product development process. Collections are themed based on the brand strategy, brand values, as well as global mega and fashion trends. The transformation of the creative idea and designs into specific collections also takes account of the sell-through success of previous seasons as well as factors relevant to the individual markets, such as regional purchasing power, climate, fashion preferences and the prevailing market environment.

In a second step, the design teams' creative ideas are tailored in the **pattern design** phase. **Technical product development** then turns the models into prototypes and tests their suitability for the industrial production process. In order to be able to act more flexibly and quickly in the development of its collections and to speed up the product development process, HUGO BOSS is consistently advancing the **digitization of the product development process**. For example, in 2019, the digital fabric and trimming database, which was introduced in 2018, was expanded further. This serves as a basis for products that have been developed completely digitally, where the use of physical prototypes can already be dispensed with today.

In conventional product development, the prototyping is followed by the **manufacture of a sample collection** in order to ensure that the products meet the Company's high standards in terms of quality and fit. The collections are then sold to wholesale customers. For HUGO, sales are also generated using a digital showroom already since 2017. The use of digital showrooms was rolled out to BOSS casual and athleisurewear for the first time in 2019. For 2020, it is planned to roll out this method for BOSS businesswear. Following the **sale of the collections** to wholesale partners, the production process starts followed by the shipment to the wholesale partners as well as to the Group's own retail stores.

R&D key figures

Number of employees in R&D as of December 31

2019	**580**
2018	584
2017	588
2016	577
2015	573

The creative and development departments of the HUGO BOSS are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers.

	R&D expenses (in EUR million)	**R&D expenses** (in % of sales)
2019	**65**	**2.3**
2018	63	2.3
2017	63	2.3
2016	64	2.4
2015	65	2.3

At 72%, personnel expenses accounted for the bulk of **R&D expenses** last fiscal year (2018: 71%). The remainder is primarily composed of other department expenses. In 2019, R&D costs were again mostly recognized as expenses at the time they were incurred. In addition, production-related development expenses are included in the cost of conversion of inventories. No development expenses were recognized as internally generated intangible assets due to the short product life cycles.

SOURCING AND PRODUCTION

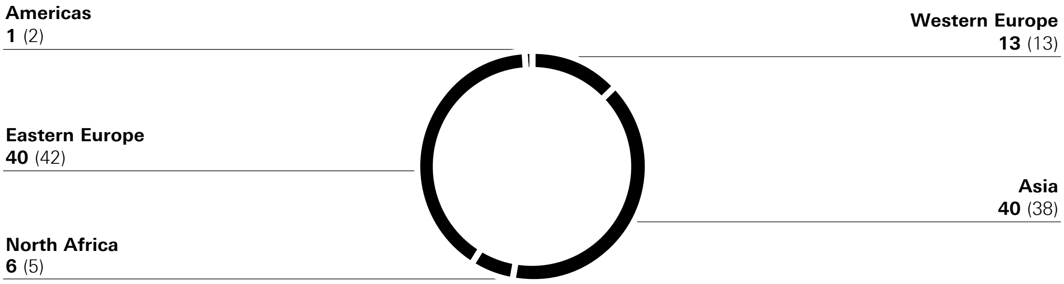
- **High-quality businesswear manufactured by own production facilities**
- **Proportion of casual and athleisurewear within sourcing volume increases further**
- **Compliance with high quality standards is of crucial importance**

Materials used by HUGO BOSS need to meet the **high standards of customers** in terms of design, comfort, durability and fit. In addition to these quality features, social and environmental aspects play an essential role. The sourcing and production of high-quality products therefore directly contributes the Group's vision of being the most desirable fashion and lifestyle brand in the premium sector.
→ **Group Strategy**

In terms of value, as in the prior year, 17% of the total **sourcing volume** was produced in Group-owned production sites. The remaining 83% of the sourcing volume comprises products sourced from independent contract suppliers or sourced as merchandise (2018: 83%). The Group's own production is also expected to help acquire important know-how in order to further develop production technologies and quality standards. The Group's four **own production facilities** are located in **Izmir** (Turkey), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). In Izmir, the largest own production site by far, businesswear products, such as suits, jackets, shirts and coats, as well as womenswear are manufactured. The customized "Made to Measure" suits as well as suits particularly made of vegan materials are manufactured at the Technical Center in Metzingen. The development and production of prototypes as well as samples are also carried out in the Technical Center. Business shoes are made in **Radom** and **Morrovalle**.

Regional split of sourcing and production volume (in %)

2019 (2018)



Within Eastern Europe, **Turkey** accounts for the largest part of the global sourcing and production volume at 23%. The Group's own production site in Izmir accounts for 12% of the global sourcing and production volume. Within Asia, **China** is the most important sourcing market by far and accounts for 20% of the global sourcing and production volume.

HUGO BOSS attaches great importance to the **careful selection of suppliers** and strives to build long-term strategic partnerships. Not only economic criteria, but also adherence to the **HUGO BOSS Social Standards**, play an essential role. These are a mandatory component of the contractual agreement. Within the framework of strategic partnerships, HUGO BOSS invests in the knowledge of its partners and thus promotes the enhancement of quality, efficiency, technological progress and sustainable corporate management. HUGO BOSS also conducts regular **social compliance training** with its suppliers and supports them in implementing the Social Standards. → **Combined Non-Financial Statement, Respect for Human Rights**

Product quality, a key criteria in the selection of suppliers, is comprehensively analyzed in advance within the framework of test orders. In fiscal year 2019, HUGO BOSS obtained finished goods from a total of 171 external suppliers (2018: 180) using 198 production facilities (2018: 210). The Group sourced raw materials from 309 external companies (2018: 312) using 325 production facilities (2018: 334). The number of supplier companies saw a further decline, as HUGO BOSS continues to focus on its strategically important partners. In order to minimize risks, the Group ensures that the sourcing volume is distributed as evenly as possible and strives to ensure that at least two different suppliers are available for the manufacture of a product in the medium term. The **largest independent supplier** accounted for only 8% of the total sourcing value in 2019 (2018: 9%). This relates to a long-term partnership for the sourcing of casualwear and athleisurewear products.

In 2019, HUGO BOSS also made further progress in the development of its own production site in Izmir to become a **"smart factory"**. For example, the Group is now using artificial intelligence to identify potential for improvement during the production process and to detect machine defects in a timely manner. When assigning a model to a specific production line, an algorithm also considers historical production data and the respective experience of the employees. Finally, artificial intelligence is used in the maintenance of machinery to predict a defect even before it occurs with the help of different data points.

The **fabrics and trimmings** sourced by HUGO BOSS are mainly outer materials and lining fabrics, buttons, yarns and zippers. Of the materials used by HUGO BOSS, cotton is by far the most extensively used. The majority of the fabrics purchased by the Group come from Europe – many from long-term partners from Italy. For **products made under contract**, HUGO BOSS provides suppliers with the fabrics, trimmings and the required patterns. In this way, the Group ensures that the manufactured products meet its quality standards. The suppliers, which are mainly based in Eastern Europe, primarily produce businesswear requiring high levels of production expertise and technical equipment. With the inclusion of the Group's own production sites, the proportion of the sourcing volume accounted for by products made under contract was slightly below the prior year level at 36% (2018: 38%). The **merchandise** sourced by the Group is primarily composed of athleisure and casualwear products. The respective patterns are provided to the suppliers who are mainly based in Asia and Eastern Europe. The necessary outer materials and trimmings are sourced by the suppliers independently. Regular controls are intended to ensure compliance with the HUGO BOSS quality standards. At 64%, the proportion of merchandise in the sourcing volume is slightly above the prior year level (2018: 62%) and resulted from the higher share of casual and athleisurewear in the product mix compared with the prior year.

Standardized **quality, processing and procedure manuals** are provided to suppliers. This is to ensure that the supplier factories also comply with the HUGO BOSS quality standards. In addition, HUGO BOSS regularly conducts **trainings** in the production facilities on topics such as cutting technology or production management. Compliance with production standards is to be monitored by controls that are integrated into the production process, as well as regular samplings. The focus is on fit, workmanship and dimensional accuracy. Quality criteria are also included as an integral part of the semi-annual supplier assessments.

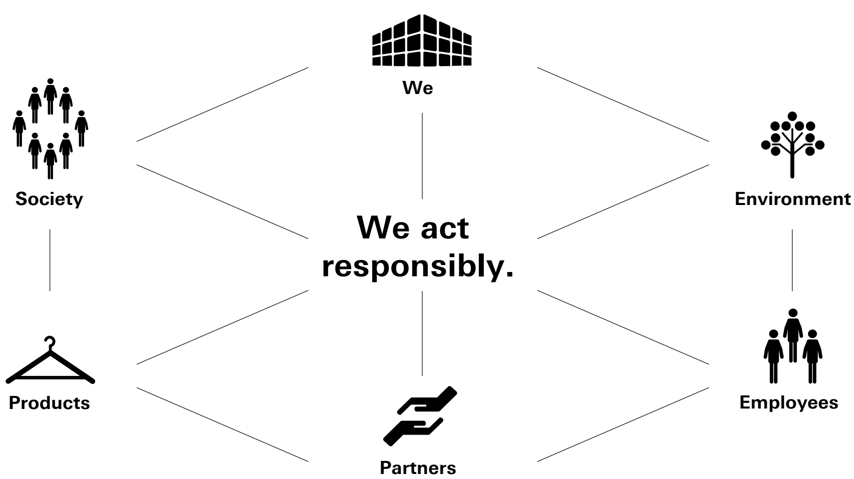
SUSTAINABILITY

- **Sustainability an integral part of business activities**
- **Focus on six fields of action: We, Environment, Employees, Partners, Products and Society**
- **Renewed inclusion in the Dow Jones Sustainability Index World**

HUGO BOSS acknowledges the economic, ecological and social impacts of its business activities. The **guiding principle "We act responsibly"** seeks to generate added value for the Company, its employees, shareholders, customers, business partners and society. The Company considers sustainability to be an interplay of quality, innovation and responsibility, and therefore an integral part of its business activities. Besides high-quality, innovative products, customers today increasingly demand compliance with high social and ecological standards. The **variety of sustainability activities** carried out by HUGO BOSS are intended to contribute to increased customer satisfaction and support the Company's vision of being the most desirable fashion & lifestyle brand in the premium sector.

The six fields of action **We, Environment, Employees, Partners, Products** and **Society** provide the framework for the sustainability strategy of HUGO BOSS. The Group's sustainability activities are managed strategically by the central department Global Sustainability, which reports directly to the Chief Executive Officer.

Strategic fields of action for sustainability



We – "Creating values together": With its variety of sustainability activities, HUGO BOSS is oriented towards the United Nations Sustainable Development Goals (SDGs). In the implementation and development of its sustainability strategy, HUGO BOSS relies on regular dialog with its stakeholders and close collaboration with businesses and organizations alike. This, in turn, will help to drive forward sustainability in the textile supply chain. The findings gained are also incorporated into the Company's risk and opportunity management and help HUGO BOSS to enhance its own ethical standards and Code of Conduct.

Environment – "Preserving natural resources": The aim of environmental management at HUGO BOSS is to reduce the environmental impact of its own business activities as far as possible. This commitment begins at its own administration and production sites, and extends through logistics to the Company's global store network. Through sustainable building concepts and technologies, electricity from renewable energy sources and a continuous optimization of transport routes, the Company is working to reduce its CO_2 emissions, making a direct contribution to protecting the environment. The Environmental Commitment of HUGO BOSS which is published on the Company's website describes the principles of environmental protection in all the relevant parts of the Company.

Employees – "Fostering a fair and responsible culture": HUGO BOSS aims at strengthening its position in international competition for the most qualified employees. To increase its attractiveness as an employer, the Company is focusing on a fair, value-based corporate structure, opportunities for individual development and a wide range of flexible working models to better combine work and family life. The corporate values and the Code of Conduct form the basis for everyday collaboration. The latter provides the basis for legally and ethically correct conduct in day-to-day business. This also entails the acknowledgment of diversity and the ensuring of equal opportunities, which is a high priority at HUGO BOSS. → **Employees**

Partners – "Achieving joint responsibility": Complying with social and environmental standards throughout its global supply chain is crucially important for HUGO BOSS and its partners and forms an integral part of contractual agreements. The standards are based on internationally acknowledged frameworks and include, among others, rules governing working hours, humane and safe working conditions, bans on child labor and forced labor, the payment of appropriate salaries and freedom of association. HUGO BOSS attaches great importance to the careful selection of its partners, on cooperation based on a spirit of mutual trust and on the maintenance of long-term strategic relationships.
→ **Sourcing and Production**

Products – "Ideas for tomorrow": HUGO BOSS puts strong focus on the design and quality of its products. The Company increasingly uses innovative materials and production techniques in their development. At the same time, HUGO BOSS takes care to observe strict standards on the safety and environmental compatibility of its products and their manufacture. The Company works closely together with its suppliers and other stakeholders on environmental and animal protection solutions. Through the growing selection of more sustainable materials, the continuous optimization of material efficiency and the responsible use of chemicals in production, the Company aims to make a significant contribution to protecting the environment.

Society – "Promoting perspectives": The overarching aim of the HUGO BOSS corporate citizenship strategy is to unleash individual potential for success. It is based on three pillars: access to education, training and development and the promotion of creativity. In implementing projects and activities along the value chain, the Company also takes account of regional needs at the individual locations.

The Group aims continuously to improve in all six fields of action and, accordingly, has set itself corresponding targets. Sustainability ratings act as an objective indicator of the progress achieved. In 2019, HUGO BOSS was included in the **Dow Jones Sustainability Index (DJSI) World** for the third consecutive year. In the areas of brand management, environmental reporting, innovation management, data protection and product responsibility, the Company scored "best in class". This makes HUGO BOSS one of the top five companies in the global apparel industry.

Details on the HUGO BOSS sustainability strategy and activities along the six fields of action can be found in the annual **Sustainability Report** and on the Company's website. In addition, the **Combined Non-Financial Statement** provides an overview of key aspects of sustainability. → **Combined Non-Financial Statement**

COMBINED NON-FINANCIAL STATEMENT

- **Statement summarizes material disclosures on sustainability aspects**
- **Eight topics identified as material within the meaning of Section 289c (3) of the German Commercial Code (HGB)**
- **Definition of reported performance indicators is oriented toward GRI Standards**

About this combined non-financial statement

Under Sections 315b and 315c HGB ["Handelsgesetzbuch": German Commercial Code] in conjunction with Sections 289b to 289e HGB, the Company hereby publishes this combined non-financial statement for the HUGO BOSS Group and HUGO BOSS AG. It substantively summarizes the material disclosures for the Company regarding the five required aspects of **environmental, employee and social matters, respect for human rights** and **anti-corruption and bribery matters**. In the drafting of the statement, HUGO BOSS oriented itself, particularly for the definition of the reported performance indicators, toward the Global Reporting Initiative (GRI) Standards.

As part of the reporting process, HUGO BOSS has analyzed whether risks exist that are associated with its own business activity, its business relationships, and its products or services, and that very likely have or will have serious adverse impacts on the aspects. HUGO BOSS has **no such risks** to report.

Unless otherwise noted, the disclosures made in this statement reflect equally the **perspective of HUGO BOSS AG and that of the Group**. With the exception of references to the chapter "Business Activities and Group Structure" as part of the combined management report, any references to information outside the combined non-financial statement comprise information going beyond the mandatory disclosures under the German Commercial Code and do not form part of the statement. The combined non-financial statement was subject to a voluntary review with limited assurance according to ISAE 3000 (Revised). → **Independent Auditor's Limited Assurance Report**

Description of the business model

HUGO BOSS is one of the leading companies in the premium segment of the global apparel market. The **business model** of HUGO BOSS is described in detail in the chapter on "Business Activities and Group Structure." → **Business Activities and Group Structure**

Derivation of material topics

The basis used for selecting the topics presented in this statement is a **materiality analysis** conducted by HUGO BOSS in 2019, which encompassed in particular a materiality review according to Section 289c (3) HGB. It has been analyzed to what extent the topics are of particular relevance for understanding the Company's development, performance, and position, and the impact of its activity on the above aspects. The following sections discuss the eight topics identified as material in the course of the analysis. The reassessment undertaken and an internal reorganization of sustainability topics carried out in 2019 both mean that the topics presented differ from those of the prior year.

Aspects and material topics

Environmental matters	Employee matters	Social matters	Respect for human rights	Anti-corruption and bribery matters
Climate protection in production	Employer attractiveness	Customer satisfaction	Human rights and labor standards in production	Avoidance of corruption and anti-competitive behavior
Responsible use of chemicals in production		Data protection	Occupational health and safety in production	

The aspects set out under "Environmental matters" and "Respect for human rights" relate to both the production activities of HUGO BOSS itself and the production activities of independent suppliers.

Environmental matters

Climate protection in production

In the global textile and apparel industry, CO_2 emissions mainly occur in the cultivation and production of textile fibers and during energy-intensive processing stages, which can include dyeing, washing, or bleaching. HUGO BOSS is conscious of its shared responsibility to **protect the environment and the climate**. The introduction and development of environmentally and climate-friendly processes at its suppliers is as important to the Company as the implementation of similar measures at its own production sites.

Environmental and climate protection matters in the supply chain are managed by the **central department Global Sustainability**, which is responsible for setting out internal guidelines and standards. The **central Environmental Management Team**, in close consultation with local managers, coordinates corresponding measures at the own production sites. The Managing Board is kept regularly informed of progress on the achievement of the Group's environmental and climate protection targets.

Targets

HUGO BOSS aims to **reduce the impacts** of its business activities on the climate.

Measures

HUGO BOSS works to protect the climate with numerous measures and initiatives at its own sites and in its supply chain. By signing the **Fashion Industry Charter for Climate Action** in 2018 under the aegis of the United Nations Framework Convention on Climate Change (UNFCCC), HUGO BOSS, together with other businesses, subscribed to the vision of a climate-neutral fashion industry by 2050. In order to define suitable measures, as part of this cooperation the Company engages with, amongst others, task forces dealing with issues such as "raw materials" and "energy efficiency and renewable energies in the manufacturing process".

In line with the UNFCCC, the Company works together with its suppliers to reduce environmental impacts sustainably along the supply chain. **Compliance with statutory environmental standards** is an integral part of the supplier contracts. In addition, the **Environmental Commitment** published by HUGO BOSS governs many environmental protection principles, both for the Company's own production sites and for those of its suppliers. The commitments are currently being developed further and will soon also reflect the activities and targets pursued by the Company under the Fashion Industry Charter for Climate Action. The Company is currently also reviewing its **Supplier Code of Conduct**, which also contains detailed rules on environmental protection. HUGO BOSS also aims to enshrine binding sustainability criteria for its suppliers in future in a **Material Policy** with regard to the textile fibers and materials used.

As part of regular **environmental audits**, HUGO BOSS takes stock of the energy management measures put in place by its suppliers and the CO_2 emissions of those suppliers. The Company also uses external auditors to do this. If any violations of environmental requirements are identified, the Company works jointly with the respective supplier to develop action plans whose implementation is verified during follow-up audits. The Company also carries out relevant **training sessions** to inform its suppliers regularly about environmental and climate protection measures and to work toward the establishment of standardized energy and environmental management systems.

As a member of the **Better Cotton Initiative (BCI)**, HUGO BOSS works together with other businesses to reduce the environmental impacts associated with the cultivation and processing of cotton. Of the materials used by HUGO BOSS, cotton is by far the most extensively used. The BCI takes a holistic approach to sustainable cotton production that takes into account ecological, social and economic considerations. It aims to reduce environmental and climate impacts, for example through more energy-efficient and environmentally friendly cotton cultivation.

Although the effects of the Company's own production activities on the climate are low compared to those of external suppliers, the reduction of energy consumption and CO_2 emissions at the Company's own production sites is nonetheless important to HUGO BOSS. The Group continues to develop its **Environmental Management** in line with the international standards ISO 14001 (Environmental Management) and ISO 50001 (Energy Management). By far the largest of the Company's own production sites, the site in Izmir (Turkey) has been certified under both these standards since 2014. To further **reduce CO_2 emissions** in its own production sites, the Company is investing primarily in energy-efficient technologies, modernizing technical facilities and increasing the share of renewable energies. The experience obtained through environmental management will help the Company work together with external suppliers to make further progress in reducing environmental and climate impacts in the supply chain in future.

Performance indicators

As part of its work under the Fashion Industry Charter for Climate Action, HUGO BOSS has committed, together with other businesses, to deliver **a 30% reduction in CO_2 emissions by 2030** as a first step. To realize this target, the Company is currently working on defining corresponding targets for what are referred to as Scope 1 and Scope 2 emissions from its own primary energy use and electricity procurement, as well as for the Scope 3 emissions from logistics and the supply chain.

Responsible use of chemicals in production

HUGO BOSS is aware of its responsibility for the health and safety of the people who come into contact with its products, both as customers and during the manufacturing process. The responsible use of chemicals in production is an essential basis for **safe products and production processes that are harmless to both health and the environment**. Clear responsibilities, coordinated processes and comprehensive guidelines are targeted towards compliance with high safety and quality standards in the production processes.

In the fabric and trimmings production processes of independent suppliers, chemicals are particularly used in so-called wet processes, which include for example dyeing, washing, bleaching and tanning. The same applies to the production of cotton, synthetic and recycled fibers. If chemicals are released during production processes, this can have negative impacts, including on **water quality and the supply of water** to local communities in the areas surrounding production sites. HUGO BOSS consequently makes its suppliers aware of the need for the responsible handling of chemicals and is working to reduce their use.

Environmental matters for the supply chain are managed by the **central department Global Sustainability**. Its guidelines for compliance with relevant environmental standards are implemented by the operational sourcing units, in cooperation with suppliers. Thus, for example, the HUGO BOSS Social Standards, which form an integral component of the contractual agreements, also include guidelines on adherence to environmental protection requirements. Adherence on the part of the suppliers is continuously reviewed by HUGO BOSS and independent third parties. The Managing Board and relevant employees are regularly informed about the outcome of the work.

Targets

HUGO BOSS aims to guarantee the **safety of its products**. The Company also aims to further reduce the **environmental impacts of wet processes** by suppliers. To achieve both these targets, the Company aims at reducing the use of chemicals that are hazardous to health and the environment in its production processes.

Measures

HUGO BOSS pays attention to strict product safety requirements being complied with along its supply chain. The Company requires its suppliers to comply with a **Restricted Substances List (RSL)** that meets the requirements of the Apparel & Footwear International RSL Management Group (AFIRM). This governs compliance with laws on the use of chemicals and other substances that are potentially hazardous to health. The safety and environmental compatibility of the materials used by HUGO BOSS and its suppliers is checked regularly by means of extensive **product tests**. If the tests reveal noticeable problems, a specified escalation process is triggered, which involves all relevant specialist departments and, in serious cases, also includes the Managing Board.

In order to reduce environmental impacts in the production process, HUGO BOSS is working closely with its suppliers as well as with other businesses in the apparel industry, for example as part of the **Zero Discharge of Hazardous Chemicals (ZDHC) program**. In 2019, the Company successfully completed its migration to the ZDHC program's **audit protocol**, which is specially geared towards the wet processes. As part of the Global Social Compliance Program (GSCP) pursued by the Company, in future, the audit protocol shall allow for a standardized assessment for suppliers' chemical management, in order to support suppliers that use wet processes in improving their environmental performance. To further reduce the use of environmentally harmful chemicals, the Company is also moving ahead with the implementation of a **"Manufacturing RSL" (MRSL)** based on ZDHC. This lists chemicals with defined thresholds, and is intended to help suppliers to avoid using harmful chemicals or to keep their use to a minimum. The Company is also pushing forward the application of the ZDHC **Wastewater Guidelines**, to prevent the release of water-hazardous substances in the supply chain. With the **Environmental Commitment** published on the Company's website as well, HUGO BOSS aims to reduce the environmental impact in its supply chain.

Performance indicators

HUGO BOSS has the safety and quality of its products tested by accredited institutes using comprehensive tests for harmful substances. The aim is to minimize the **proportion of products that do not meet market requirements** while also ensuring that such products are rejected. In 2019, around 3,950 materials were tested (2018: around 3,050 materials). In this process less than 0.5% of the tested products turned out not to be market-compliant and were consequently rejected (2018: less than 0.5%).

In 2019, HUGO BOSS presented the newly developed MRSL to all its suppliers, and at the same time queried their **readiness to implement the MRSL**. In 2019, readiness was at 91%. For the Company's own production sites, compliance to the MRSL is mandatory. The Company's objective is to ensure, through information and training, that all its suppliers can confirm that they are ready to implement the MRSL in the medium term.

Employee matters

Employer attractiveness

Achieving the Group's strategic and financial targets is largely dependent on its employees and on their skills and commitment. Increasing complexity and a fast-moving competitive environment are leading to an increased demand for skilled employees and executives. HUGO BOSS therefore wishes to continue to strengthen its position in the international competition for the most qualified employees. To increase its attractiveness as an employer, in addition to a fair and value-based corporate culture, the Company is also working primarily to create **opportunities for individual development** and a variety of offers to make it easier to **combine work and family life**.

The **central department Human Resources** is responsible for personnel strategy and personnel management across the Group. It remains in close contact with the managers of the central departments and with the HR departments and managers of the Group companies. The Managing Board is kept regularly informed of the progress of the personnel work and is involved in all significant decisions.

Targets

Further **increasing its attractiveness as an employer** is an important target in the personnel work at HUGO BOSS. This is intended to strengthen the Company's position in international competition for highly qualified workers and to increase motivation, commitment and loyalty among the Company's approximately 14,600 employees.

Measures

For HUGO BOSS, the systematic training and continuing education of its employees and support for combining work and family life are among its top strategic personnel management priorities. → Employees

HUGO BOSS offers its employees a multitude of opportunities for individual development. Structured training programs for skilled employees and managers, such as the **Employee Development Program (EDP)** and the **Leadership Development Program (LDP)**, are designed to support employees in ways that are appropriate to their abilities, to broaden their knowledge and to strengthen their skills, potentially with a view to pursuing a management career. In 2019, selected employees of international Group companies were able for the first time to complete the EDP, which has been available at the Group's headquarters in Metzingen for several years. Both the EDP and the LDP, which was established last year at the Metzingen site, will be strengthened and gradually extended to more Group companies in the future. Moreover, all employees have access to a broad selection of face-to-face and online training on social, professional and management skills via the Group-wide **"HUGO BOSS University"** platform. At the Group's own production and logistics sites, face-to-face training sessions and workplace orientations are an integral part of initiating industrial staff.

To provide support in the creation of individual development opportunities on the process and system side, the Company introduced the **"Performance & Development Dialog" (PDD)** in late 2019. With the help of an online tool, this aims to bring about further improvements in areas such as performance evaluation, assessment of potential and development planning, initially at the Group's headquarters in Metzingen and in selected European locations. In this way, HUGO BOSS intends to create greater transparency within the Group, particularly with regard to possible cross-departmental and transnational development paths, to get the best out of employees and create a sense of loyalty to the Company among talented workers for as long as possible. The implementation of the PDD will be extended to other Group companies in the coming years.

To increase its attractiveness as an employer, HUGO BOSS also supports its employees in combining work and family life. A **multitude of flexible working models**, such as individual part-time arrangements, trust-based working hours or a home office concept, are designed to further increase motivation and commitment among employees. The majority of the Group's employees already benefit from flexible working hours and part-time arrangements. For example, employees in the Group's own production site in Izmir (Turkey) are able to take accrued overtime hours as time off within two months. The **home office concept** is already available to administrative staff at the Metzingen headquarters and to employees at selected international sites. This will be extended to other Group companies in the coming years. The Company is also supporting its employees in bringing private **training and continuing education measures** into line with their professional activity.

The Company is also involved in the collaboration **"Success Factor Family"** to strengthen family-friendliness across Germany. HUGO BOSS already offers a broad variety of **family-friendly options** to its employees. For example, young families at the Metzingen site have access to places in the local daycare center and holiday care programs. In 2019 construction work also began on a Company-owned daycare center there, which is planned to open in late 2021. At international sites too, the Company promotes the combination of work and family life. For example, employees in the United States have free access to an Employee Assistance Program (EAP), which offers independent advice on matters such as childcare and caring for family members. In addition, employees there have the choice of spending part of their personal gross income on external care and support services through flexible spending accounts (FSAs).

The attractiveness of HUGO BOSS as an employer was awarded several prizes in 2019. In the annual survey conducted by the Trendence and Universum institutes, the Company was once again among the **top 100 most attractive employers in Germany**. In the study **"Working in Fashion 2019"** in the German industry magazine Textilwirtschaft ("Textile Industry"), HUGO BOSS rose to third place (prior year: eighth place). It scored particularly well in the categories of work–life balance, working internationally, salary levels and training offerings. In the last of these, the Company came in first place.

Performance indicators

HUGO BOSS determines the satisfaction and the needs of its employees as part of an employee survey conducted annually in cooperation with Great Place to Work® Germany. The knowledge gained provides the Company with an important impetus for the further development of its personnel work and the corporate culture. With a Group-wide participation rate of 66%, **overall satisfaction** rose in 2019 to 70% (2018: overall satisfaction of 68% with a participation rate of 66%). At HUGO BOSS AG, overall satisfaction rose to 76% (2018: 74%). This included further improvements in the results for the **training offerings** and **work-life balance** categories compared to the prior year. HUGO BOSS has set itself the target of raising overall satisfaction across the Group to 75% by 2025.

Social matters

Customer satisfaction

HUGO BOSS believes that the **desirability of its brands** is the most important factor in the Group's long-term success. The goal of maximizing customer satisfaction is in line with this fundamental concept. Customer satisfaction is also an important foundation for long-term customer retention. The Company therefore focuses all its activities on the customer. Customer benefit and customer satisfaction are both a benchmark and a target in all key decisions. → **Group Strategy**

At HUGO BOSS, customer satisfaction is systematically measured and evaluated by the **central department Corporate Strategy**, which reports directly to the Chief Executive Officer. The Managing Board is kept regularly informed of the progress and results of the work.

Targets

Particularly in times of intense competition and increasing customer demand, the **target of maximizing customer satisfaction** contributes to the long-term increase in enterprise value.

Measures

Key levers for increasing customer satisfaction for HUGO BOSS include **enhancing the shopping experience**, further **optimizing the product offering** and continually **improving product and service quality**. In 2019, the Company invested in consistently modernizing BOSS stores, expanded its range of personalized products, and targeted its marketing activities even more directly to the customer through partnerships and collaborations. → **Group Strategy**

Since 2019, HUGO BOSS has relied on a **systematic Customer Experience Managemen**t (CEM) as an important instrument for measuring customer satisfaction. This system gathers, aggregates and evaluates feedback from customers given on a voluntary basis after they have made their purchases and makes it available to the relevant decision-makers in real time. The focus is on evaluating the shopping experience through suitable key figures such as the "Net Promoter Score" (NPS) or a five-star rating system. In 2019 all freestanding retail stores in Europe, as well as the Group's own online stores there, were connected to the software introduced for that purpose. This allows the subjective perceptions of customers in individual stores or countries to be observed and compared in real time, for example. This is intended to allow the Company to further educate its sales staff and provide them with more targeted training in the future, or to develop specific measures to further optimize the online ordering process. HUGO BOSS plans to expand the CEM to the other regions in 2020 and to collect perspective-based feedback on the Company's brands and products through the CEM in the future as well. Additionally, the Company uses feedback from specially trained test buyers of external service providers, an exercise known as **mystery shopping**. The results provide the Company with important findings about increasing customer satisfaction and are incorporated primarily in the targeted training of sales staff.

Performance indicators

When evaluating the data obtained, the **NPS** is an important key figure. Through customer surveys, it measures the likelihood of a customer recommending the BOSS or HUGO brands. This allows the Company to further increase the brand dynamic and customer satisfaction on the basis of objective, measurable data. A high NPS compared to the competition was once again achieved in 2019. The Group's target is to further improve this indicator in the future.

Data protection

The aim of data protection is to guarantee the **individual's right to self-determination in terms of information**. Because the business model is becoming increasingly digitized, this topic is also steadily becoming more important for HUGO BOSS. Customer data, in particular data from its own online business and the customer loyalty program, is of particularly high relevance for the future success of HUGO BOSS. The proper handling of its employees' and business partners' data is equally important to HUGO BOSS. Breaches of data protection laws represent an increased compliance risk. The Group aims to counter this risk using a system that complies with data protection laws and through appropriate technical and organizational measures. → **Risk Report, Material Organizational Risks**

The **central Data Protection Officer** is responsible for data protection monitoring and compliance. In addition, HUGO BOSS has appointed data protection officers in the respective Group companies. The work focuses on preventive measures such as early risk identification, issue remediation and employee education. Any contraventions must be reported to the Data Protection Officer. The Managing Board is kept updated by regular data protection reports.

Targets

HUGO BOSS aims to completely rule out any **contraventions** of applicable data protection laws as far as possible.

Measures

The Group's employees are educated on data protection matters through activity-related **training courses**, the obligation to adhere to the **Code of Conduct**, and a separate duty of confidentiality. In 2019, the **e-learning program**, which all employees with access to a PC are required to complete regularly and which is intended to strengthen awareness of compliance rules, was extensively reworked and expanded with regard to data protection issues. The Company has additionally enacted an internal **data protection policy** as well as other data protection guidelines, particularly in order to guarantee the comprehensive rights of affected persons. With the EU General Data Protection Regulation now applicable, since 2018 even more focus has been placed on data protection and on the implementation of and compliance with the new changes in the law.

All internal **processes and systems** for processing personal data are measured on an ongoing basis and continually improved to ensure that they comply with the legal data protection guidelines. The improvements are aimed at preventing data misuse and theft. There are extensive data protection provisions for the Company's online presence and mobile apps, for example. When legal violations have been discovered, the Company has implemented **contingency plans** to initiate countermeasures.

Performance indicators

In 2019, as in the prior year, the Company knew of **no violations** in the sense of data protection breaches that had been determined by an official authority or a court.

Respect for human rights

Under "Respect for human rights", HUGO BOSS lists what it identifies as two material topics relating to its social impact in the supply chain (including its own production): **human rights and labor standards**, and **occupational health and safety**. An overall report is provided below on the two topics since they are both part of the HUGO BOSS social compliance program and are therefore closely interconnected.

HUGO BOSS considers respect for human rights and compliance with applicable labor standards in its global supply chain to be **integral parts of its corporate culture**. A key part of the sourcing volume of HUGO BOSS is attributable to finished goods produced by independent suppliers in less economically developed regions. In some of these regions the political and social protection mechanisms for workers are relatively minimal. HUGO BOSS sees a **shared responsibility** for the staff in its supply chain here.

Respect for human rights is recorded and managed by the **central department Global Sustainability** in close consultation with the operational sourcing units. The results of the work are the subject of regular reports to the Managing Board. Responsibility for the key topic of occupational health and safety in the Group's own production is decentralized. The employees responsible at the various sites report at regular intervals and when the occasion calls for it to the **management of the respective Group companies**, which is in close contact with the Managing Board.

If any violations of human rights or labor standards are reported, both the Group's own employees and staff members of suppliers have recourse to a defined grievance mechanism through which they can contact the responsible contact person at HUGO BOSS directly, or an independent external **ombudsman**. Any violations will be investigated, sanctions imposed, and action taken under the primary responsibility of the central Compliance department, which submits regular compliance reports to the Managing Board and the Audit Committee of the Supervisory Board.

Targets

HUGO BOSS endeavors to achieve compliance with legal and internal company regulations on **human rights and labor standards**, both in its own production and on the part of its suppliers, while at the same time granting **occupational health and safety** for all employees.

Measures

HUGO BOSS attaches key importance to the **careful selection of its partners**, on cooperation based on a spirit of mutual trust and on the establishment and maintenance of long-term strategic relationships. The creation of a shared understanding and assistance in furthering skills to manage social issues plays an important role in this process. HUGO BOSS imposes an obligation on both itself and its suppliers to comply with the **HUGO BOSS Social Standards**, which represent the most important framework for compliance and improvement of social matters both in the Company's own business and in the supply chain and are an integral part of the contractual agreements. They are based on internationally acknowledged standards such as the Core Conventions of the International Labor Organization (ILO) and include rules governing the observance of national legislation, working-hour restrictions, humane and safe working conditions, bans on child labor, forced labor and discrimination and the payment of reasonable salaries. In countries where the national statutory requirements are only insufficiently developed, HUGO BOSS Social Standards set a minimum standard. They are available in 25 languages on the Company's website. The Social Standards are supplemented by the Company's own **Code of Conduct** and the internal **Social Compliance Policy**.

To further develop industry standards, HUGO BOSS works in close **cooperation** with other businesses and organizations. For example, the Company is involved in the "Living Wages" initiative by the Partnership for Sustainable Textiles. For HUGO BOSS the underlying **principles of fair compensation** include the regulated payment of wages, the performance-based compensation of hours actually worked, the right to collective bargaining and the prevention of pay inequality.

As a responsible employer, HUGO BOSS also attaches great importance to the occupational health and safety of its employees. This is reflected in high occupational health and safety standards at its own production sites. For example, as part of **health and safety inspections and risk assessments**, potential risks are identified and assessed at an early stage so that solutions can be developed. The **Health and Safety Commitment** published on the Company's website emphasizes how much of a priority the matter is for the Company.

In the course of **audits**, HUGO BOSS regularly reviews compliance with the Social Standards and the rules on occupational health and safety. The Company also uses external auditors to do this. If infringements of the Social Standards are identified, the Company works jointly with the respective supplier to develop action plans whose implementation is verified during follow-up audits. If in the case of infringements no adequate improvement can be shown during implementation of the measures, HUGO BOSS shall after several reviews initiate the termination of the supplier relationship as a last resort. To prevent any infringements of the Social Standards, HUGO BOSS attaches a high priority to the further development of the social compliance management systems of its suppliers. The Company regularly conducts **social compliance training courses** at its finished goods suppliers and supports them in implementing the Social Standards. The Company's own employees are also to be educated further in social compliance matters through regular **training sessions**.

Performance indicators

In 2019, the Group's own production was once again carried out in four production sites in four European countries. In addition, HUGO BOSS was in an active commercial relationship with 198 external finished goods production facilities in 25 countries in 2019 (2018: 210 production facilities in 28 countries). The decrease compared to the prior year is mainly attributable to the further strengthening of strategic partnerships. During the reporting period, **119 audits** were conducted in 93 existing finished goods production facilities (including the Company's own production sites; 2018: 153 audits in 123 production facilities). Infringements that were identified in 2019 related primarily to the areas of social compliance management, working hours and remuneration.

HUGO BOSS has set itself the goal by 2022 of procuring 95% of its sourcing volume from finished goods suppliers (including its own production sites) with one of the **top two performance levels** ("good" or "satisfactory") in the most recent audit. As at December 31, 2019, this share was 93% (2018: 91%).

Anti-corruption and bribery matters

Avoidance of corruption and anti-competitive behavior
Ethically correct and lawful conduct includes the prevention of corruption and anti-competitive behavior. HUGO BOSS expects all employees to act lawfully in day-to-day business operations. For HUGO BOSS, **corporate compliance** is a key responsibility of the Managing Board and includes measures to ensure adherence to legal and official regulations, and internal guidelines and codes. These include anti-corruption, anti-bribery and antitrust regulations.

The **central Compliance department** reports directly to the CFO in his role as Chief Compliance Officer and supports him in the monitoring of effective compliance management. It works together with the compliance officers in the Group companies to provide for the compliance program to be implemented and continually further developed. The Audit Committee of the Supervisory Board is kept regularly informed of the Compliance department's activities.

Targets
Compliance management at HUGO BOSS aims at **Group-wide legally compliant behavior**. The aim is to prevent legal violations such as corruption, bribery and antitrust violations which may result not only in reputational and financial risk but may also, in particular, lead to personal consequences under criminal and labor law.

Measures
All employees of the HUGO BOSS Group are required to comply with the **Code of Conduct** applicable throughout the Group and specific supplementary **compliance rules**. All Group companies are subject to regular risk analyses and detailed audits where applicable. Any infringements are reported to the Managing Board and the Supervisory Board. The Code of Conduct is available on the Company website.

In 2019, the internal **antitrust law guidelines** and the **insider guidelines** were revised. As well as an update of the content, in particular with regard to changes in regulatory requirements, this revision also included an approach to better adapt the two topics to the target groups.

A Group-wide **e-learning program** to be completed by all employees with access to a PC should heighten awareness of the compliance rules. The program was revised extensively and expanded in 2019, particularly with regard to the topics of antitrust law, data protection and social compliance. Staff in positions where compliance is particularly relevant receive **face-to-face training courses** on specific topics that are of relevance to them, such as antitrust law. HUGO BOSS does not tolerate any willful misconduct or serious compliance infringements.

At HUGO BOSS, employees, suppliers and trading partners can notify an external **ombudsman** in confidence if there are any indications of fraud, infringements of antitrust law or other compliance breaches. If desired, it is also possible to do this anonymously. The ombudsman's contact data can be found on the Company's website.

Performance indicators
In 2019, as in the prior year, **no violations** in the sense of legal violations due to corruption, bribery or antitrust cases that had been determined by an official authority or a court were identified in the Company.

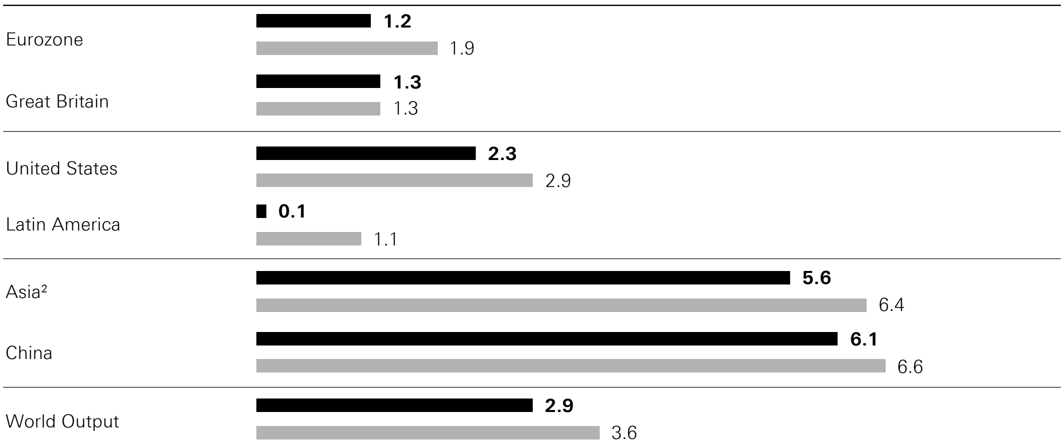
GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

- **Geopolitical uncertainties weigh on global economic growth**
- **Slowdown of economic growth across all regions**
- **Premium and luxury goods industry benefits from strong demand from customers in China and emerging markets**

General economic situation

According to an estimate by the IMF, growth in the **global economy** in 2019 was, at 2.9%, 60 basis points lower than anticipated at the beginning of the year and also below the growth achieved in the prior year period (2018: 3.6%). The estimate for global economic growth was revised downwards in view of the increased uncertainties, primarily associated with the trade conflict between the U.S. and China and the uncertainties surrounding Brexit. In particular, sentiment among businesses and private households suffered from these uncertainties, resulting in a slowdown in capital expenditure, exports and consumer spending. In the second half of the year, increased social unrest in some countries were an additional strain on economic growth.

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



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

■ **2019**
■ 2018

According to the IMF estimate, the economy of the **Eurozone** grew 1.2% in 2019. This represented a marked slowdown in economic growth compared to the prior year and was also lower than originally expected (2018: 1.9%). Less private consumption, lower industrial production overall, a further slowdown in the Italian economy and the impact of the protracted protests in France mainly contributed to this development. **Great Britain** recorded economic growth of 1.3%, roughly on par with the prior year level (2018: 1.3%). Concerns about a disorderly Brexit were dispelled over the course of the year, and therefore did not further burden economic growth.

In the **United States**, economic growth progressed more slowly than initially anticipated. This meant that fiscal policy measures were only partially able to offset tensions between the U.S. and many of its trading partners. The punitive tariffs associated with the trade conflicts placed a particular burden on economic development. As a result, the IMF estimated economic growth in 2019 at 2.3%, below the prior year level (2018: 2.9%).

In **China**, growth momentum has continued to diminish as expected. The IMF estimated economic growth in 2019 at 6.1%. The growth of the economy was therefore below the prior year level (2018: 6.6%). The more expansive monetary and fiscal policy adopted by the Chinese government partially compensated for the negative effects of the trade conflict with the United States. While the economy of other emerging markets in Asia grew strongly, Japan achieved only low growth, in line with expectations.

Industry development

In a joint study, The Business of Fashion and consulting firm McKinsey & Company estimate that sales of the **global apparel industry** increased by 3.5% to 4.5% in 2019 when adjusted for currency effects. Growth was therefore slightly below the prior year level (2018: 4% to 5%). While demand was above average in both the luxury and value segments, the mid-price segment recorded a comparatively lower rate of growth.

For HUGO BOSS, the **upper premium segment of the apparel industry** is the best benchmark. The Business of Fashion and McKinsey & Company estimate that in 2019, growth of this segment came in slightly below the prior year level at 3% to 4% (2018: 3.25% to 4.25%). Continued high demand for premium and luxury goods, particularly from customers in China and other emerging markets, contributed positively to industry growth. The main beneficiaries were large, financially sound businesses with high innovative capacity.

According to estimates by The Business of Fashion and McKinsey & Company, the apparel industry in the industrialized countries in **Europe** grew by 1.5% to 2.5% on a currency-adjusted basis, a lower rate than in the prior year (2018: 2% to 3%). Local demand in the industrialized countries in Europe was particularly burdened by general economic uncertainties. This was only partially offset by higher sales from tourists, following the depreciation of the euro against the U.S. dollar and other currencies. Growth remained significantly higher in the region's emerging markets.

In the **Americas**, the growth of the apparel industry slowed down slightly in 2019. The Business of Fashion and McKinsey & Company estimate that the industry experienced somewhat slower growth in North America as compared to the prior year, with currency-adjusted growth of 2.5% to 3.5% (2018: 3% to 4%). The U.S. market continued to be highly promotional in 2019, partly due to the increasing strength of the online business. The latter also led to a decline in footfall in shopping centers and a further consolidation of the store networks of many market participants. Tourist business suffered particularly from the trade war with China and the appreciation of the U.S. dollar.

Unchanged to the prior year, growth rates in the apparel industry in **Asia** varied by region. While the industry in the region's developed markets was estimated by The Business of Fashion and McKinsey & Company to have grown by 2% to 3% again in 2019 (2018: 2% to 3%), the emerging markets in the region once again recorded currency-adjusted sales growth of 6.5% to 7.5% (2018: 6.5% to 7.5%). The industry benefited particularly from strong customer demand in mainland China. While the market environment in Hong Kong suffered from the political unrest and the associated decline in tourist business, the industry environment in many smaller markets in the region also saw positive development.

COMPARISON OF ACTUAL AND FORECAST BUSINESS PERFORMANCE

- **Consistent execution of strategy with positive effect on business performance in 2019**
- **Business in North America and Hong Kong below initial expectations**
- **Challenging market environment requires adjustment of full year 2019 outlook**

During the course of the year, HUGO BOSS was confronted with **growing economic uncertainties** in some of its key markets. In particular, in North America the market environment further deteriorated during the course of the year, thus weighing on the Group's top- and bottom line performance. In addition, business in Hong Kong was significantly impacted by the political unrest and demonstrations. The publication of preliminary results for the third quarter in October led the Company to **adjust its financial outlook for the full year 2019**. In light of a strong increase in sales and earnings in the final quarter, HUGO BOSS ultimately achieved its adjusted full-year targets. Over the course of the year, the consistent execution of its strategy had a particular positive effect on business performance.

In fiscal year 2019, HUGO BOSS thus made **significant progress in the execution of its strategic growth drivers**. With currency-adjusted sales growth of 35%, sales in the own **online business** saw strong double-digit growth for the second year in a row. This was due not only to sales growth recorded in the own online store hugoboss.com, but also to the intensification of partnerships with online retailers through the concession model. In addition, in 2019 the Company benefited from ongoing strong sales momentum in the important growth market of **China**. Double-digit sales growth in mainland China more than compensated for a decline in Hong Kong. The Company also made further progress in the continued optimization of its global retail network. Thanks to the consistent renovation of a number of key BOSS stores over the course of the year, approximately 100 of own retail stores were already equipped with the latest store concept by the end of the year. Overall, HUGO BOSS increased its **retail sales productivity** in brick-and-mortar retail by 4% to EUR 11,100 per sqm in 2019. Thanks to a significant double-digit increase in sales from casualwear, the **HUGO** brand recorded currency-adjusted growth of 5% over the past year. Consequently, HUGO also made an above-average contribution to the Group's growth. → **Group Strategy**

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

	Result 2018	Original forecast 2019[1]	Adjusted forecast in October 2019[1]	**Result 2019[1]**
Group sales	2,796	Increase at a mid-single-digit percentage rate[2]	Increase at a low single-digit percentage rate[2]	Increase by 2%[2] to EUR 2,884 million
Gross profit margin	65,2%	Increase of up to 50 basis points	Largely stable development	Decrease by 20 basis points to 65.0%
EBIT	347	Increase at a high single-digit percentage rate	Decrease to an amount of between EUR 330 million and EUR 340 million	Decrease by 4% to EUR 333 million
Group's net income	236	Increase at a high single-digit percentage rate	Decrease at a mid- to high single-digit percentage rate	Decrease by 10% to EUR 212 million
Capital expenditure	155	EUR 170 million to EUR 190 million	EUR 180 million to EUR 190 million	EUR 192 million
Free cash flow	170	EUR 210 million to EUR 260 million	EUR 160 million to EUR 180 million	EUR 207 million

[1] Excluding the impact of IFRS 16.
[2] Currency-adjusted.

With an increase of 2% on a currency-adjusted basis to EUR 2,884 million, **Group sales** for fiscal year 2019 were within the adjusted forecast range. Initially, the Company had anticipated a currency-adjusted increase in Group sales at a mid-single-digit percentage rate. While sales in Europe and Asia/Pacific grew, business in the Americas fell short of expectations as a result of the persistently difficult market environment in the U.S. and in Canada. → **Earnings Development, Sales Performance**

At 65.0%, the **gross profit margin** was 20 basis points below the prior year level and thus at the lower end of the adjusted forecast range. Besides higher markdowns, in particular in North America, currency effects had a negative impact on the gross profit margin. This was only partially compensated by positive effects from the growing share of sales of the Group's own retail business. Excluding the effects of IFRS 16, the **operating profit (EBIT)** in fiscal year 2019 decreased 4% to EUR 333 million. EBIT was therefore within the adjusted forecast range, but lower than originally expected. In addition to the lower gross profit margin, an increase in operating expenses contributed to the decline compared to the prior year. The increase in operating expenses is mainly attributable to additional investments in the Group's own retail business. Excluding the effects of IFRS 16, the **Group's net income** was 10% below the prior year level, hence at the lower end of the adjusted forecast range. The Company had originally expected to be able to achieve a high single-digit increase in its EBIT and net income in 2019. → **Earnings Development, Income Statement**

At EUR 192 million, **capital expenditure** in 2019 was slightly higher than the original forecast range of EUR 170 million to EUR 190 million. The majority of capital expenditure was related to the further optimization and modernization of the Group's retail store network. At EUR 207 million, **free cash flow** was 22% higher than in fiscal year 2019 and thus at the lower end of the original forecast range of EUR 210 million to EUR 260 million (excluding the effects of IFRS 16). The increase is largely attributable to improvements in trade net working capital. → **Net Assets,** → **Financial Position**

The targets for fiscal year 2020 are presented in the **Outlook** section. → **Outlook**

EARNINGS DEVELOPMENT

- **Currency-adjusted Group sales up 2% in fiscal year 2019**
- **Robust sales growth in Europe and Asia/Pacific in 2019**
- **EBIT declines as a result of a lower gross profit margin and higher operating expenses**

In fiscal year 2019, HUGO BOSS achieved **Group sales** of EUR 2,884 million, up 3% versus the prior year level (2018: EUR 2,796 million). Currency effects had a slightly positive impact on Group sales in 2019. Adjusted for currency effects, HUGO BOSS recorded a 2% increase in sales as compared to the prior year.

Sales by region

Sales by region (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,803	63	1,736	62	4	4
Americas	560	19	574	20	(2)	(7)
Asia/Pacific	438	15	410	15	7	5
Licenses	84	3	76	3	10	10
Total	**2,884**	**100**	**2,796**	**100**	**3**	**2**

[1] Including Middle East and Africa.

Europe, including the Middle East and Africa, benefited from sales growth in many key markets, including Great Britain and France. In the **Americas**, the difficult market environment in the United States and Canada weighed on the sales performance in 2019. Sales in **Asia/Pacific** grew at an above-average rate, primarily due to higher sales in China. In mainland China, currency-adjusted sales increased at a double-digit rate. → **Earnings Development, Sales and Earnings Development of the Business Segments**

Sales by distribution channel

Sales by distribution channel (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	1,869	65	1,768	63	6	4[1]
Directly operated stores	1,110	38	1,096	39	1	0
Outlet	608	21	562	20	8	6
Online	151	5	110	4	37	35
Wholesale	931	32	952	34	(2)	(3)
Licenses	84	3	76	3	10	10
Total	**2,884**	**100**	**2,796**	**100**	**3**	**2**

[1] 3% on a comp store basis.

Currency-adjusted sales in the Group's **own retail business** grew 4% in fiscal year 2019. In particular, the **online business** achieved significant double-digit growth and increased by 35% to EUR 151 million (2018: EUR 110 million). This development was driven by positive effects resulting from the intensification of online partnerships in the concession model over the course of the year. While sales generated through **freestanding stores and shop-in-shops** (directly operated stores, DOS) remained at the prior year level, the **outlet business** developed positively. Overall, the share of the own retail business in Group sales increased from 63% to 65% in fiscal year 2019. On a comp store basis (i.e. taking into account all retail spaces opened or taken over before December 31, 2017 and excluding stores renovated in 2018 or 2019), currency-adjusted sales from the own retail business were 3% above the prior year level.

In the **wholesale channel**, the Group recorded a decline in sales in 2019, primarily as a result of the persistently difficult market environment in the United States and Germany. As expected, the intensification of online partnerships in the concession model also had a negative impact on wholesale sales. As a result, the share of the wholesale business in Group sales fell in 2019 from 34% to 32%.

Sales in the **license business** rose significantly in fiscal year 2019. This was the result of growth in all product groups, in particular fragrances and eyewear. At 3%, the share of license business in Group sales remained on the prior year level.

Sales by brand

Sales by brand (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %	Currency-adjusted change in %
BOSS	2,488	86	2,422	87	3	1
HUGO	396	14	374	13	6	5
Total	**2,884**	**100**	**2,796**	**100**	**3**	**2**

Both brands – BOSS and HUGO – recorded sales growth in fiscal year 2019. In the case of **HUGO**, the growth was above average thanks to a significant double-digit sales increases in casualwear. This development reflects the increasing relevance of HUGO in the contemporary fashion segment. **BOSS** benefited from low single-digit sales growth in both businesswear and casualwear. Sales generated with athleisurewear were on the prior year level. → **Group Strategy, Consistent Execution of a Two-Brand Strategy**

Sales by gender

Sales by gender (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %	Currency-adjusted change in %
Menswear	2,609	90	2,517	90	4	2
Womenswear	275	10	279	10	(1)	(2)
Total	**2,884**	**100**	**2,796**	**100**	**3**	**2**

In 2019, **menswear** mainly benefited from sales growth in casualwear. Sales in businesswear remained at the prior year level. The slight decline in sales in **womenswear** is mainly due to lower sales in businesswear, and is primarily attributable to the reduction of retail space of the BOSS brand in freestanding stores. Growth in casualwear only partially compensated for this.

Network of own retail stores

Number of own freestanding retail stores

In fiscal year 2019, the number of the Group's own **freestanding retail stores** increased by a net figure of 12 to 431 (2018: 419). The opening of 31 new **BOSS stores**, mainly in Asia and Europe, contrasted with the closures of 22 stores with expiring leases. In fiscal year 2019, five **HUGO stores** with their own furniture concept were opened in international metropolises like Singapore and Tokyo. This stood in contrast to two closures.

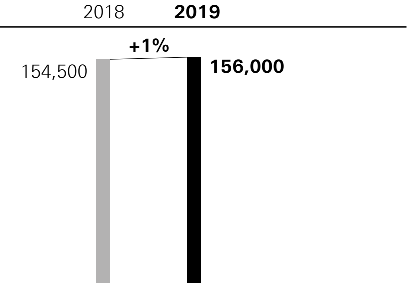
Number of own retail stores by region

2019	Freestanding stores	Shop-in-shops	Outlets	Total
Europe	203	311	70	**584**
Americas	94	84	50	**228**
Asia/Pacific	134	109	58	**301**
Total	**431**	**504**	**178**	**1,113**
2018[1]				
Europe	200	303	67	**570**
Americas	89	85	52	**226**
Asia/Pacific	130	112	54	**296**
Total	**419**	**500**	**173**	**1,092**

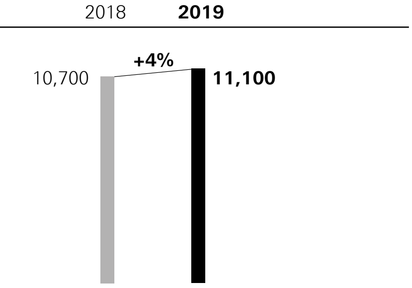
[1] The prior year's figures were adjusted retrospectively as of December 31, 2018. As part of a redefinition of the criteria for differentiating freestanding stores and shop-in-shops, a number of points of sale in the Asia/Pacific region that were previously designated as freestanding stores were reclassified as shop-in-shops. In addition, in the course of the two brand strategy, individual points of sale of the BOSS brand within certain department stores were combined numerically into one shop-in-shop, mainly in Europe and the Americas. Both measures have no impact on the Group's total selling space.

Including shop-in-shops and outlets, the total number of **retail stores** operated by HUGO BOSS globally increased slightly as of December 31, 2019 to 1,113 (2018: 1,092).

Total selling space as of December 31
(in square meter)



Retail sales productivity
(in EUR per square meter)



The **total selling space** of the Group's own retail business increased 1% and amounted to around 156,000 sqm at the end of the year (December 31, 2018: 154,500 sqm). A moderate expansion of selling space in Asia and Europe stood in contrast to a slight space reduction in the Americas. **Retail sales productivity** in the brick-and-mortar retail business increased 4% to around EUR 11,100 per sqm in fiscal year 2019 (2018: EUR 10,700 per sqm).

Income statement

Income statement (in EUR million)

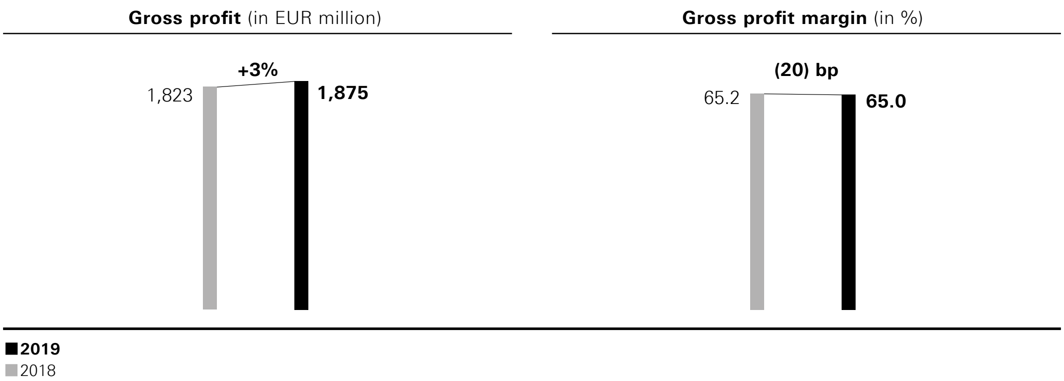
	Jan.–Dec. 2019	**IFRS 16 impact**	**Jan.–Dec. 2019 excluding IFRS 16**	Jan.–Dec. 2018	Change in %	Change in % excluding IFRS 16
Sales	**2,884**	**0**	**2,884**	**2,796**	**3**	**3**
Cost of sales	(1,009)	0	(1,009)	(973)	(4)	(4)
Gross profit	**1,875**	**0**	**1,875**	**1,823**	**3**	**3**
In % of sales	65.0	0	65.0	65.2	(20) bp	(20) bp
Operating expenses	**(1,531)**	**12**	**(1,543)**	**(1,477)**	**(4)**	**(4)**
In % of sales	(53.1)	40 bp	(53.5)	(52.8)	(30) bp	(70) bp
Thereof selling and distribution expenses	(1,235)	10	(1,245)	(1,176)[1]	(5)	(6)
Thereof adminis-tration expenses	(296)	2	(298)	(301)[1]	1	1
Operating result (EBIT)	**344**	**12**	**333**	**347**	**(1)**	**(4)**
In % of sales	11.9	40 bp	11.5	12.4	(50) bp	(90) bp
Financial result	(39)	(22)	(17)	(10)	<(100)	(65)
Earnings before taxes	**306**	**(10)**	**316**	**337**	**(9)**	**(6)**
Income taxes	(100)	3	(104)	(101)	0	(3)
Net income	**205**	**(7)**	**212**	**236**	**(13)**	**(10)**
Earnings per share (in EUR)[2]	**2.97**	**(0.10)**	**3.07**	**3.42**	**(13)**	**(10)**
Income tax rate in %	**33**		**33**	**30**		

[1] The figures presented here differ from those reported in the prior year. The other operating expenses and income, reported separately in the Annual Report 2018, have been reclassified retrospectively to cost of sales, selling and distribution expenses as well as administration expenses. This is intended to increase comparability between the expense items for 2019 and 2018.

[2] Basic and diluted earnings per share.

At 65.0%, the **gross profit margin** was 20 basis points below the prior year level (2018: 65.2%). Besides higher markdowns, first and foremost in North America, currency effects had a negative impact on the gross profit margin. This was only partially compensated by positive effects from the growing share of sales in the Group's own retail business.

Development of gross profit and gross profit margin

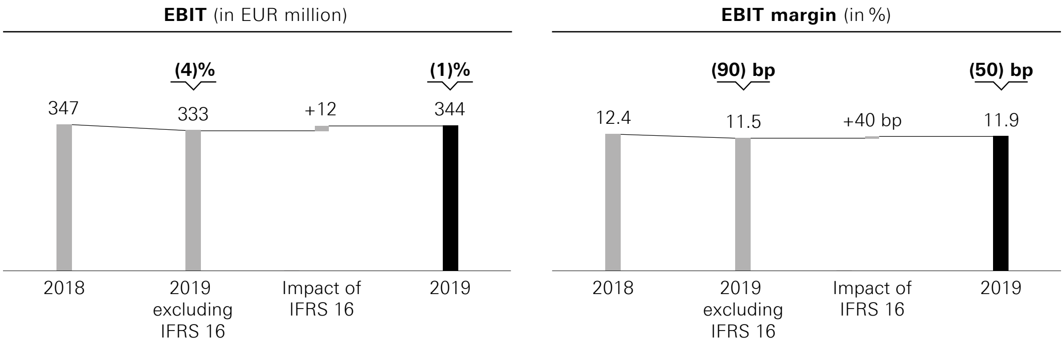


Operating expenses in 2019 were above the prior year level, both in absolute terms and as a percentage of sales. Currency effects had a negative impact on selling and distribution expenses in particular.

Selling and distribution expenses were 5% higher than in the prior year. Excluding the effects of the mandatory first-time application of the new accounting standard IFRS 16 in fiscal year 2019, the increase was 6%. As a percentage of sales, expenses rose to 42.8% or to 43.2% when excluding the effects of IFRS 16 (2018: 42.1%). The increase over the prior year is largely attributable to investments in the Group's own retail business. In addition to the modernization and selective expansion of the store network in 2018 and 2019, the extension of the concession model in the online business also contributed to an increase in **selling expenses**. These were 5% higher than in the prior year. As a percentage of sales, they increased to 33.4%. Excluding the effects of IFRS 16, this corresponds to an increase of 6% or 33.8% as a percentage of sales (2018: 32.7%). **Marketing expenses** were 3% above the prior year level. Alongside the intensification of digital marketing activities, this increase was also due to collaborations with external partners and brand ambassadors. As a percentage of sales, however, marketing expenses remained at the prior year level of 6.2% (2018: 6.2%). The significant sales increase in the online business led to an increase in **logistics expenses** of 5%. As a percentage of sales, logistics expenses were 3.2%, and thus only slightly above the prior year level (2018: 3.1%).
→ Notes to the Consolidated Financial Statements, Note 2

In fiscal year 2019, **administration expenses** were 1% below the prior year level. As a percentage of sales, administration expenses were 10.3%, hence also below the prior year level (2018: 10.8%). **General administrative expenses** recorded a decrease of 3%. Excluding the effects of IFRS 16, this corresponds to a decrease of 2%. High cost discipline more than compensated for higher expenses resulting from changes in the Group's management and additional investments in the ongoing digitization of the business model. As a percentage of sales, general administrative expenses were 8.0%. Excluding the effects of IFRS 16, they were 8.1% (2018: 8.5%). **Research and development expenses** incurred during the collection development increased 2% as compared to the prior year. As a percentage of sales, they amounted to 2.3% and were hence on the prior year level (2018: 2.3%).
→ Notes to the Consolidated Financial Statements, Note 3, → Research & Development

Development of EBIT and EBIT margin

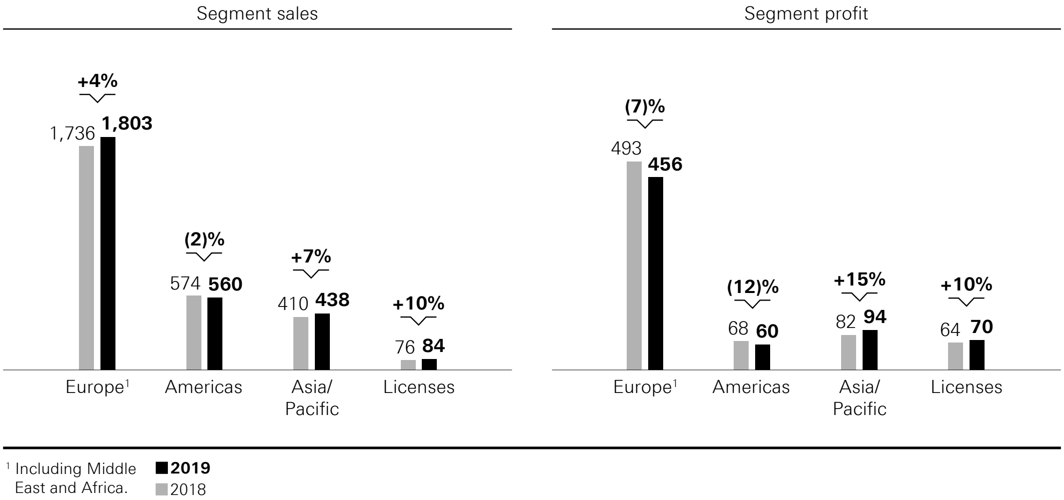


The **operating profit (EBIT)** in fiscal year 2019 decreased 1% to EUR 344 million. Excluding the effects of IFRS 16, this represents a decrease of 4% to EUR 333 million (2018: EUR 347 million). This is attributable to the lower gross profit margin as well as the increase in operating expenses. Accordingly, the **EBIT margin** decreased 50 basis points to 11.9%. Excluding the effects of IFRS 16, the EBIT margin was 11.5%, 90 basis points below the prior year level (2018: 12.4%). As a result of the first-time application of IFRS 16, **depreciation and amortization** was significantly higher than in the prior year, amounting to EUR 362 million. Excluding the effects of the new accounting standard, depreciation and amortization increased 3% to EUR 134 million (2018: EUR 129 million). The increase is attributable to higher capital expenditure as compared to the prior year. → **Financial Position, Capital Expenditure**

Higher interest expenses resulting from the first-time application of IFRS 16 in fiscal year 2019 led to a significant increase in the **financial result (net financial expenses)**. Even without taking into account the effects of IFRS 16, net financial expenses were above the prior year level. This was due to higher interest expenses associated with the tax field audit at HUGO BOSS AG. The latter also led to an increase in the **Group tax rate** to 33% in fiscal year 2019 (2018: 30%). As a result, the **Group's net income** decreased 13% in fiscal year 2019. Excluding the effects of IFRS 16, this corresponds to a 10% decrease. → **Notes to the Consolidated Financial Statements, Note 4 and 5**

Sales and earnings development of the business segments

Development of segment sales and segment profit
(in EUR million)



Starting in fiscal year 2019, **EBIT** replaces EBITDA before special items, used by the Group up through 2018, as one of the key performance indicators. As such, from this year onwards, segment profits will also be presented on the basis of EBIT. The corresponding prior year figures therefore deviate from the figures reported in 2018.

As part of a **consolidation of additional functions** at HUGO BOSS AG in fiscal year 2019, additional intercompany expenses were allocated to the business segments. This led to a higher burden on segment profits in Europe, the Americas and the Asia/Pacific region compared to the prior year. The Group's operating profit in total remained unaffected by this reallocation.

Europe

Currency-adjusted sales in **Europe**, including the Middle East and Africa, increased 4% in 2019 due to robust growth in the own retail business. Currency-adjusted retail comp store sales increased at a low single-digit percentage rate. Wholesale sales remained at the prior year level.

Sales development Europe (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	1,070	59	1,004	58	7	6
Wholesale	733	41	732	42	0	0
Total	**1,803**	**100**	**1,736**	**100**	**4**	**4**

Against the background of a challenging market environment in **Germany**, both the own retail business and the wholesale business declined. In total, sales decreased 4% to EUR 412 million (2018: EUR 429 million). Sales in **Great Britain** recorded an above-average increase in fiscal year 2019. Double-digit growth in the own retail business more than compensated for a decline in the wholesale business. Total sales in Great Britain amounted to EUR 386 million and were hence 7% above the prior year level (2018: EUR 360 million). This corresponds to a currency-adjusted increase of 6%. In **France**, sales amounted to EUR 170 million, up 1% on the prior year level (2018: EUR 168 million). Robust growth in the own retail business more than compensated for a decline in the wholesale business there. In the **Benelux countries**, higher sales in the own retail business offset a decline in the wholesale business. In total, sales in this market amounted to EUR 143 million as in the prior year (2018: EUR 143 million).

At EUR 456 million, the **segment profit** in Europe was 7% below the prior year level. This corresponds to an EBIT margin of 25.3%. Excluding the effects of IFRS 16, EBIT declined 8% to EUR 451 million (2018: EUR 493 million). This is primarily attributable to additional intercompany charges totaling EUR 21 million. In addition, currency effects and higher depreciation of property, plant and equipment weighed on segment profit growth. The corresponding EBIT margin was 25.0% (2018: 28.4%). → **Notes to the Consolidated Financial Statements, Note 25**

Americas

The **Americas** recorded a currency-adjusted sales decrease of 7% in fiscal year 2019. This was attributable to the difficult market environment in the United States and Canada. Besides lower local demand, also sales generated with tourists decreased over there. Currency-adjusted retail comp store sales in the region declined by a low single-digit percentage rate.

Sales development Americas (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	398	71	389	68	2	(2)
Wholesale	162	29	185	32	(12)	(17)
Total	**560**	**100**	**574**	**100**	**(2)**	**(7)**

In the **United States**, sales decreased 4% to EUR 406 million (2018: EUR 422 million). This represents a currency-adjusted sales decrease of 9%. In both distribution channels, sales were below the prior year level, with a sharper decrease in wholesale than in own retail. In **Canada**, sales fell 5% in the reporting currency or 7% adjusted for currency effects to EUR 78 million (2018: EUR 82 million). In **Latin America**, sales increased 8% to EUR 76 million (2018: EUR 70 million), driven by double-digit growth in the own retail business. This corresponds to a currency-adjusted sales increase of 4%.

The **segment profit** in the Americas was EUR 60 million, 12% below the prior year level (2018: EUR 68 million). The corresponding EBIT margin was 10.8%. Excluding the effects of IFRS 16, EBIT totaled EUR 57 million, 16% lower than in fiscal year 2018. This was largely attributable to the sales decline and continued high markdowns in North America. Additional intercompany charges of EUR 4 million also had a negative impact on segment profit. The corresponding EBIT margin was 10.2% (11.9%). → **Notes to the Consolidated Financial Statements, Note 25**

Asia/Pacific

Currency-adjusted sales in the **Asia/Pacific** region increased 5% in 2019, with currency-adjusted sales in the own retail business also up 5%. On a comp store basis, currency-adjusted sales even recorded increases in the high single-digit percentage range.

Sales development Asia/Pacific (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	402	92	376	92	7	5
Wholesale	36	8	34	8	5	2
Total	**438**	**100**	**410**	**100**	**7**	**5**

In 2019, sales in **China** increased 5% to EUR 239 million (2018: EUR 228 million), representing a currency-adjusted sales increase of 3%. Supported by double-digit comp store sales growth, mainland China developed particularly well. In Hong Kong, on the other hand, the political unrest and demonstrations led to a significant double-digit decline in sales. At EUR 59 million, sales in **Japan** were 14% above the prior year level (2018: EUR 52 million). This corresponds to currency-adjusted sales growth of 6%. In **Oceania**, sales decreased 4% to EUR 53 million, reflecting a decline in the wholesale business (2018: EUR 56 million). This represents a currency-adjusted sales decrease of 2%. Sales in **Southeast Asia** saw significant double-digit growth in 2019, totaling EUR 49 million. This corresponds to a 21% increase in the reporting currency and a 16% increase adjusted for currency effects.

The **segment profit** in the Asia/Pacific region grew 15% in 2019, totaling EUR 94 million. The corresponding EBIT margin increased to 21.4%. Excluding the effects of IFRS 16, EBIT grew 11% to EUR 91 million (2018: EUR 82 million). Higher sales more than compensated for the increase in operating expenses, which also resulted from additional intercompany charges of EUR 3 million. The corresponding EBIT margin rose to 20.8% (2018: 20.0%). → **Notes to the Consolidated Financial Statements, Note 25**

Licenses

Sales in the **license business** increased by 10% to EUR 84 million in fiscal year 2019 (2018: EUR 76 million). → **Earnings Development, Sales by Distribution Channel**

As a consequence, the **license segment profit**, at EUR 70 million, was up 10% on the prior year level (2018: EUR 64 million). The first-time adoption of IFRS 16 did not have any effect on segment profit.

NET ASSETS

- **First-time application of IFRS 16 leads to significant increase in total assets**
- **Inventories adjusted for currency effects remain at the prior year level**
- **Slight increase in trade net working capital as a percentage of sales**

Total assets increased significantly as a result of the first-time application of IFRS 16, amounting to EUR 2,877 million at the end of the year. This was mainly driven by the first-time capitalization of **right-of-use assets** amounting to EUR 877 million. Excluding the effects of IFRS 16, total assets increased 7% to EUR 1,993 million (December 31, 2018: EUR 1,858 million). This is mainly attributable to **property, plant and equipment and intangible assets**, which grew 24%. Besides an increase in capital expenditure, this was driven by the addition of tangible fixed assets as part of the full acquisition of a leasing property company that had previously been under the joint control of HUGO BOSS and another party. → **Financial Position, Capital Expenditure,** → **Notes to the Consolidated Financial Statements, Note 8 and 9**

Condensed statement of financial position (in EUR million)

	2019	**IFRS 16 impact**	**2019 excluding IFRS 16**	2018
Property, plant and equipment, intangible assets and right-of-use assets	1,592	877	714	574
Inventories	627	0	627	618
Trade receivables	216	0	216	214
Other assets	310	8	303	305
Cash and cash equivalents	133	0	133	147
Assets	**2,877**	**885**	**1,993**	**1,858**
Shareholders' equity	1,002	(7)	1,009	981
Provisions and deferred taxes	190	1	189	179
Lease liabilities	957	957	0	0
Trade payables	315	0	315	295
Other liabilities	196	(66)	262	227
Financial liabilities	218	0	218	176
Equity and liabilities	**2,877**	**885**	**1,993**	**1,858**

The **share of non-current assets** increased to 60% as of December 31, 2019. Excluding the effects of the IFRS 16, the share increased to 42% (December 31, 2018: 37%). This is also attributable to the increase in property, plant and equipment and intangible assets. Accordingly, the **share of current assets** was 40% at the end of the year. Excluding the effects of the new accounting standard, the share was 58%, and hence below the prior year level (December 31, 2018: 63%). The **equity ratio** was 35% at the end of the year. Excluding the effects of IFRS 16, the equity ratio was 51% and thus slightly below the prior year level (December 31, 2018: 53%). → **Consolidated Financial Statements, Consolidated Statement of Financial Position**

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

	2019	2018	Change in %	Currency-adjusted change in %
Inventories	627	618	1	0
Trade receivables	216	214	1	(1)
Trade payables	315	295	7	5
Trade net working capital	**528**	**537**	**(2)**	**(3)**

Adjusted for currency effects, **inventories** remained at the prior year level. In line with the performance of the wholesale business, **trade receivables** declined slightly on a currency-adjusted basis. **Trade payables** increased, mainly as a result of temporal shifts in the receipt of invoices. Adjusted for currency effects, **trade net working capital** was 3% below the prior year level. The moving average of trade net working capital compared to sales on the basis of the last four quarters was 20.1%. This corresponds to an increase of 40 basis points compared to the prior year (2018: 19.7%).

Other assets were 2% above the prior year level. Excluding the effects of IFRS 16, they decreased only slightly compared to the end of 2018. The 6% increase in **provisions and deferred tax liabilities** mainly resulted from higher provisions for pensions. **Other liabilities** decreased in 2019. However, excluding the effects of IFRS 16, they increased 15% driven by higher income tax liabilities associated with the tax field audit at HUGO BOSS AG. → **Notes to the Consolidated Financial Statements, Note 17 and 19**

Total **current and non-current financial liabilities** increased 24% to EUR 218 million at year-end (December 31, 2018: EUR 176 million). The increase is primarily attributable to the take-over of a loan as part of the full acquisition of a leasing property company that had previously been under the joint control of HUGO BOSS and another party. → **Notes to the Consolidated Financial Statements, Note 8 and 20**

FINANCIAL POSITION

- **Significant increase in free cash flow driven by improvements in TNWC**
- **Net financial liabilities remain at a low level**
- **Capital expenditure centred around on own store network and IT infrastructure**

Principles and goals of financial management

Group-wide financial management is controlled centrally by the Group's central Treasury department. The goals pursued include securing financial flexibility and stability, securing Group-wide liquidity and the management of financial risks. Group-wide financial management comprises Group financing, cash and liquidity management, the management of market price risks and the management of counterparty risks. **Treasury principles** which are applied Group-wide govern all matters relevant to treasury, such as the approval of banking relationships, the handling of financing agreements, liquidity and asset management as well as the management of currency and interest rate risks.

Within **Group financing** factors such as market capacity, cost of financing, covenants and terms to maturity are taken into account when selecting financial instruments. External loans for Group financing are taken out centrally and primarily in the Group's reporting currency (euro) within the framework of an **"inhouse bank" concept**. To cover the financing needs of the Group companies, funds are made available in the form of intercompany loans. This allows the Company to increase economies of scale and to minimize the cost of capital. Occasionally, credit lines are also agreed with local banks in order to take account of legal, tax or other framework conditions. The Group's financial liabilities are generally unsecured and may be subject to customary market obligations, which are reviewed on a quarterly basis.

The most important source of liquidity for the Group is the cash inflow from its operating activities. The Group's central Treasury department optimizes and centralizes payment flows through its **cash and liquidity management**. Generally, Group companies transfer excess liquidity to the "inhouse bank", e.g. as part of a cash-pooling procedure. In doing so, the excess liquidity of individual Group companies can be used to cover the financial needs of others. This intercompany financial offsetting system reduces the external financial requirement and thus brings down net interest expenses.

The **management of market price risks** is intended to limit the impact of interest and currency risks on cash flow. The use of hedging instruments, including forward foreign exchange transactions, currency swaps and interest swaps, is intended to secure the Group against unfavorable price developments.
→ **Risk Report, Material Financial Risks**

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

Capital structure and financing

HUGO BOSS is safeguarding its financial flexibility by means of a revolving **syndicated loan** of EUR 450 million, maturing in October 2022. The syndicated loan agreement contains a standard covenant requiring the maintenance of **financial leverage**, defined as the ratio of net financial liabilities to EBITDA before special items. At 0.2, the ratio was still substantially below the maximum permissible as of the reporting date (December 31, 2018: 0.0). The determination of financial leverage originally specified in the syndicated loan agreement and the level to be observed expressly excludes the impact of any changes in accounting standards on the indicator. Thus, it remains unaffected by the impact of IFRS 16, which applies from 2019 onwards, on EBITDA before special items. As of the reporting date, the syndicated loan was not utilized (December 31, 2018: utilization of EUR 35 million). **→ Notes to the Consolidated Financial Statements, Note 15**

To ensure further liquidity, the Group has **bilateral credit lines** at its disposal with a total volume of EUR 227 million (December 31, 2018: EUR 217 million), of which EUR 215 million was utilized due to favorable interest rates as of December 31, 2019 (December 31, 2018: EUR 134 million). The variable-interest financial liabilities amounting to EUR 115 million (December 31, 2018: EUR 138 million) included therein are largely subject to a short-term fixed interest rate. As of the reporting date, EUR 7 million of these liabilities were hedged against an increase in interest rates using interest rate swaps (December 31, 2018: EUR 8 million). **→ Risk Report, Material Financial Risks, → Notes to the Consolidated Financial Statements, Note 20**

In addition to the unused credit lines in the amount of EUR 462 million (December 31, 2018: EUR 498 million), the Group had at its disposal **cash and cash equivalents** in the amount of EUR 133 million (December 31, 2018: EUR 147 million). **→ Financial Position, Statement of Cash Flows**

The Group's **liabilities** totaled EUR 1,887 million at the end of the fiscal year. This corresponds to a 65% share of total assets. Current and non-current **lease liabilities** recognized in the course of the first-time application of IFRS 16 accounted for EUR 957 million of this. The lease liabilities primarily relate to the rental of retail store locations as well as logistics and administration properties. **Current and non-current financial liabilities** totaled EUR 218 million (December 31, 2018: EUR 176 million). Excluding the effects of IFRS 16, total liabilities amounted to EUR 984 million, corresponding to a 49% share of total assets (December 31, 2018: EUR 878 million or 47%). **→ Net Assets, → Notes to the Consolidated Financial Statements, Note 8 and 9**

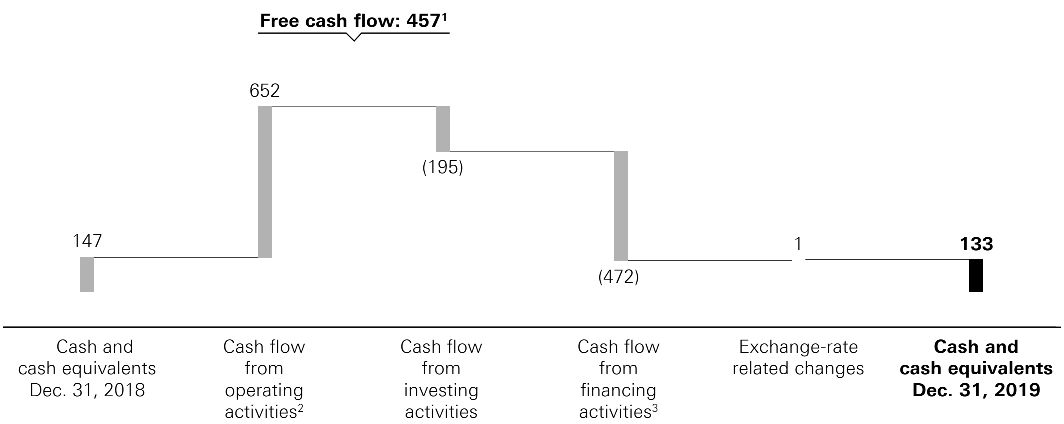
Statement of cash flows

Statement of cash flows (in EUR million)	**2019**	**IFRS 16 impact**	**2019 excluding IFRS 16**	2018
Cash flow from operating activities	652	250	402	322
Cash flow from investing activities	(195)	0	(195)	(152)
Cash flow from financing activities	(472)	(250)	(223)	(139)
Change in cash and cash equivalents	**(14)**	**0**	**(14)**	**31**
Cash and cash equivalents at the beginning of the period	147	0	147	116
Cash and cash equivalents at the end of the period	133	0	133	147

As the statement of cash flows is presented on a currency-adjusted basis, the values cannot be derived from the statement of financial position.

Free cash flow, measured as the total of cash inflow from operating activities and cash outflow from investing activities, amounted to EUR 457 million in fiscal year 2019. Excluding the effects of IFRS 16, free cash flow was EUR 207 million and thus 22% above the prior year level (2018: EUR 170 million). The increase is largely attributable to improvements in trade net working capital.

Change in cash and cash equivalents (in EUR million)



[1] Free cash flow excluding the impact of IFRS 16: EUR 207 million.
[2] Thereof impact of IFRS: EUR 250 million.
[3] Thereof impact of IFRS: EUR (250) million.

As a result of the first-time application of IFRS 16, the **cash inflow from operating activities** increased significantly in 2019. Even without taking into account the effects of IFRS 16, the cash flow from operating activities was EUR 402 million, 25% above the prior year level (2018: EUR 322 million). This was mainly due to a significant reduction in cash outflow from the change in trade net working capital. Inventories remained on the prior year level, which had an especially positive effect. This more than compensated for the lower operating result.

The **cash outflow from investment activities** was EUR 195 million, 28% above the prior year level (2018: EUR 152 million). This is mainly attributable to higher capital expenditure in property, plant and equipment compared to the prior year. → **Financial Position, Capital Expenditure**

The first-time application of IFRS 16 led to a significant increase in **cash outflow from financing activities**. Even excluding the effects of IFRS 16, at EUR 223 million, cash outflow from financing activities was significantly higher than in the prior year (2018: EUR 139 million). This is mainly attributable to repayments of current and non-current financial liabilities during the reporting period (2018: cash inflow from taking on current and non-current financial liabilities). At EUR 186 million, the cash outflow in the course of the dividend payment was slightly above the prior year level (2018: EUR 183 million).

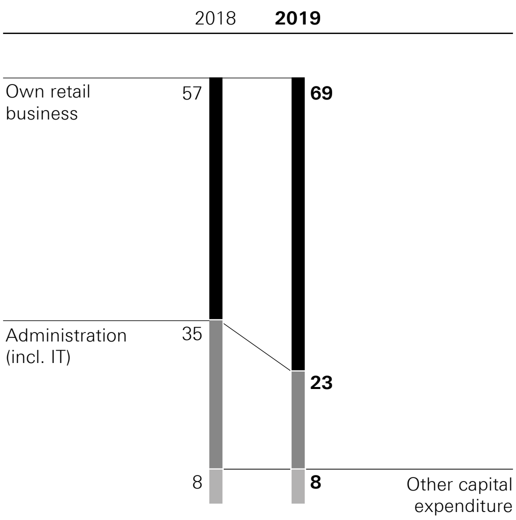
Net financial liabilities

Net financial liabilities, measured as the total of all financial and lease liabilities less cash and cash equivalents, was EUR 1,040 million at the end of fiscal year 2019. The application of IFRS 16 led to a significant increase in net financial liabilities due to the first-time inclusion of lease liabilities. Excluding the effects of IFRS 16, at EUR 83 million, net financial liabilities were slightly higher than in the prior year (December 31, 2018: EUR 22 million). This is mainly attributable to higher financial liabilities towards financial institutions. The latter also increased due to the take-over of a loan as part of the full acquisition of a leasing property company that had previously been under the joint control of HUGO BOSS and another party. → **Net Assets**, → **Notes to the Consolidated Financial Statements, Note 8**

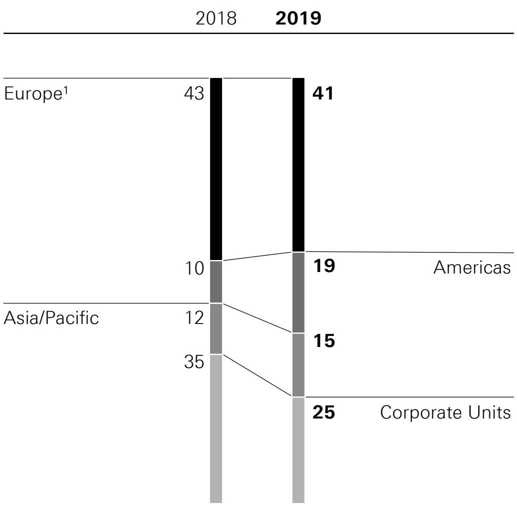
Capital expenditure

In fiscal year 2019, HUGO BOSS invested EUR 192 million in **property, plant and equipment and intangible assets** (2018: EUR 155 million). Capital expenditure was thus substantially higher than in the prior year, mainly due to higher investments in the modernization of the own retail network and selective store openings.

Capital expenditure by functional area (in %)



Capital expenditure by region (in %)



[1] Including Middle East and Africa.

With capital expenditure of EUR 134 million, the own retail network was a focus of investment activities (2018: EUR 89 million). Of this, EUR 77 million was spent on the **renovation and modernization** of existing stores (2018: EUR 45 million). The focus was on the continuous optimization of the global retail network and the associated consistent modernization of BOSS stores. Since last October, the largest BOSS flagship store globally on the Champs-Élysées in Paris has also been displaying the latest store concept. In addition, EUR 56 million has been invested in selectively **opening new retail stores** (2018: EUR 44 million). Of this, a high double-digit figure was spent for the construction of the largest HUGO BOSS outlet globally at the Metzingen site, which opened in September 2019.

Capital expenditure on **administration** came to EUR 44 million in the past fiscal year (2018: EUR 54 million). This mainly includes investments of EUR 34 million in the **IT infrastructure** (2018: EUR 36 million) and capital expenditure on the modernization of administrative facilities, including as part of the project "New Ways of Working". → **Employees**

Other capital expenditure on the production, logistics and distribution structure and on research and development in 2019 amounted to EUR 15 million (2018: EUR 12 million). The increase over the prior year is mainly attributable to investments in the expansion of logistical capacities, including in connection with the expansion of online partnerships in the concession model.

Accumulated depreciation and amortization on property, plant and equipment and intangible assets, including own capitalized cost, totaled EUR 1,237 million in fiscal year 2019. Excluding the effects of IFRS 16, accumulated amortization and depreciation was EUR 1,017 million (2018: EUR 963 million). Existing **obligations from investment projects** totaled EUR 0 million as at December 31, 2019 (December 31, 2018: EUR 9 million). → **Notes to the Consolidated Financial Statements, Note 8**

HUGO BOSS AG

- **HUGO BOSS AG is the parent company of the HUGO BOSS Group**
- **Operational development influenced by service relationships to subsidiaries**
- **Statements regarding risks, opportunities and outlooks for the HUGO BOSS Group also apply to HUGO BOSS AG**

HUGO BOSS AG is the **parent company of the HUGO BOSS Group**. Its annual financial statements are prepared in accordance with the rules set out in the HGB ["Handelsgesetzbuch": German Commercial Code]. The results of HUGO BOSS AG are influenced by the operating business and the management of the central functions in particular. Material items in this regard are the allocation of costs for services rendered to Group companies and the investment income resulting from its holding function. Due to its close relationships with the Group companies and its importance within the Group, the **expectations** for HUGO BOSS AG are for the most part reflected in the Group's outlook. The business development of HUGO BOSS AG is also subject for the most part to the same **risks and opportunities** as those applicable to the Group. Therefore, the statements made regarding the Group in the outlook and the report on risks and opportunities also apply to HUGO BOSS AG. **→ Outlook, → Report on Risks and Opportunities**

Earnings development

Income statement HUGO BOSS AG (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %
Sales	**1,316**	**100.0**	**1,306**	**100.0**	**1**
Cost of sales	(874)	(66.4)	(853)	(65.3)	(2)
Gross profit	**441**	**33.5**	**453**	**34.7**	**(3)**
Distribution expenses	(290)	(22.0)	(312)	(23.9)	7
General administrative expenses	(130)	(9.9)	(126)	(9.6)	(3)
Other operating income	96	7.3	91	6.9	5
Other operating expenses	(66)	(5.0)	(69)	(5.3)	4
Operating profit	**51**	**3.9**	**37**	**2.8**	**38**
Income from investments in affiliated companies	202	15.3	219	16.8	(7)
Net interest income/expenses	(13)	(1.0)	(11)	(0.8)	(18)
Taxes on income and other taxes	(71)	(5.4)	(50)	(3.8)	(42)
Net income	**169**	**12.8**	**196**	**15.0**	**(14)**
Transfer to (–)/from (+) other revenue reserves	21	1.6	(10)	(0.7)	>100
Accumulated income previous year	4	0.3	4	0.3	2
Unappropriated income	**194**	**14.7**	**190**	**14.6**	**2**

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

Sales by region (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %
Europe	1,070	81	1,028	79	4
Americas	139	11	181	14	(23)
Asia/Pacific	107	8	97	7	10
Total	**1,316**	**100**	**1,306**	**100**	**1**

In the past fiscal year, higher **sales with subsidiaries** in Europe and Asia/Pacific more than compensated for a decrease in sales with subsidiaries in the Americas. **Sales with third parties** in Europe declined 2% to EUR 482 million (2018: EUR 492 million).

Sales by brand (in EUR million)

	2019	**In % of sales**	2018	In % of sales	Change in %
BOSS	972	74	993	76	(2)
HUGO	219	17	219	17	0
Other services	125	9	94	7	33
Total	**1,316**	**100**	**1,306**	**100**	**1**

The decline in sales for the **BOSS** brand reflects lower sales with subsidiaries in the Americas. In the case of selling to subsidiaries in Europe and Asia/Pacific, however, BOSS recorded sales growth. The increase in **sales from other services** is due to additional charges related to intercompany expenses for subsidiaries as part of a consolidation of additional functions at HUGO BOSS AG in fiscal year 2019.
→ **Earnings Development, Sales and Earnings Development of the Business Segments**

Gross profit was below the prior year level. As a consequence, the gross profit margin also decreased slightly. The decline in **distribution expenses** mainly reflects additional charges related to intercompany expenses for subsidiaries in fiscal year 2019 as well as lower personnel and marketing expenses. The slight increase in **general administrative expenses** mainly resulted from higher expenses in connection with changes in the management of the Company. The increase in **other operating income** compared to the prior year was largely due to higher income from charging costs and services to affiliated companies. The decrease in **other operating expenses** mainly reflects lower aperiodic expenses in connection with intercompany charges to HUGO BOSS AG. The item primarily includes research and development costs as well as bad debt write-offs and currency effects.

The **income from investments in affiliated companies** was 7% below the prior year level. At EUR 121 million, the income from affiliates (2018: EUR 113 million) primarily reflects the annual profits of HUGO BOSS Trade Mark Management GmbH & Co. KG, which are credited to the loan account of its limited partner HUGO BOSS AG in accordance with company regulations, as well as the dividend payments of HUGO BOSS Textile Industry Ltd. Income from profit transfer agreements with subsidiaries amounted to EUR 81 million (2018: EUR 104 million) and resulted from a profit transfer from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In fiscal year 2019, this company received dividend income from HUGO BOSS Holding Netherlands B.V.

The increase in the **tax rate** to 30% (2018: 20%) mainly reflects higher expenses from income taxes in connection with the tax field audit for the years 2012 to 2015, including subsequent effects.

Net assets and financial position

Property, plant and equipment and intangible assets increased 14% to EUR 1,014 million (December 31, 2018: EUR 889 million). The increase is mainly due to the addition of tangible fixed assets as part of the full acquisition of a leasing property company that had previously been under the joint control of the Company and another party. Besides this, **capital expenditure** at the Metzingen site, particularly for the construction of the largest HUGO BOSS outlet globally, contributed to the increase in property, plant and equipment and intangible assets.

Trade Net Working Capital (in EUR million)

	2019	2018	Change in %
Inventories	186	200	(7)
Trade receivables	19	26	(27)
Trade payables	117	119	(2)
Trade net working capital	**88**	**107**	**(18)**

At year-end, **trade net working capital** was 18% below the prior year level. This is primarily attributable to a decrease in **inventory**, reflecting the Company's consistent focus on managing inventories. HUGO BOSS AG is a supplier for the Group's global distribution companies. As a result of the decline in the Group's wholesale business in fiscal year 2019, the **trade receivables** of HUGO BOSS AG at the end of the year were also below the prior year level. **Trade payables** were roughly on the prior year level.

At EUR 39 million, **receivables from affiliated companies** at the end of fiscal year 2019 were only slightly below the prior year level (2018: EUR 41 million). As in the prior year, **liabilities against affiliated companies** amounted to EUR 301 million. During the same period, **provisions** increased to EUR 156 million (December 31, 2018: EUR 116 million). The increase is related to the tax field audit for the years 2012 to 2015, including subsequent effects. **Liabilities due to banks** amounted to EUR 97 million at the end of 2019 (2018: EUR 19 million). The increase was driven by the addition of tangible fixed assets as part of the full acquisition of a leasing property company that had previously been under the joint control of HUGO BOSS AG and another party.

As of December 31, 2019, **cash and cash equivalents**, as the total of cash on hand and bank balances, stood unchanged at EUR 3 million (December 31, 2018: EUR 3 million). Cash inflow from operating activities was above the prior year level. This is largely attributable to improvements in trade net working capital. The main cash outflows arose in connection with the Company's investment activity and from the **dividend payment** for fiscal year 2018. At EUR 186 million, the latter was slightly above the prior year level (2018 for fiscal year 2017: EUR 183 million).

OUTLOOK

- **Outlook on business performance takes into account the expected financial impact of the spread of the coronavirus**
- **Group sales performance in 2020 expected to be within a range of 0% to +2% adjusted for currency effects**
- **EBIT in 2020 of between EUR 320 million and EUR 350 million expected**

Subsequent events

At the time this report was prepared on February 20, 2020, the business of HUGO BOSS was significantly impacted by the **spread of the novel coronavirus** and the associated restrictions on public life, first and foremost in mainland China. Since late January, a large number of the Group's own retail stores in mainland China, Hong Kong and Macau have been either closed or operate with severely limited opening hours. At the same time, the Company also recorded a noticeable decline in the sales generated from Chinese tourists in other key markets.

Against this backdrop and given the prevailing high levels of uncertainty regarding the ongoing development of this situation at the time of preparing this report, HUGO BOSS anticipates that the economic consequences of the spread of coronavirus are very likely to have a significant impact on the Group's sales and profit development in 2020. This is taken into account in the estimates presented in this chapter regarding the expected business performance of HUGO BOSS in 2020. They also reflect the Company's assumption that the situation should gradually normalize by the middle of the year. Any negative impact above and beyond this could cause the actual results in fiscal year 2020 to differ from the forecast. → **Report on Risks and Opportunities, Material External Risks**

Outlook

The following report presents the **forecast of the Management** of HUGO BOSS with respect to the Company's future development and describes the expected development of significant macroeconomic and industry-specific conditions. It reflects the Management's current knowledge at the time the report was prepared, while also taking into account the fact that, if the risks and opportunities materialize as described in the Risks and Opportunities section, actual developments may differ significantly from this forecast, either positively or negatively. Other than the statutory publication requirements, HUGO BOSS does not assume any obligation to update the statements contained in this report. → **Report on Risks and Opportunities**

Economic and industry-specific developments have a major influence on the development of the Company's operational and financial development. The Group's outlook regarding its expected development is therefore based on certain assumptions about developments in the global economy and in the industry. However, these were taken from sources that were published before the spread of the coronavirus. These original assumptions are outlined in the following sections. The subsequent assessment of the expected business performance of HUGO BOSS in 2020 also take into account an estimate of the financial impact of the coronavirus on the Company.

Outlook for the global economy

In its report published on January 20, 2020, the IMF expects moderate recovery of growth in the **global economy** towards 3.3% in 2020 (2019: 2.9%). The outlook is based on the assumption of higher growth momentum for many important emerging markets. On the other hand, growth in many industrial countries and in China is expected to continue to slow down in 2020. Increasing geopolitical tensions and a further escalation of global trade conflicts are considered to represent significant risks to the development of the global economy.

According to the IMF, growth in the **Eurozone** in 2020 is expected to be 1.3% and thus only slightly above the growth achieved in the prior year (2019: 1.2%). Growth should be supported by an expected improvement in foreign demand. Assuming an orderly Brexit, a slight improvement in growth to 1.4% is also expected for the economy of **Great Britain** (2019: 1.3%). In the **United States**, on the other hand, economic growth is expected to decrease to 2.0% (2019: 2.3%). The decline primarily reflects the return to a neutral fiscal policy and the expected slowdown in the positive effects of low interest rates. According to the IMF, growth in **China** is also likely to weaken slightly and is expected to amount to 6.0% (2019: 6.1%). The planned reduction of import duties should have a positive impact on growth momentum and mitigate the economic slowdown somewhat.

Industry outlook

In a joint study published in November 2019, The Business of Fashion and management consultancy firm McKinsey & Company estimate that the **global apparel industry** will grow by 3% to 4% in 2020 and therefore slightly weaker than in the prior year (2019: 3.5% to 4.5%). For the **upper premium segment of the apparel industry**, which is perceived to be the best benchmark for HUGO BOSS, the growth rate is also expected to be slightly lower than in the prior year, amounting to 2.5% to 3.5% (2019: 3% to 4%). The expected slowdown results from an increasing reluctance of consumers against the backdrop of persistent macroeconomic and political uncertainties, as well as the continuing threat of trade conflicts. → **General Economic Situation and Industry Development**

In the industrial countries in **Europe**, the industry is expected to grow at a low single-digit percentage rate in 2020 and thus more slowly than in the prior year. In this context, the tense global economic situation and the remaining uncertainties in connection with Brexit are expected to have a dampening effect on growth. For the **Americas**, industry growth is expected to slow down to a low single-digit percentage rate in 2020. Consumer spending should grow at subdued rates, reflecting ongoing trade conflicts and the forthcoming presidential election in the United States. According to The Business of Fashion and McKinsey & Company, industry growth in the emerging markets of **Asia** is also expected to slow down slightly in 2020. In the context of a softer consumer climate, the industry is expected to grow at a mid- to high single-digit percentage rate. In the course of this, mainland China is expected to develop significantly better than Hong Kong, which has been impacted by political unrest most recently. As in the prior year, growth at a low single-digit percentage rate is projected for the industrial countries of Asia.

Outlook for the HUGO BOSS Group

The outlook for fiscal year 2020 takes into account the **effects of IFRS 16** and is based on the respective results for fiscal year 2019, also taking into account the effects of IFRS 16.

Against the backdrop of the macroeconomic and industry-specific conditions and taking into account the assessment of the expected financial impact of the coronavirus outlined in the "Subsequent events" section of this chapter, HUGO BOSS anticipates that **Group sales** will develop within a range of 0% to +2% in 2020, adjusted for currency effects. Growth is expected to vary across regions. While the Group expects currency-adjusted sales to increase at a low single-digit percentage rate in **Europe**, the **Americas** are expected to see a largely stable development of currency-adjusted sales. A persistently challenging market environment is likely to continue to weigh on the wholesale business in North America, particularly in the first half of 2020. Impacted by the economic consequences of the coronavirus, currency-adjusted sales in the **Asia/Pacific** region are expected to decline at a single-digit percentage rate.

For its **own retail business**, the Group expects currency-adjusted sales in 2020 to grow at a low to mid-single-digit percentage rate. Growth will be supported by the intensification of online partnerships in the concession model, as well as renovations of strategically important BOSS stores completed in 2019. Currency-adjusted sales in the **wholesale business** are expected to decrease by a low to mid-single-digit percentage rate. This will primarily be due to the anticipated sales shift from wholesale to the own retail business in connection with the intensification of the online concession model.
→ **Group Strategy, Focus on Implementing the Strategic Growth Drivers**

HUGO BOSS expects **operating result (EBIT)** of between EUR 320 million and EUR 350 million in 2020 (2019: EUR 344 million), with final sales development being crucial to the amount of EBIT that can be expected. With respect to the **Group's net income**, the Company anticipates an increase of up to 10%. This should also be supported by an improvement in the Group tax rate.

Against the backdrop of the continuing uncertainties regarding the spread of the coronavirus, HUGO BOSS expects **trade net working capital as a percentage of sales** to increase by around 50 basis points in 2020. **Capital expenditure** is expected to total EUR 140 million to EUR 160 million in 2020 (2019: EUR 192 million). The decrease in capital expenditure is mainly attributable to non-recurring investments for the new construction of the largest HUGO BOSS outlet globally close to the company's headquarters in Metzingen. Investment activity will continue to focus on the Group's own retail business and its IT infrastructure.

The Managing Board and the Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 7, 2020, a **dividend** of EUR 2.75 per share for the fiscal year 2019 (2018: EUR 2.70). The proposal is equivalent to a payout ratio of 93% of the Group's net income attributable to the equity holders of the parent company in 2019 (2018: 79%). Assuming that the shareholders approve the proposal, the dividend will be paid out on May 12, 2020. Based on the number of shares outstanding at year-end, the **amount distributed** will come to EUR 190 million (2018: EUR 186 million).

Outlook 2020

	Results 2019[1]	Outlook 2020[1]
Group sales[2]	Increase by 2% to EUR 2,884 million	Development within a range of 0% to +2%
Sales by region[2]		
Europe	Increase by 4% to EUR 1,803 million	Increase at a low single-digit percentage range
Americas	Decrease by 7% to EUR 560 million	Largely stable development
Asia/Pacific	Increase by 5% to EUR 438 million	Decrease at a single-digit percentage rate
Sales by distribution channel[2]		
Own retail business	Increase by 4% to EUR 1,869 million	Increase at a low to mid-single-digit percentage rate
Wholesale	Decrease by 3% to EUR 931 million	Decrease at a low to mid-single-digit percentage rate
Operating result (EBIT)	Decrease by 1% to EUR 344 million	EUR 320 million to EUR 350 million
Group's net income	Decrease by 13% to EUR 205 million	Increase of up to 10%
Trade net working capital as a percentage of sales	Increase by 40 basis points to 20.1%	Increase by around 50 basis points
Capital expenditure	EUR 192 million	EUR 140 million to EUR 160 million

[1] Including the effects of IFRS 16.
[2] On a currency-adjusted basis.

REPORT ON RISKS AND OPPORTUNITIES

- **A transparent approach as part of the risk management system**
- **No risks to the Group as a going concern identified**
- **Utilizing business opportunities an important element in ensuring sustainable, profitable growth**

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

Risk report

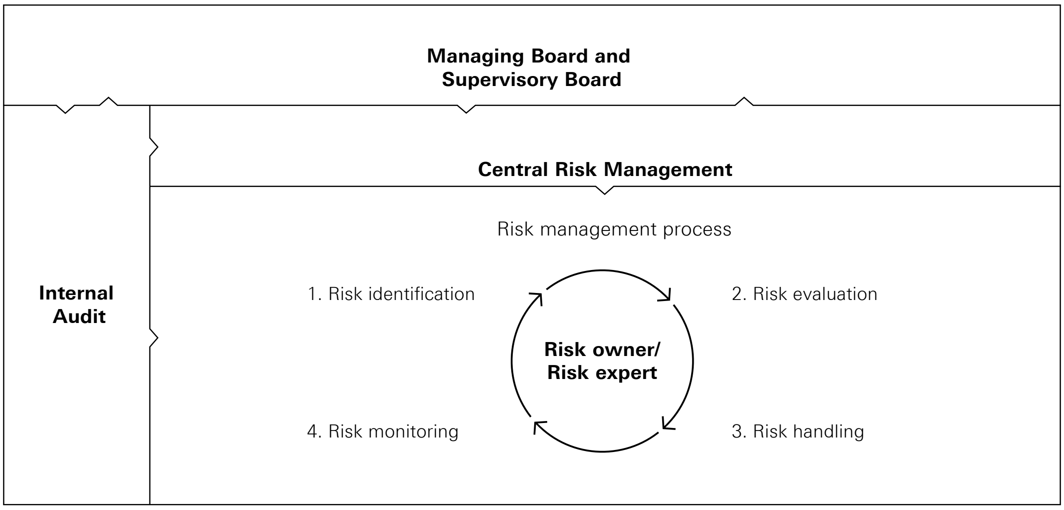
The success of HUGO BOSS is based on the systematic use of opportunities within the framework of the Group's corporate strategy. The Group is exposed to a variety of risks. Its **risk management system** includes all measures of a systematic and transparent approach towards risk. It aims to identify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

Risk management system

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

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

Main features of the HUGO BOSS risk management system



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

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

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

Measurement criteria for business risks

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

Individual risks are evaluated by assessing their likelihood of occurrence and systematically analyzing their possible impact on the planned operating result (EBIT). Interest rate risks and tax risks however are evaluated based on their possible impact on cash flow.

Risk overview - riskmap (aggregated risks)

Loss amount/exposure	unlikely	possible	likely	very likely
high	**Collection and industry, IT**	**Politics and society, suppliers and sourcing markets, sales and distribution**		
significant	**Logistics, personnel, governance and compliance**	**Environment and health, taxes, quality**	**Overall economy, currencies**	
moderate		**Brand and corporate image, investments**		
low	**Other risks[1]**	**Legal**	**Changes in interest rates, provisions for pensions**	
	Likelihood (within 1 year)			

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

The valuation criteria likelihood of occurrence and loss amount/exposure together form the criteria which make up the **risk matrix**. This is intended to create transparency regarding the Company's current risk situation and support in the prioritization of risks. Any net risk as an actual risk potential is defined as the gross risk reduced by the impact of measures taken to mitigate the risk identified.

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

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

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

Assessment of the risk situation by the Managing Board

Development and composition of total risk exposure

Risk category	Trend	Share of total risk (expected value)
External risks	↗	19%
Strategic risks	→	11%
Financial risks	→	15%
Operative risks	→	46%
Organizational risks	↗	9%

The individual risks are aggregated using two methods to obtain the most accurate possible picture of the HUGO BOSS Group's **total risk position**. On the one hand, the expected loss values of all assessed risks within the five risk categories are added together. On the other hand, the probability distributions of all identified risks are aggregated to form a single probability distribution for a possible total loss by means of a Monte Carlo simulation and so determine maximum annual loss values. The result of this simulation in fiscal year 2019 shows that, as in the prior year, the Group's equity is in excess of all simulated risk-dependent loss values, even within the tightest confidence intervals.

The risk management system implemented forms the basis of the assessment of the risk situation by the Managing Board and is regularly monitored by it. Material risks faced by the Company are regularly discussed and evaluated by the Managing Board. While the assessment of individual risks in fiscal year 2019 has changed, mainly due to the continued further development of the risk management system, the Managing Board **could not identify any individual or aggregate risks that may jeopardize the viability of the Company as a going concern** at the time this report was prepared.

Illustration of material risks

The following sections explain the **risks considered to be material** in terms of the HUGO BOSS Group achieving its targets in fiscal year 2020. This refers to those risks that have been evaluated in the risk management process as having a potential impact that is at least moderate. In general, it is possible that further latent risks or risks that are currently estimated as immaterial may negatively impact the Group's development in the future to more than the stated extent. Irrespective of the measures introduced to manage the identified risks, entrepreneurial activity is always exposed to **residual risks** that cannot be entirely avoided even by a risk management system such as that implemented in the HUGO BOSS Group.

Risk categories

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

Material risks are shown in bold and are explained in more detail below. In contrast, risks assessed as only having a low potential impact are not explained in more detail.

Material external risks

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

Macroeconomic risks

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

In order to reduce the impact of economic fluctuations, HUGO BOSS aims at a **balanced regional distribution of sales**. The Group continuously keeps a close eye on macroeconomic trends as well as the industry environment in order to identify risks at an early stage and be able to respond to them quickly. Internal **early indicators** are also analyzed regularly, which makes it possible to forecast the impacts of potential macroeconomic risks. → **Group Management**

Some of the possible **responses** to a cyclical decline in demand include a reduction in production and sourcing activity, an even tighter management of trade net working capital, increasing cost controlling, price adjustments and adjustments in the Group's own retail network.

In its publication of January 20, 2020, the IMF anticipates **global economic growth to slightly accelerate** in 2020. The outlook is based on the assumption of the continued robust growth of many significant emerging markets. At the same time, growth in many mature countries and in China is expected to slow down further in 2020. Increasing geopolitical tensions and a further escalation of global trade conflicts are considered to represent significant risks to the development of the global economy. The potentially negative effect of economic trends on Group sales and earnings may be significant, despite the measures described. Management judges the likelihood of occurrence as likely. → **Outlook**

Political and social risks

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

The Group does not expect **global uncertainties** regarding political and social developments to decrease in 2020. A potential escalation of geopolitical tensions in the Middle East, a resurgence of political unrest in Hong Kong and the ongoing danger of terrorist attacks, for example, represent significant risks for the premium and luxury goods industry, and therefore also for the Group's business performance.

There are also still uncertainties with regard to **Brexit** on January 31, 2020. For example, it remains uncertain what final form any future tax and customs regulations will take. The potential levy of import duties could lead to higher costs for the Company. HUGO BOSS has initiated a working group that is closely monitoring the exit process and coordinating all local and worldwide risk mitigation measures. The Company generally also includes price adjustments among the possible responses to any decline in demand due to economic factors or to a levy of import duties. The Management has assessed the remaining risks associated with Brexit for 2020 as unlikely overall and as having a low impact.

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

The Group's global distribution in more than 120 countries is intended to provide a **natural hedge** against adverse developments in individual countries or regions. Unexpected developments in important sales markets can have a high financial impact. The Management considers this risk to be possible.

Environmental and health risks

The HUGO BOSS Group's global value chain is subject to **environmental and health risks** that may result from pandemics or environmental and natural disasters as well as the consequences of climate change.

At the time this report was prepared on February 20, 2020, the business of HUGO BOSS was significantly impacted by the **spread of the novel coronavirus** and the associated restrictions on public life, first and foremost in mainland China. In addition to the closure of a number of stores in China, the Company also recorded a noticeable decline in the sales generated from Chinese tourists in other key markets. In addition to lost sales opportunities, which would ultimately also negatively impact the Group's profitability, there are also risks associated with suppliers and sourcing markets. In principle, further escalation or restrictions lasting longer than expected could lead to temporary production stoppages for one or more suppliers in the region. This could disrupt the Group's supply chain, which would pose additional risks for sales. Although no significant impacts on the Group's supply chain were observed at the time this report was prepared, the Company is making every effort to ensure it is as well prepared as possible, and is in close contact with its partners in the region. Overall, the Management assesses the risks in this regard above and beyond the financial impacts already taken into account in the outlook for 2020 as being likely in principle. The effect on earnings performance is classified as low. → **Outlook, Subsequent Events,** → **Material Operational Risks**

Risks as a result of climate change, such as increasing **water scarcity**, are classed as unlikely for fiscal year 2020, and are associated with low possible loss. In the future, however, this risk could become more significant for HUGO BOSS. In the long term there is a risk that an increasing scarcity of water could have negative consequences on the cultivation of cotton, leading to a reduced availability of cotton fibers and higher material costs as a result. Cotton is by far the most used material in the Company's products.

HUGO BOSS has a **central emergency management system** in order to be able to react promptly and appropriately to an environmental or natural disaster occurring. Its structural organization pools cross-functional skills needed to handle emergencies and is intended to ensure efficient coordination with clear decision-making paths. Overall, in 2020 the Management anticipates that the environmental and health risks will have possible significant effects on the net assets, financial position and results of operations.

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

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

Intensive **analyses of relevant target groups and markets** and of the sale of previous collections should help to reduce collection and industry risks. Also, **proximity to customers** in the Group's own retail business and the increasing use of the data acquired as part of systematic **customer relationship management** facilitate the recognition of changes in buying behavior at an earlier stage and allow these to be taken into account when developing future collections. In the course of the ongoing **digitization of the collection development process**, HUGO BOSS is also managing to shorten development times further so that it can respond even more quickly to global trends. → **Research and Development**

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

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

Risks to the brand and corporate image

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

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

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

Investment risks

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

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

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

Material financial risks

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

Currency risks

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

In the **operating business**, currency risks primarily arise due to the fact that products are bought and sold in different currencies in different amounts (transaction risk). Material cash flows in foreign currency result primarily from the sales activities of Group companies in the United States, Great Britain, Switzerland, Turkey, China, Hong Kong, Japan and Australia as well as the purchasing activities of sourcing units in foreign currencies such as the U.S. dollar. Currency risks in financing result from financial receivables and liabilities in foreign currency and loans in foreign currency granted to finance Group companies **(transaction risk)**. As of the reporting date, the main financing loans with repayment on final maturity were hedged using forward exchange contracts. In addition, currency risks exist in connection with the translation of financial statements of Group companies outside the Eurozone into the Group currency, the euro **(translation risk)**. The translation risk is monitored on an ongoing basis, however the Group does not hedge it because the impact on the consolidated balance sheet and the Group's income statement is not a cash item. → **Notes to the Consolidated Financial Statements, Currency Translation**

Currency risks are managed centrally by the **Group's central treasury department**. Group-wide guidelines are intended to ensure a strict separation of the trading, handling and control functions for all financial market transactions. They also form the basis for the selection and scope of hedges. The primary aim is to mitigate the exchange rate exposure using **natural hedges**. This way, currency exposures from business operations throughout the Group can be offset against each other as much as possible, thereby minimizing the need for hedging measures. **Forward exchange contracts and swaps** as well as **plain vanilla options** can be concluded to hedge the remaining exposures. The objective here is to limit the impact of exchange rate fluctuations on exposures already on the balance sheet as well as future cash flows. → **Notes to the Consolidated Financial Statements, Note 20**

Future cash flows from the **Group's production activities in Turkey** are designated to be an effective hedging relationship shown on the balance sheet (hedge accounting). The derivative financial instruments used in this instance are solely intended to hedge underlying transactions. These derivatives are traded over the counter. When concluded, their terms are generally adapted to the underlying business. Transactions are always concluded with the best quoting bank.

In accordance with the **requirements set down in IFRS 7**, the HUGO BOSS Group has calculated the effects of translation risk on the Group's net income and equity. This is determined based on the balance sheet currency exposure as of December 31, 2019. The exposures include cash, receivables and liabilities, as well as intercompany loans held in currencies other than the functional currency of each respective Group Company.

The Group applies the **value-at-risk method** on the basis of its parametric approach to quantifying and managing currency risk. The value at risk is calculated on the basis of historical volatilities and correlations of exchange rates as well as a confidence level of 95%. The holding period is always adjusted to the remaining term of the current year. Furthermore, it is assumed that the total financial currency exposure and its hedging ratio as of the reporting date are representative for the entire reporting period. Although the VaR is an important concept in measuring market price risks, the model's assumptions can **limit** its usefulness. The actual impact on the Group's net income can vary considerably from the model-based values calculated using the VaR method. This is especially the case in the event of exceptional occurrences.

Aggregated across all currencies examined, the **diversified portfolio risk** for the Group's net income calculated using this method after hedging comes to EUR 5.2 million (2018: EUR 3.5 million). Hedging costs for concluding forward exchange transactions are not included. The largest foreign currency positions come from accounting exposure against the Japanese yen and the Brazilian real. The sensitivity of the Group's equity is not the same as that of the Group's net income due to the hedge accounting implemented in the Group. Had the euro appreciated or depreciated against the Turkish lira by one standard deviation, the Group's equity would have been EUR 1.4 million higher or lower in the reporting year (2018: EUR 0.7 million).

The Management also expects significant changes in the exchange rates which are relevant to HUGO BOSS to be likely in fiscal year 2020. Based on the results of the VaR analysis, the impact of the **transaction risk** on the Group's net income is considered to be moderate. The **translation risk** is considered to be likely and should not exceed a moderate magnitude. In sum, the Management assumes a significant financial scope of currency risk.

Tax risks

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

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

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

As for taxes, risks may occur primarily from **modifications of tax legislation** in various countries, due to varying assessment of existing topics by tax authorities or tax field audits. There may also be risks in transfer pricing in relation to the business model of the Company. The Group therefore considers tax risks to be possible overall, while assessing the financial impact as significant. → **Notes to the Consolidated Financial Statements, Note 5**

Material operational risks

HUGO BOSS summarizes risks associated with the suppliers and sourcing markets, as well as quality, logistics and sales and distribution risks under material operational risks.

Risks associated with the suppliers and sourcing markets

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

HUGO BOSS attaches key importance to the careful selection of suppliers and the establishment and maintenance of long-term strategic relationships. However, there is a risk that production from one or more suppliers may break down due to supplier-related factors or incidents affecting a particular region. An excessive **dependency on individual suppliers or production sites** could therefore lead to upheaval in the Group's supply chain and therefore to sales risks. The Group therefore ensures as balanced a distribution of sourcing volumes as possible. The production and sourcing process is always coordinated centrally. Supplier relationships are regularly monitored and evaluated with the aim of identifying risks at the earliest possible opportunity and introducing appropriate measures to ensure the supply of goods. Indeed, the largest external supplier made up 8% in fiscal year 2019, and the largest single external production site made up about 5% of the total sourcing volume (2018: 9% and 5% respectively). → **Sourcing and production**

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

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

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

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

Quality risks

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

Logistics risks

HUGO BOSS is exposed to **logistics risks**, which mainly relate to the temporary downtime or loss of warehouse locations and an accompanying potential loss of turnover. The storage of inventories is focused on selected sites operated by HUGO BOSS. The distribution centers for hanging goods, flat-packed goods and the European online business, all located in the immediate vicinity of the headquarters in Metzingen, form the core of the Group-wide logistics network. → **Business Activities and Group Structure**

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

Sales and distribution risks

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

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

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

Attention is paid to ensuring a balanced customer structure to avoid a potential **overdependence on individual customers** in the wholesale channel. The central Controlling department constantly monitors key indicators such as the order intake, sales and supply rates and reports on these to the Managing Board on a regular basis. If risks occur, countermeasures can therefore be adopted promptly.
→ **Group Management**

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

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

Material organizational risks

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

IT risks

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

HUGO BOSS assumes that global cyberattacks will continue to increase in future, and consequently classes it as an **"emerging risk"**. With the objective of further improving the ability to respond to potential attacks, the Company intends to keep working on the continuous development of its information security program. As part of this development, the Company has implemented a security information and event management system. This security management approach is intended to provide a complete overview of the Group's IT security. Due to the measures carried out, the Management currently considers the occurrence of IT risks to be unlikely. However, the associated financial impacts could generally be high.

Personnel risks

Achieving the Group's strategic and financial targets is largely dependent on the skills and commitment of its employees and on safeguarding a fair and value-based corporate culture. **Personnel risks** mainly stem from recruitment bottlenecks, a shortage of specialists and excessive employee turnover. HUGO BOSS counters this risk with a forward-looking personnel planning, comprehensive development and training measures, the continuous development of its performance-based remuneration system and flexible working models to better combine work and family life. Management therefore assesses personnel risks as unlikely overall, but also as having a significant financial impact. → **Employees**

Governance and compliance risks

All employees of the HUGO BOSS Group are required to comply with the **Code of Conduct** applicable throughout the Group and the **compliance rules** applicable in specific areas. All Group companies are subject to regular risk analyses and detailed audits where applicable. Adherence to the compliance rules is monitored by the central compliance division and breaches are reported to the Managing Board and Supervisory Board. → **Corporate Governance Report including the Corporate Governance Statement,**
→ **Combined Non-Financial Statement, Anti-Corruption and Bribery Matters**

Breaches of **data protection** laws represent an increased compliance risk. The Group counters this risk using a system that complies with data protection laws and through appropriate technical and organizational measures. All employees are educated on data protection matters through activity-related training courses, the obligation to adhere to the Code of Conduct, and a separate duty of confidentiality. All internal processes and systems for processing personal data are measured on an ongoing basis and continually improved to ensure that they comply with the legal data protection requirements. With the EU General Data Protection Regulation now applicable, since 2018 more focus has been placed on data protection and on the implementation of and compliance with the new changes in the law. Management classifies risks in the context of governance and compliance as unlikely and considers the potential financial risk to be significant. → **Combined Non-Financial Statement, Social Matters**

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

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

Using efficient IT systems

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

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

Clear definition of responsibilities

As part of the standardized reporting, the Group companies prepare IFRS-based financial statements on a monthly basis and submit these to the **central finance department** together with further key figures and explanations. The central finance department of HUGO BOSS AG is responsible for specifying and monitoring compliance with reporting obligations and deadlines. Automated and standardized reporting formats are in place for the vast majority of reporting topics. The finance department is responsible for the maintenance of all the master data for the chart of accounts applicable throughout the Group as well as the continuous review of all reporting formats with respect to their compliance with the latest applicable international financial reporting requirements. When preparing the consolidated financial statements, the finance department also pursues the objective of showing all business transactions in the Group in a uniform manner.

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

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

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

Material accounting and valuation topics and the impact of the new or changed IFRS standards and interpretations are discussed with the **Group auditors** in regular meetings held at least on a quarterly basis.

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

Training and development of employees

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

Opportunities report

Identifying and utilizing value-enhancing business opportunities is a key element of efforts to ensure sustainable profitable growth for the Company. In the HUGO BOSS Group opportunities are defined as possible positive deviations from planned targets or corporate planning assumptions.

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

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

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

External opportunities
As a company operating in the apparel industry, HUGO BOSS can benefit directly from **favorable macroeconomic developments** and their effect on consumer confidence and customers' buying behavior. An improvement in the consumer climate might have a positive impact on purchasing fashionable apparel and accessories. Furthermore, social trends that enhance the value of high-quality apparel more strongly than before could also support the sales of HUGO BOSS overall, regardless of how consumer confidence develops.

Regulatory and legal changes can potentially have a positive impact on sales opportunities and the Company's profitability. More consistent prosecution and punishment of violations of trademark rights, for example, could positively affect sales development. In addition, the reduction of customs charges could improve the Company's profitability.

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

Strategic and operational opportunities
The Company intends to use a wide range of strategic initiatives to increase the **desirability of the BOSS and HUGO brands** still further in the coming years. As well as expanding personalized offers and accelerating important operational processes, brand communication activities also play a key role in this. The consolidation of all activities relating to this into the central Marketing department in 2019 should allow the Company to raise the profile and desirability of BOSS and HUGO sustainably in the coming years by means of a global marketing strategy. The Company views the success of marketing campaigns as entailing significant economic opportunities that could have a direct positive effect on the Company's sales development. → **Group Strategy**

In recent years, the **casualwear and athleisure segments** in the global apparel market have developed stronger than classic tailoring. This development underlines the trend towards a more relaxed clothing style and many consumers' need to dress in a sporty style without compromising on value or quality. Independent studies, such as the current market outlook of The Business of Fashion and McKinsey & Company, also expect above-average growth rates for the casualwear and athleisure segment in the future. With the expansion of its casualwear and athleisurewear offerings HUGO BOSS has been quick to respond to this trend. The Group will continue to place a high priority on this part of its collection and continue to allocate significant portions of selling space in its own stores to casual and athleisurewear. In addition, the **contemporary fashion segment**, which means the part of the market that is even more fashionable and trend-oriented, is seeing above-average growth rates. The Company wants to exploit the opportunities that arise through the HUGO brand, which focuses on the contemporary fashion segment. → **Group Strategy, Consistent Execution of a Two-Brand Strategy**

In many emerging markets, especially in China, economic researchers are expecting **continued growth within the middle class**. This would bring about an increase in the number of people demanding products in the upper premium segment as a result of their purchasing power. The Group regularly checks for suitable growth potential by means of market entry and market penetration strategies tailored to specific countries, from collaboration with business partners to the founding of its own distribution companies. In recent years, **interest in fashionable clothing** has also grown considerably, particularly **among younger men**. More and more men are paying increasing attention to maintaining a fashionable appearance as a means of expressing their personality or standing out visually from the crowd. Accordingly, market observers are expecting the share of men's fashion in the apparel market as a whole to increase in the future. HUGO BOSS seeks to make the opportunities inherent in this development work for them through a strong focus on market communication activities.

The **increasing use of digital offerings** has significantly changed consumers' shopping behaviors and lifestyles over the last few years. HUGO BOSS intends to use these changes as an opportunity. With the expansion and continuous improvement of its own online store, the Group aims to address consumers' expectations with respect to a high-quality brand experience. The close integration of its online presence with brick-and-mortar retail and the expansion of omnichannel services is designed to provide customers with a seamless and appealing shopping experience. The further expansion of the concession model within the online business offers suitable opportunities. → **Group strategy, Focus on Implementing the Strategic Growth Drivers**

The Group addresses its **customers' growing need for individuality** with both its brand strategy and its distribution strategy. The personalized "Made to Measure" range from the BOSS brand offers individualized and tailored products to interested customers. Specially designed, separate sales rooms in the BOSS stores are intended to convey this exclusivity in the service too. HUGO BOSS is also creating an increasing number of personalized offerings in other product groups and price ranges, such as the "BOSS Made for Me" range introduced in 2019 or the HUGO brand's personalized casualwear. Opportunities are also seen in an individual approach to customers with **systematic customer relationship management**. By establishing customer contact, whether through personalized mailings or individually designed newsletters, the Group aims to create closer bonds between customers and the BOSS and HUGO brands and increase customers' brand loyalty. In the online sector in particular, analyzing user behavior provides opportunities to further individualize the way the Company speaks to customers. → **Group Strategy, Focus on Personalization and Speed**

In recent years, the importance given to the protection of the environment and climate has grown significantly, including among consumers. Besides high-quality, innovative products, customers today increasingly demand compliance with high social and ecological standards. The Company is convinced that the **global trend towards greater sustainability** will continue in the coming years. With its wide variety of sustainability activities, HUGO BOSS is already investing directly in increasing customer satisfaction. Acting sustainably offers economic opportunities for the Company in the future as well, both in relation to direct sales increases and to cost reductions. HUGO BOSS also sees the opportunity to further increase the general reputation of the Company and its brands. → **Sustainability**

By **optimizing critical operational processes**, HUGO BOSS intends to address the strategic importance of the Group's own retail business. IT-supported selling space, assortment and volume planning is in place to allow the Group to align its offer extensively to customer needs and respond flexibly to changes in the market. The management of the flow of goods across distribution channels provides opportunities to improve the availability of goods and markdown management in future. The Group is also working intensively on the **digitization of key business processes** to create benefits in terms of time and costs. For example, digital product development is being expanded in order to reduce lead times further and reduce costs in the medium term. In the wholesale channel, the Company also sees opportunities to simplify the sales process further in future by using digital showrooms. These will also be used for the BOSS brand in the future. → **Group Strategy, Focus on Personalization and Speed**

Organizational opportunities

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

HUGO BOSS is aligning its **personnel work** towards shaping the environment in the Company in such a way that employees can constantly grow and develop their full potential. The Group sets particular store by the results from the annual employee survey in this regard. Further successes in strategic personnel work could have a direct positive effect on the sales and earnings position in the future. → **Employees**

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

During the course of the year, HUGO BOSS was confronted with **growing economic uncertainty** in some of its key markets. In North America in particular, the market environment further deteriorated during the course of the year, hence weighing on the Group's top- and bottom line performance. In addition, business in Hong Kong was significantly impacted by the political unrest and demonstrations. The publication of preliminary results for the third quarter in October led the Company to **adjust its financial outlook for the full year 2019**. In light of a strong increase in sales and earnings in the final quarter, HUGO BOSS ultimately achieved its adjusted full-year targets. Over the course of the year, the consistent execution of the Company's strategy had a particular positive effect on business performance. → **Comparison of Actual and Forecast Business Performance**, → **Group Strategy**

With a currency-adjusted increase of 2%, **Group sales** were within the adjusted forecast range in 2019. While sales in Europe and Asia/Pacific grew, business in the Americas fell short of expectations due to the persistently difficult market environment in the U.S. and Canada. At EUR 333 million, the **operating result (EBIT)** was 4% below the prior year level (excluding the impact of IFRS 16) and therefore within the adjusted forecast range. Higher sales only partially offset the decline in gross profit margin and the increase in operating expenses. The latter is mainly attributable to additional investments in the Group's own retail business. At EUR 207 million, **free cash flow** was 22% above the prior year level (excluding the impact of IFRS 16) and therefore at the lower end of the original forecast range. In view of its healthy balance sheet structure and the strong cash flow generation that is expected to continue in the future, the Group continues to be in an exceedingly solid economic situation. This is also reflected by the **dividend proposal** of 2.75 EUR per share for fiscal year 2019, corresponding to an increase of 5 cents against the prior year. → **Earnings Development**, → **Financial Position**, → **Outlook**

In the coming years, the Company will continue to work consistently to sustainably increase the **desirability of both brands, BOSS and HUGO**, and to increase its **profitability** significantly in the mid-term. At the same time, the overall economic uncertainties will remain high in the short term, particularly in view of the ongoing spread of coronavirus, particularly in China. It is therefore expected that the temporary closure of a large number of the Group's stores in China and the decline in sales generated from Chinese tourists will have a substantial effect on the Company's sales and earnings performance in **2020**. With this in mind, HUGO BOSS forecasts Group sales in the current year to develop within a range of 0% to +2%, adjusted for currency effects. At the same time, EBIT is expected to be between EUR 320 million and EUR 350 million. → **Group Strategy**, → **Outlook**

Metzingen, February 20, 2020

HUGO BOSS AG
The Managing Board

Mark Langer
Yves Müller
Ingo Wilts

CHAPTER 3 / 103 – 126

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT INCLUDING THE CORPORATE GOVERNANCE STATEMENT

- **Good corporate governance is a key factor in the Company's long-term success**
- **Close ongoing cooperation between Managing Board and Supervisory Board**
- **Managing Board and Supervisory Board issue declaration of compliance**

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

In fiscal year 2019, the Managing Board and Supervisory Board closely examined compliance with the requirements of the German Corporate Governance Code (GCGC). As a consequence, the **declaration of compliance** dated December 2019 was issued. It is reproduced on page 111 et seq. of this report and, like earlier declarations of compliance, is published on the Company's website. Apart from the exceptions discussed there, HUGO BOSS AG complies with the recommendations of the Code as amended on February 7, 2017, which was published in the Bundesanzeiger [German Federal Gazette] on April 24, 2017.

The **Corporate Governance Statement** (in accordance with Sec. 289f HGB ["Handelsgesetzbuch": German Commercial Code]) contains the declaration of compliance, disclosures relating to corporate governance practices and a description of the way in which the Managing Board and Supervisory Board work. It is also available at **cgs.hugoboss.com**.

Corporate governance practices

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

Corporate compliance

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

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

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

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

Capital market communication
HUGO BOSS reports regularly, comprehensively and without delay on its business situation and material changes within the Group. The **investor relations activities** include regular dialog with institutional investors, financial analysts and private shareholders. When the annual and quarterly financial results are published, telephone conferences are held for financial analysts and institutional investors. The Group's strategy and relevant developments are discussed in detail at an Investor Day, which is usually held each year. In addition to special information events at which the Company presents itself to private investors, the Annual Shareholders' Meeting offers an opportunity to obtain information about the Company's performance comprehensively, either in person or online. All key information, such as press releases, voting rights notifications, financial reports, the financial calendar, and presentations of roadshows and conferences, is published on the Company's website. → **group.hugoboss.com**

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

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

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

When making decisions and in performing their duties for HUGO BOSS, members of the Managing Board and Supervisory Board are not permitted to pursue their personal interests or grant other persons unjustified advantages. **No conflicts of interest** of members of the Managing Board or Supervisory Board were reported in fiscal year 2019. The offices held by the Managing Board and Supervisory Board members in statutory supervisory boards or comparable oversight committees of commercial organizations in Germany and other countries are listed in the notes to the consolidated financial statements on page 196. No member of the Managing Board sits on more than three supervisory boards of listed companies that are not members of the Group. The same applies to members of the Supervisory Board who sit on the managing boards of other listed companies. → **Notes to the Consolidated Financial Statements, Note 26**

The Managing Board

The Managing Board of HUGO BOSS AG comprises the Chief Executive Officer and the members with equal rights, whose duties cover specific corporate functions. It had three members at the end of fiscal year 2019.

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

The **bylaws** of the Managing Board stipulate the internal rules of the Managing Board, in particular the allocation of duties to its members as well as the procedures to be followed for passing resolutions. The bylaws also define the disclosure and reporting duties as well as those matters requiring the approval of the Supervisory Board. The bylaws of the Managing Board are available from the Company's website. → **group.hugoboss.com**

The Supervisory Board has regard to diversity **(diversity concept for the Managing Board)** in the composition of the Managing Board. Diversity in the Managing Board's members serves to ensure the Company's success over the long term. The Supervisory Board takes account of a number of aspects in the composition of the Managing Board, including the following:

- Members of the Managing Board should have long-standing management experience.
- Members of the Managing Board should have an international background (i.e. individuals who possess experience gained outside Germany due to current or past activities and/or who hold non-German citizenship).
- As many different educational and professional backgrounds as possible should be represented in the Managing Board as a whole.
- In addition to the legally required qualifications, the Managing Board as a whole should have members with knowledge of branding, supply chain matters and sales.
- The Managing Board as a whole should have a balance of ages among its members in the interest of long-term succession planning.
- The Supervisory Board is pursuing the target of having at least one woman sitting on the Managing Board by no later than December 31, 2021.

Decisions on the specific make-up of the Managing Board shall be made by the Supervisory Board in the interest of the Company and having regard to all the circumstances of the individual case. Except for the target ratio of women on the Management Board, the aforementioned targets for filling the Managing Board were met or exceeded throughout the reporting period.

Pursuant to Sec. 111 (5) AktG ["Aktiengesetz": German Stock Corporation Act], the Supervisory Board of HUGO BOSS AG pursues the **target of having at least one woman sitting on the Managing Board** of the Company. This should be achieved by no later than December 31, 2021.

The German Corporate Governance Code stipulates that the Managing Board must consider **diversity** when filling management positions in the Company and specifically that women must be adequately represented. The Managing Board is committed to this objective. It already monitors the diversity of the workforce and will continue to do so in future. HUGO BOSS, however, also continues to be committed to the core principle of hiring solely based on applicants' qualifications, even if this might result in a decrease in the proportion of women employed. Pursuant to Sec. 76 (4) AktG, the Managing Board has set a target gender quota of at least 30% women in the first management level and 35% in the second management level below the Managing Board to be achieved by December 31, 2021. As of December 31, 2019, the share of women in the first management level was 25%, roughly the same as the prior year level (December 31, 2018: 26%). The target at the second management level was again clearly exceeded as at December 31, 2019, with a share of women of 48% (December 31, 2018: 46%). → **Employees**

The Supervisory Board

HUGO BOSS attaches great importance both to the **skills** and **independence** of the Supervisory Board members and to **diversity** in the composition of the Board. The members of the Supervisory Board of HUGO BOSS have the knowledge, skills, and professional experience required to duly perform their duties.

In accordance with the recommendation in Sec. 5.4.1 Sentence 8 of the GCGC, the Supervisory Board at its meeting on December 7, 2017 decided on a **Supervisory Board skills profile** and set specific targets in terms of the Board's composition. At least two members of the Supervisory Board should accordingly have an international background. In fiscal year 2019, the Supervisory Board had four members who were not German citizens. In addition, other Supervisory Board members who have German nationality have an international professional background. Furthermore, no member may be exposed to any conflicts of interest. No conflicts of interest of members of the Supervisory Board were reported in fiscal year 2019. None of the current members of the Supervisory Board have previously held a Managing Board position within the Company. There were also no advisory or other service agreements in place between members of the Supervisory Board and the Company in the reporting year. In addition, no member of the Supervisory Board should be older than 69 years on the date on which he or she is elected. The Supervisory Board has, on the other hand, not defined any maximum term of office for its members. HUGO BOSS believes that a predefined maximum period of office is not appropriate as it is keen to benefit from the experience of the long-standing members of the Supervisory Board.

The Supervisory Board has also defined a specific target as regards the number of **independent members** of the Supervisory Board as defined in the German Corporate Governance Code. Of the twelve members of the Supervisory Board, including the six employee representatives, a total of at least nine members should be independent. In addition to the six employee representatives, the four shareholder representatives Kirsten Kistermann-Christophe, Michel Perraudin, Axel Salzmann and Hermann Waldemer are independent as defined in Sec. 5.4.1 Sentence 9 of the GCGC.

The following further targets for filling the Board, which will help to achieve overall diversity in the Supervisory Board **(diversity concept for the Supervisory Board)**, were similarly adopted by the Supervisory Board:

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

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

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

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

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

The targets for filling positions were reached or exceeded throughout the reporting period.

The Supervisory Board currently includes three women. Until Ms. Lersmacher resigned as an employee representative with effect from July 31, 2016, the **gender quota** pursuant to Sec. 96 (2) AktG had been fulfilled in overall terms at HUGO BOSS, with a total of four women (including three employee representatives). In a resolution dated July 25, 2016, the employee representatives rejected aggregate fulfillment of this requirement, meaning that the 30% gender quota requirement must be met separately by the shareholder representatives and the employee representatives. The two female employee representatives fulfill the gender quota on the employee representatives' side. As a result of the aforementioned decision, the gender quota for the shareholder representatives is no longer fulfilled, as only one woman has currently been elected. It must be ensured that the gender quota is fulfilled on the shareholder representatives' side at the next election.

The Supervisory Board has adopted **bylaws** which, among other things, govern its duties and responsibilities as well as the procedures for convening, preparing and chairing meetings and for passing resolutions. The bylaws of the Supervisory Board are available from the Company's website.
→ **group.hugoboss.com**

The Supervisory Board has created five **committees** on behalf of and representing the Supervisory Board as a whole, which fulfill duties assigned to them to the extent permitted by law, the Articles of Incorporation and/or bylaws. The bylaws provide that the Audit Committee, the Personnel Committee and the Working Committee shall each have a 50:50 ratio of shareholder representatives and employee representatives.

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

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

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

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

- Following consultation with the Managing Board: To engage the external auditor and to sign the corresponding fee agreement for the audit of the Annual Financial Statements and the Consolidated Financial Statements on the basis of the resolution passed at the Annual Shareholders' Meeting, including the determination of the key audit points and the auditor's reporting duties towards the Supervisory Board;

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

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

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

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

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

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

Risk management and risk controlling

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

Financial reporting and audit of the financial statements

The financial reports of HUGO BOSS AG are prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. The Audit Committee established by the Supervisory Board regularly **monitors the financial reporting process** and the **audit of the Financial Statements**. The audit has been performed by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, since fiscal year 2012. Mr. Peter Werling has signed the auditors' report since December 31, 2019 and Mr. Michael Sturm since December 31, 2017. It was agreed with the auditor with respect to the reporting year that the chair of the Audit Committee would be informed without delay during the audit of any possible grounds for disqualification or partiality that could not be immediately rectified. It was also agreed that the external auditor is obliged to report on any findings or events arising during the performance of the audit that are of importance to the duties of the Supervisory Board. In addition, the external auditor must inform the Supervisory Board and state in his audit report if findings are made during the audit that are inconsistent with the declaration of compliance made by the Managing Board and Supervisory Board pursuant to Sec. 161 AktG. Moreover, the Supervisory Board requested a declaration of independence from the external auditor in accordance with Sec. 7.2.1 of the GCGC and duly satisfied itself of the auditor's independence. This declaration also included mandates to perform non-auditing services.

Compensation of the Managing Board and Supervisory Board

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

Declaration of compliance

In December 2019, the Managing Board and Supervisory Board of HUGO BOSS AG issued the following declaration prescribed by Sec. 161 AktG:

"Declaration of compliance

Declaration of the Managing Board and Supervisory Board of HUGO BOSS AG pursuant to section 161 AktG (German Stock Corporation Act)
HUGO BOSS AG, Metzingen, Securities ID A1PHFF, International Securities ID DE000A1PHFF7

The Managing Board and Supervisory Board of HUGO BOSS AG herewith declare pursuant to section 161 para. 1 sentence 1 AktG (German Stock Corporation Act) that since the Compliance Declaration of December 2018, the recommendations of the Government Commission "German Corporate Governance Code" in the version as amended on February 7, 2017 – officially published in the Federal Gazette on April 24, 2017 – have been and are complied with except for:

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

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

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

- Deviating from the recommendation in section 5.4.6 sentence 4 GCGC, the compensation for members of the Supervisory Board based on the success is not oriented toward sustainable growth. The compensation for members of the Supervisory Board was resolved by the general assembly of the shareholders, the compensation based on the success is contained in section 12 para. 2 of the articles of association of HUGO BOSS AG. The Managing Board and Supervisory Board will propose to the Annual General Meeting of HUGO BOSS AG, scheduled for May 7, 2020, an amendment of the compensation of the Supervisory Board contained in § 12 of the articles of association. This proposal will provide for a fixed compensation only and therefore no compensation based on the success. If the proposal is adopted by the Annual General Meeting, HUGO BOSS AG will henceforward no longer deviate from the aforementioned recommendation.

- Deviating from the recommendation in section 5.4.6 sentence 5 GCGC, the compensation of the members of the Supervisory Board is neither reported individually in the notes nor in the management report. The compensation paid to the members of the Supervisory Board is demonstrated in total in the notes. In the view of HUGO BOSS AG, individual reporting of compensation does not provide information relevant to the capital market.

Metzingen, December 2019"

COMPENSATION REPORT

- **Report describes outline of the compensation system for the Managing Board and Supervisory Board**
- **Explanation of structure, composition and amount of the compensation components**
- **Compensation report aligned to the recommendations of the German Corporate Governance Code (GCGC)**

The compensation report forms a component of the audited, combined management report. It describes the main features of the compensation system for the Managing Board and Supervisory Board of HUGO BOSS AG. It also explains the structure, composition and amount of the compensation components. The report is based on the recommendations of the German Corporate Governance Code in the version of February 7, 2017 and contains disclosures based on the requirements of German Accounting Standard (GAS) 17, the HGB ["Handelsgesetzbuch": German Commercial Code] and the International Financial Reporting Standards (IFRS). The quantitative disclosures pursuant to IAS 24 and IFRS 2 are presented in the Notes to the Consolidated Financial Statements.

Compensation of the Managing Board

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

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

Main features of the compensation system for the Managing Board

The compensation system aligns the Managing Board's compensation to the Company's sustainable growth by means of setting relevant targets for long-term variable compensation. At the same time, sales, EBIT and trade net working capital in proportion to sales are the target components of short-term variable compensation. This is intended to ensure a better response to short-term developments. Also, during the design process, a great deal of importance was attached to the fact that above-average performance would be rewarded more comprehensively, but variable compensation would cease to be paid in the event of below-average performance.

In addition to non-performance-related (fixed) compensation components, the compensation structure has provided for core performance-related (variable) compensation components in the form of a short-term incentive program (STI) and a long-term incentive program (LTI). In this regard, the average share of the fixed compensation components in the total target compensation amounts to 44%, while the average share of compensation from the STI and from the LTI come to 26% and 30% respectively, whereby a target achievement of 100% each is assumed for the information for the STI and the LTI.

Compensation system of the Managing Board

Total compensation

Variable compensation

Fixed basic compensation ~44%	**Short-term performance-related compensation ~26%**	**Long-term performance-related compensation ~30%**	**Non-monetary and fringe benefits**
Annual fixed salary	Based on sales (30%), EBIT (40%), and trade net working capital in % of sales (30%)	Long-term incentive program (LTI), based on RTSR (33%), ROCE (33%), Employee satisfaction (17%), and performance in the field of sustainability (17%)	E.g. retirement benefits, company car

Schematic diagram – percentage of the target values of fixed and variable compensation.
The percentage distribution may occasionally be subject to slight differences.

Non-performance-related (fixed) compensation components

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

Performance-related (variable) compensation components

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

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

- Sales (the sales proceeds recognized in the consolidated financial statements using the exchange rates underlying the budget)

- EBIT (Group net income before interest and taxes)

- Trade net working capital (sum of raw and finished goods and trade receivables less trade payables) in proportion to sales → **Group Management**

The targets for sales and trade net working capital are weighted at 30% each. The EBIT is included in the STI's target achievement with a weighting of 40%.

As part of the orientation toward EBIT, the Managing Board compensation system was also converted in fiscal year 2019 from EBITDA before special items to EBIT. For the annual bonus in a fiscal year, the targets to be achieved are set in a target-setting agreement between the Managing Board and the Supervisory Board at the start of the fiscal year and by March 31 at the latest. All targets may be replaced by other Group targets or weighted differently for the respective financial year in the context of the target-setting agreement. It is therefore possible to respond to short-term developments at the start of one performance period following the completion of another. The Supervisory Board thus has the opportunity to regularly align the Managing Board's compensation so that it is directly geared toward the Company's strategy and its successful implementation. The Managing Board and the Supervisory Board should reach an agreement concerning the targets and their weighting in this regard. The Supervisory Board shall only make decisions at its professional discretion if this does not happen.

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

If the target were achieved in full (100%) for the 2019 STI, a total amount of EUR 1,611 thousand would be paid out (Mark Langer EUR 700 thousand, Yves Müller EUR 450 thousand and Ingo Wilts EUR 461 thousand).

The degree of target achievement for the individual target components for fiscal year 2019 is summarized in the table below.

Target achievement for STI target components

Target component	Target weighting	Target achievement for 2019
Sales	30%	79%
EBIT	40%	0%
Trade Net Working Capital in proportion to Sales	30%	0%
Total	**100%**	**24%**

For fiscal year 2019, the average degree of target achievement is 24% and thus below the minimum target of 75%. Thereof no payment will be made for the STI 2019.

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

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

The Supervisory Board has defined the following as target components for the 2016 to 2018 tranche, the 2017 to 2019 tranche, the 2018 to 2020 tranche and the 2019 to 2021 tranche:

- Shareholder return for the HUGO BOSS share compared to the MSCI World Textiles, Apparel & Luxury Goods Performance Index (relative total shareholder return (RTSR))

- Return on capital employed (ROCE)

- Employee satisfaction

- The Company's performance in the field of sustainability

The "relative total shareholder return" target component is measured based on the increase in the Company's enterprise value, comprising the share performance and hypothetically reinvested dividends, compared to the MSCI World Textiles, Apparel & Luxury Goods Performance Index. The return on capital employed is based on the development of the ROCE (return on capital employed) profitability indicator versus the budget. The degree of employee satisfaction is measured by an employee survey conducted annually by an independent institute, for the LTI 2019. The degree of employee satisfaction is measured by an employee survey conducted annually by an independent institute, and the resulting "Employee Trust Index" is compared with the German top 100 companies, for the LTI 2016, 2017 and 2018. The sustainability performance is determined by the Company's improvement in the Dow Jones Sustainability Assessment, in which the sustainability performance of listed companies is assessed by an index provider. The composition of the Dow Jones Sustainability Index (DJSI) is defined based on this assessment. The targets for the RTSR and ROCE performance criteria each account for one third of the LTI program, while the targets for employee satisfaction and sustainability each account for one sixth.

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

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

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

The individual LTI budget in relation to fiscal year 2017 is EUR 900 thousand for Mark Langer, EUR 592 thousand for Bernd Hake, EUR 54 thousand for Yves Müller and EUR 569 thousand for Ingo Wilts. In the case of Yves Müller, the LTI budget is determined on a pro rata basis from the start of his Managing Board activities in 2017.

The individual LTI budget in relation to fiscal year 2018 is EUR 900 thousand for Mark Langer, EUR 654 thousand for Yves Müller and EUR 638 thousand for Ingo Wilts. The individual LTI budget in relation to fiscal year 2018 was EUR 683 thousand for Bernd Hake.

The individual LTI budget in relation to fiscal year 2019 is EUR 980 thousand for Mark Langer, EUR 700 thousand for Yves Müller and EUR 711 thousand for Ingo Wilts. The individual LTI budget in relation to fiscal year 2019 was EUR 716 thousand for Bernd Hake.

Share-based compensation component for the fiscal year 2019
(actual Managing Board December 31, 2019)

	Mark Langer Chairman of the Managing Board	**Yves Müller** Member of the Managing Board	**Ingo Wilts** Member of the Managing Board	**Total**
Fair values for the performance share plan (LTI 2019–2021) when granted (in EUR thousand)	742	530	539	**1,811**
Number of virtual shares on the grant date (LTI 2019–2021)	11,610	8,293	8,427	**28,330**
Total cost of share-based compensation (in EUR thousand)	216	132	152	**500**
Provision				**2,299**

Share-based compensation component for the fiscal year 2018

	Mark Langer Chairman of the Managing Board	**Yves Müller** Member of the Managing Board	**Ingo Wilts** Member of the Managing Board	**Bernd Hake** Member of the Managing Board (till July 2nd, 2019)	**Total**
Fair values for the performance share plan (LTI 2018–2020) when granted (in EUR thousand)	757	550	536	575	**2,418**
Number of virtual shares on the grant date (LTI 2018–2020)	12,467	9,062	8,831	9,466	**39,826**
Total cost of share-based compensation (in EUR thousand)	252	105	165	178	**700**
Provision					**1,799**

Pension provision and provision for surviving dependents

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

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

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

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

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

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

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

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

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

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

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

Supplementary pension plan

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

Pension commitments (in EUR thousand)

	Mark Langer Chairman of the Managing Board		**Bernd Hake** Member of the Managing Board (till July 2nd. 2019)		**Yves Müller** Member of the Managing Board	
	2019	2018	**2019**	2018	**2019**	2018
Service cost under IFRS	549	542	120	240	260	260
Pension provision under IFRS	6,750	3,814	0	0	0	0

	Ingo Wilts Member of the Managing Board		**Sum**	
	2019	2018	**2019**	2018
Service cost under IFRS	280	280	**1,209**	**1,322**
Pension provision under IFRS	0	0	**6,750**	**3,814**

Benefits in the event of premature termination of employment

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

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

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

Total compensation of members of the Managing Board for the fiscal year 2019 under GAS 17

Total compensation (in EUR thousand)

	Mark Langer Chairman of the Managing Board		**Bernd Hake** Member of the Managing Board (till July 2nd. 2019)		**Yves Müller** Member of the Managing Board	
	2019	2018	**2019**	2018	**2019**	2018
Basic compensation	920	850	317	642	650	650
Fringe benefits	28	29	8	15	14	22
Total	**948**	**879**	**325**	**657**	**664**	**672**
Special compensation	**0**	**0**	**0**	**0**	**0**	**0**
STI	**0**	**676**	**0**	**459**	**0**	**420**
Multiple-year variable compensation	**742**	**757**	**0**	**575**	**530**	**550**
Thereof LTI 2019–2021	742	0	0	0	530	0
Thereof LTI 2018–2020	0	757	0	575	0	550
Total compensation	**1,690**	**2,312**	**325**	**1,691**	**1,194**	**1,642**

	Ingo Wilts Member of the Managing Board		**Total compensation**	
	2019	2018	**2019**	2018
Basic compensation	700	669	2,587	2,811
Fringe benefits	9	13	59	79
Total	**709**	**682**	**2,646**	**2,890**
Special compensation	**0**	**0**	**0**	**0**
STI	**0**	**436**	**0**	**1,991**
Multiple-year variable compensation	**539**	**536**	**1,811**	**2,418**
Thereof LTI 2019–2021	539	0	1,811	0
Thereof LTI 2018–2020	0	536	0	2,418
Total compensation	**1,248**	**1,654**	**4,457**	**7,299**

Benefits granted for fiscal year 2019 under GCGC

Benefits granted (in EUR thousand)

	Mark Langer Chairman of the Managing Board				Bernd Hake Member of the Managing Board (till July 2nd. 2019)			
	2019	**2019 (Min)**	**2019 (Max)**	2018	**2019**	**2019 (Min)**	**2019 (Max)**	2018
Fixed compensation	920	920	920	850	317	317	317	642
Fringe benefits	28	28	28	29	8	8	8	15
Total	**948**	**948**	**948**	**879**	**325**	**325**	**325**	**657**
Special compensation	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
STI	**700**	**0**	**1,050**	**676**	**467**	**0**	**701**	**459**
Multiple-year variable compensation	**742**	**0**	**2,450**	**757**	**533**	**0**	**1,792**	**575**
Thereof LTI 2019–2021	742	0	2,450	0	533	0	1,792	0
Thereof LTI 2018–2020	0	0	0	757	0	0	0	575
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**2,390**	**948**	**4,448**	**2,312**	**1,325**	**325**	**2,818**	**1,691**
Pension expenses	549	549	549	542	120	120	120	240
Total compensation	**2,939**	**1,497**	**4,997**	**2,854**	**1,445**	**445**	**2,938**	**1,931**

	Yves Müller Member of the Managing Board				Ingo Wilts Member of the Managing Board			
	2019	**2019 (Min)**	**2019 (Max)**	2018	**2019**	**2019 (Min)**	**2019 (Max)**	2018
Fixed remuneration	650	650	650	650	700	700	700	669
Fringe benefits	14	14	14	22	9	9	9	13
Total	**664**	**664**	**664**	**672**	**709**	**709**	**709**	**682**
Special compensation	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
STI	**450**	**0**	**675**	**420**	**461**	**0**	**692**	**436**
Multiple-year variable compensation	**530**	**0**	**1,750**	**550**	**539**	**0**	**1,778**	**536**
Thereof LTI 2019–2021	530	0	1,750	0	539	0	1,778	0
Thereof LTI 2018–2020	0	0	0	550	0	0	0	536
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,644**	**664**	**3,089**	**1,642**	**1,709**	**709**	**3,179**	**1,654**
Pension expenses	260	260	260	260	280	280	280	280
Total compensation	**1,904**	**924**	**3,349**	**1,902**	**1,989**	**989**	**3,459**	**1,934**

Benefits received for fiscal year 2019 under GCGC

Benefits received (in EUR thousand)

	Mark Langer Chairman of the Managing Board		Bernd Hake Member of the Managing Board (till July 2nd. 2019)		Yves Müller Member of the Managing Board	
	2019	2018	**2019**	2018	**2019**	2018
Fixed compensation	920	850	317	642	650	650
Fringe benefits	28	29	8	15	14	22
Total	**948**	**879**	**325**	**657**	**664**	**672**
Special compensation	**0**	**0**	**0**	**0**	**0**	**0**
STI	**0**	**676**	**0**	**459**	**0**	**420**
Multiple-year variable compensation	**357**	**0**	**218**	**0**	**0**	**0**
Thereof LTI 2016–2018	357	0	218	0	0	0
Other	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,305**	**1,555**	**543**	**1,116**	**664**	**1,092**
Pension expenses	549	542	120	240	260	260
Total compensation	**1,854**	**2,097**	**663**	**1,356**	**924**	**1,352**

	Ingo Wilts Member of the Managing Board		Sum in total	
	2019	2018	**2019**	2018
Fixed compensation	700	669	2,587	2,811
Fringe benefits	9	13	59	79
Total	**709**	**682**	**2,646**	**2,890**
Special compensation	**0**	**0**	**0**	**0**
STI	**0**	**436**	**0**	**1,991**
Multiple-year variable compensation	**131**	**0**	**706**	**0**
Thereof LTI 2016–2018	131	0	706	0
Other	**0**	**0**	**0**	**0**
Total	**840**	**1,118**	**3,352**	**4,881**
Pension expenses	280	280	1,209	1,322
Total compensation	**1,120**	**1,398**	**4,561**	**6,203**

Other compensation components
As of December 31, 2019, no advance payments were made to the Managing Board.

Total compensation of former members of the Managing Board
Bernd Hake left the Managing Board on July 2, 2019, and his employment contract ended with effect as of February 29, 2020. Up to this point, Mr. Hake receives his contractually agreed fixed compensation of EUR 433 thousand. A separation agreement dated September 2019 also provides for payments in the amount of EUR 3,080 thousand in accordance with the employment contract and the agreed severance pay cap, which are due as of February 29, 2020. These are comprised of a severance payment of EUR 846 thousand for the fixed salary for the period from March 2020 to May 2021, a payment in the amount of EUR 1,192 thousand for the short-term incentive program (STI) for 2019 to May 2021, and payments in the amount of EUR 664 thousand for the vested pro-rata long-term incentive program (LTI) compensation for 2018/2019/2020 and severance pay for the period from March 2020 to May 2021, in the amount of EUR 338 thousand for pension contributions, and in the amount of EUR 40 thousand for the company car and other fringe benefits.

The claims from the LTI instalments for 2016–2018 and 2017–2019 will be paid out in March 2020 and/or 2021 at the end of the one-year qualifying period. The final payout entitlement arises from the final target achievement of the target components and the Company's share price during the last three months of the qualifying period.

Compensation of the Supervisory Board

The compensation of the members of the Supervisory Board set by the Annual Shareholders' Meeting is governed by Art. 12 of the Articles of Association of HUGO BOSS AG. Compensation is based on the Company's size and the scope of work of Supervisory Board members. Compensation of Supervisory Board members is split into fixed and variable components. The variable component is measured based on the amount of earnings per share in the consolidated financial statements. The position of Chairman of the Supervisory Board, that of the Deputy Chairman and membership of the Committees are taken into account when calculating the compensation. The fixed and variable compensation is paid out after the end of the Annual Shareholders' Meeting that decides on the approval of the Supervisory Board for the past fiscal year in question. Members of the Supervisory Board who have only been members of the Supervisory Board or a committee for part of the fiscal year are paid compensation proportionately for each month started of their office. Members of the Supervisory Board are reimbursed expenses incurred in connection with the performance of their duties. Any VAT is reimbursed by the Company if the members of the Supervisory Board are entitled to provide the Company with a separate invoice for VAT and exercise this right. The Supervisory Board received total compensation amounting to EUR 1,464 thousand for its activities in 2018. For 2019, the total compensation is expected to come to EUR 1,205 thousand. This includes a variable portion of EUR 450 thousand (2018: EUR 709 thousand), measured by the amount of the prospective earnings per share in the Consolidated Financial Statements.

LEGAL DISCLOSURES

- **Corporate governance statement published on the Company's website**
- **Disclosures under takeover law are made pursuant to Sec. 289a (1), 315a (1) HGB**
- **There are shares in the Company's capital exceeding 10% of the voting rights**

Corporate governance statement

The **corporate governance statement** (pursuant to Sec. 289f HGB) forms part of the combined management report and can be found at the Company's website at **cgs.hugoboss.com**. It is also included on pages 104 to 112 of this annual report.

Disclosures under takeover law

The **disclosures under takeover law** pursuant to Sec. 289a (1) and Sec. 315a (1) HGB, which are part of the audited combined management report, are presented and explained below. As far as the Managing Board is aware, there is no further need for any declarations under Sec. 176 (1) Sentence 1 AktG.

Composition of subscribed capital

The subscribed capital of HUGO BOSS AG is made up of 70,400,000 no-par value registered ordinary shares with an imputed share in share capital of EUR 1.00 each. The shares are fully paid up. All the shares have the same rights and obligations attached to them. Shareholder rights and obligations derive from the provisions of AktG, in particular those in Sec. 12, 53a et seq., 118 et seq. and 186 AktG.

Restrictions on voting rights or the transfer of shares

Each share confers one vote at the Annual Shareholders' Meeting and determines the shareholders' share of the Company's profits. This does not include own shares held by the Company, from which the Company derives no rights. In the cases in Sec. 136 AktG, the voting right under the affected shares is excluded by law.

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

On the basis of the voting right notifications received by the Company on or before December 31, 2018 in accordance with Sec. 33, 34 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act], the following direct or indirect shares in the Company's capital reach or exceed 10% of the voting rights:

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

All **notifications on changes in the share of voting rights held** are available at the corporate website at **financialreleases.hugoboss.com**. In addition, the reportable shares notified in fiscal year 2018 are set out in the annual financial statements of HUGO BOSS AG for fiscal year 2018.

Shares with special rights granting control authority
There are no shares with special rights granting control authority.

Voting right controls for shares held by employees in the Company's capital
There are no voting right controls applicable to employees who hold shares in the capital of HUGO BOSS AG and are unable to directly exercise their control rights.

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

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

Powers of the Managing Board with respect to the issue and repurchase of shares
The Managing Board of HUGO BOSS AG may, with the Supervisory Board's consent, increase the share capital by up to EUR 35,200,000.00 on or before May 15, 2024, by issuing up to 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (authorized capital). In general, shareholders have a subscription right. However, the Managing Board is authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of shareholders up to a maximum of 10% of the share capital (a) to avoid fractional amounts, (b) in the case of a capital increase in exchange for contributions in kind, and (c) in the event that the issue price of the new shares in cash-based capital increases is not significantly below the quoted price of the existing quoted shares at the time the issue price is finally determined, which time should be as close as possible to the time at which the shares are placed; whereby in case (c) the shares issued, including any own shares sold under exclusion of subscription rights pursuant to Sec. 186 (3) Clause 4 AktG may not exceed 10% of the share capital either at the time this authorization becomes effective or at the time when it is exercised.

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

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

Change of control regulations

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

Compensation agreements

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

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated income statement (in EUR thousand)

	Notes	**2019**	2018[1]
Sales	(1)	**2,884,056**	**2,795,963**
Cost of sales	(1)	(1,008,619)	(972,698)
Gross profit		**1,875,437**	**1,823,265**
In % of sales		65.0	65.2
Selling and distribution expenses	(2)	(1,234,587)	(1,175,692)
Administration expenses	(3)	(296,354)	(300,764)
Operating result (EBIT)		**344,496**	**346,809**
Net interest income/expenses		(31,465)	(3,213)
Other interest and similar income		1,609	2,019
Interest and similar expenses		(33,074)	(5,232)
Other financial items		**(7,438)**	**(6,926)**
Financial result	(4)	**(38,903)**	**(10,139)**
Earnings before taxes		**305,593**	**336,670**
Income taxes	(5)	(100,350)	(100,470)
Net income		**205,243**	**236,200**
Attributable to:			
Equity holders of the parent company		205,113	236,152
Non-controlling interests		130	48
Earnings per share (EUR)[2]	(6)	**2.97**	**3.42**
Dividend per share (EUR)[3]	(16)	**2.75**	**2.70**

[1] Adjusted figures of the previous year: Information on change in presentation can be found in the notes on accounting policies.
[2] Basic and diluted earnings per share.
[3] 2019: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated statement of comprehensive income (in EUR thousand)

	2019	2018
Net income	**205,243**	**236,200**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	(12,706)	4,256
Items to be reclassified subsequently to profit or loss		
Currency differences	12,016	8,010
Gains/losses from cash flow hedges	1,934	407
Other comprehensive income, net of tax	**1,244**	**12,673**
Total comprehensive income	**206,487**	**248,873**
Attributable to:		
Equity holders of the parent company	206,357	248,825
Non-controlling interests	130	48
Total comprehensive income	**206,487**	**248,873**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of the HUGO BOSS group as of December 31, 2019

Consolidated statement of financial position (in EUR thousand)

Assets	Notes	2019	2018
Property, plant and equipment	(8)	516,767	389,441
Intangible assets	(8)	197,449	184,896
Right-of-use assets	(9)	877,425	0
Deferred tax assets	(5)	97,924	90,116
Non-current financial assets	(11), (22)	21,518	19,020
Other non-current assets	(11)	2,120	2,880
Non-current assets		**1,713,203**	**686,353**
Inventories	(12)	626,514	617,947
Trade receivables	(13)	216,222	214,137
Current tax receivables	(5)	33,359	38,682
Current financial assets	(11), (22)	32,341	31,998
Other current assets	(11)	123,200	122,723
Cash and cash equivalents	(14)	132,626	146,717
Current assets		**1,164,262**	**1,172,204**
Total		**2,877,465**	**1,858,557**

Equity and liabilities			
Subscribed capital	(15)	70,400	70,400
Own shares	(15)	(42,363)	(42,363)
Capital reserve		399	399
Retained earnings		932,817	926,137
Accumulated other comprehensive income		40,374	26,424
Equity attributable to equity holders of the parent company		**1,001,627**	**980,997**
Non-controlling interests		41	(302)
Group equity		**1,001,668**	**980,695**
Non-current provisions	(17), (18), (19)	86,819	69,029
Non-current financial liabilities	(20), (22)	105,938	82,775
Non-current lease liabilities	(9)	789,472	0
Deferred tax liabilities	(5)	11,264	12,632
Other non-current liabilities	(21)	490	60,670
Non-current liabilities		**993,983**	**225,106**
Current provisions	(17)	91,746	97,671
Current financial liabilities	(20), (22)	112,014	93,361
Current lease liabilities	(9)	167,703	0
Income tax payables	(5)	65,683	43,526
Trade payables		314,646	295,106
Other current liabilities	(21)	130,022	123,092
Current liabilities		**881,814**	**652,756**
Total		**2,877,465**	**1,858,557**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated statement of changes in equity (in EUR thousand)

				Retained earnings		Accumulated other comprehensive income		Group equity		
	Subscribed capital	Own shares	Capital reserve	Legal reserves	Other reserves	Currency translation	Gains/losses from cash flow hedges	Total before non-controlling interests	Non-controlling interests	Group equity
Notes	(15)	(15)								
January 1, 2018	**70,400**	**(42,363)**	**399**	**6,641**	**861,971**	**19,168**	**(1,161)**	**915,055**	**(350)**	**914,705**
Net income					236,152			236,152	48	236,200
Other income					4,256	8,010	407	12,673		12,673
Comprehensive income					**240,408**	**8,010**	**407**	**248,825**	**48**	**248,873**
Dividend payment					(182,893)			(182,893)		(182,893)
Changes in basis of consolidation					10			10		10
December 31, 2018	**70,400**	**(42,363)**	**399**	**6,641**	**919,496**	**27,178**	**(754)**	**980,997**	**(302)**	**980,695**
January 1, 2019 (as reported)	**70,400**	**(42,363)**	**399**	**6,641**	**919,496**	**27,178**	**(754)**	**980,997**	**(302)**	**980,695**
Change in accounting policies/corrections (IFRS 16)					969			969		969
January 1, 2019 (adjusted)	**70,400**	**(42,363)**	**399**	**6,641**	**920,465**	**27,178**	**(754)**	**981,966**	**(302)**	**981,664**
Net income					205,112			205,112	130	205,243
Other income					(12,706)	12,016	1,935	1,244		1,244
Comprehensive income					**192,406**	**12,016**	**1,935**	**206,357**	**130**	**206,487**
Dividend payment					(186,344)			(186,344)		(186,344)
Acquisition of non-controlling interests					(353)			(353)	213	(140)
December 31, 2019	**70,400**	**(42,363)**	**399**	**6,641**	**926,175**	**39,194**	**1,180**	**1,001,627**	**41**	**1,001,668**

CONSOLIDATED STATEMENT OF CASH FLOWS

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated statement of cash flows (in EUR thousand)

	Notes	**2019**	2018
	(25)		
Net income		205,243	236,200
Depreciation/amortization	(8)	362,463	129,680
Unrealized net foreign exchange gain/loss		(3,687)	3,277
Other non-cash transactions		1,093	(76)
Income tax expense/refund	(5)	100,350	100,470
Interest income and expenses	(4)	31,465	3,213
Change in inventories		3,514	(72,306)
Change in receivables and other assets		8,666	(12,957)
Change in trade payables and other liabilities		37,767	22,346
Result from disposal of non-current assets		(1,192)	(144)
Change in provisions for pensions	(19)	(11,838)	(9,450)
Change in other provisions		(5,218)	(6,685)
Income taxes paid		(76,909)	(71,577)
Cash flow from operating activities		**651,717**	**321,991**
Investments in property, plant and equipment	(8)	(157,633)	(122,267)
Investments in intangible assets	(8)	(33,680)	(30,710)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired		0	(849)
Acquisition of groups of assets		(3,872)	0
Cash receipts from sales of property, plant and equipment and intangible assets		435	1,893
Cash flow from investing activities		**(194,750)**	**(151,933)**
Dividends paid to equity holders of the parent company	(16)	(186,344)	(182,893)
Change in current financial liabilities	(22)	(107)	23,163
Cash receipts from non-current financial liabilities	(22)	0	24,403
Repayment of non-current financial liabilities	(22)	(35,000)	(3,426)
Cash outflows of rent payments		(227,394)	0
Interest paid		(24,926)	(2,200)
Interest received		1,623	2,012
Cash flow from financing activities		**(472,148)**	**(138,941)**
Exchange-rate related changes in cash and cash equivalents		1,089	(100)
Change in cash and cash equivalents		**(14,092)**	**31,017**
Cash and cash equivalents at the beginning of the period		146,717	115,700
Cash and cash equivalents at the end of the period	(14)	**132,625**	**146,717**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2019

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, 2019, 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, 2020.

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 2019 resulted in material effects on the presentation of the Group's results of operations, net assets and financial position.

The following material new accounting standard was compulsory and applicable as of the fiscal year 2019:

IFRS 16: Leases
The new IFRS 16 "Leases" standard provides guidance on recognition, measurement, presentation and relevant disclosure requirements, and replaces IAS 17 and its related interpretations. The provisions of IFRS 16 requires the lessee to disclose certain lease arrangements on the balance sheet in the form of lease liabilities and a right-of-use to the leased asset. This means that the distinction for the lessee between financing and operating lease arrangements no longer applies.

The first-time application of IFRS 16 was carried out in accordance with the provisions of the modified approach for transition. Here, the lease obligation is recognized at the present value of the outstanding lease payments at the time of conversion. The right-of-use are recognized at the amount of the relevant lease liability, adjusted by the amount of the lease payments made in advance or accrued. This did not have a material effect on equity. The comparative figures for fiscal year 2018 were not adjusted in line with the modified approach for transition.

Group Leasing Arrangements and their Treatment on the Balance Sheet

The Group has entered into a substantial number of leases for retail stores, office spaces and warehouses.

In accordance with IFRS 16, the lessee discloses a lease liability of the value of the future lease payments in the balance sheet as well as a corresponding right-of-use asset. The lease payments comprise the total of all fixed lease payments less incentive payments for the conclusion of the contract, variable lease payments that are linked to an index or (interest) rate and amounts that are expected to be due for payment within the scope of residual value guarantees. Lease extension options are to be included if their exercise is sufficiently certain. Contractually agreed compensation payments in the event of an early termination of the contract by the lessee must also be recorded, unless it can be assumed with sufficient certainty that the contract will be continued.

The leasing liability is compounded over the term of the contract using the effective interest method, and is updated actuarially with consideration of the lease payments made.

The parallel right-of-use to be applied is always to be capitalized with the value of the leasing liability. Lease payments already made and directly allocable costs are also to be included. Payments received from the lessor that are related to the lease are to be deducted. Restoration obligations under leasing conditions shall also be considered in the valuation of the right-of-use. A provision must be expensed for the obligation. The right-of-use is amortized systematically over the term of the lease agreement.

The depreciation of the capitalized right-of-use asset and the interest expense from the compounding of the recognized lease liability are recognized in the income statement.

Liabilities from finance leases were recognized under “Financial liabilities” until December 31, 2018. The related assets were classified under property, plant and equipment. In the course of the first-time application of IFRS 16 as of January 1, 2019, the present value of finance lease liabilities was reclassified to the item “Lease liabilities” and the net carrying amount of the assets was reported as the right to use leased assets.

Key Assumptions

The determination of the conversion effect was based on assumptions for the discount rates used, the terms of the lease agreements, and the accrual of fixed lease payments. To determine the present value of future minimum lease payments, HUGO BOSS uses interest rates for borrowings, which may vary depending on the term of the lease and local conditions. The average interest rate used for the first-time application as of January 1, 2019, was 2.9%. In addition to the basic rental period, the Group includes extension options when determining the term of the contract if the extension has already been finally negotiated with the lessor and has been signed by both parties. Past experience has shown that, for reasons of flexibility and costs, stores that were considered to be due for extension in the planning in the prior year have not been extended and therefore extension options have not been used. Therefore, sufficient certainty is only present when the contract is signed. For contracts that do not have a fixed term, the term used to determine the right-of-use asset and lease liability is based on the average remaining useful life of the leasehold improvements in the respective contract.

Exercise of Options

Various options are provided for the lessee. The Group exercises the option to not apply right-of-use to low-value assets (limited to less than EUR 5 thousand) or to short-term leasing agreements (lasting 12 months or less). Accordingly, lease expenses for these assets must be recognized directly in the income statement. Furthermore, the option to sever lease and non-lease (service) components will be exercised, and the non-lease components will not be considered in right-of-use to be applied. In addition, the option of reducing provisions for impending losses will be exercised. To the extent that these have been formed in connection with leases, they can be offset against the right-of-use as of January 1, 2019.

The standard was applied as of January 1, 2019 to all existing contracts falling within its scope. No new assessment was made with regard to the evaluation of existing leasing agreements.

Effects of IFRS 16 as of January 1, 2019

The first-time application of IFRS 16 affected the following positions on the balance sheet, in the income statement and in the consolidated statement of cash flows:

On the date of first-time application, January 1, 2019, total assets increased significantly in the amount of EUR 990.7 million as a result of the right-of-use to be capitalized.

The reconciliation of the operating lease obligations as of December 31, 2018 with the recognized lease liabilities as of January 1, 2019 is as follows:

Reconciliation of lease liability (in EUR thousand)

Operating lease liability as of December 31, 2018[1]	**1,270,634**
Current lease liability due within 12 months	(2,578)
Lease liability from low-value assets and furnishings	(3,370)
Lease liability from software	(27,254)
Non-lease related components (service)	(6,957)
Others	(11,648)
Gross lease liability as of January 01, 2019	**1,218,827**
Discounting	(162,348)
Present value of the lease liability due to the first time application of IFRS 16 as of January 01, 2019	**1,056,479**
Present value of the liability from finance lease as of December 31, 2018	4,750
Total lease liability as of January 01, 2019	**1,061,229**

[1] Adjusted figures for previous year.

As part of the transition to the new lease standard, the adjustment of the right-of-use assets for lease objects was carried out for all IFRS 16-relevant lease agreements to include prepaid or accrued liabilities arising from lease obligations (straight-lining) in the amount of EUR 72.8 million. In addition, a conversion effect in the amount of EUR 1 million due to differences in useful lives between right-of-use and straight lining was recognized in the retained earnings.

For fiscal year 2019, there was a positive effect on the operating result (EBIT) in the amount of EUR 11.8 million due to the first-time application of IFRS 16. At the same time, the Group’s net income decreased by EUR 7.0 million. The first-time application of the new lease standard led to an increase in free cash flow in the amount of EUR 249.6 million.

More detailed information on the effects of the application of IFRS 16 on the balance sheet, income statement and the consolidated statement of cash flows can be found in Note 9.

Change in Presentation
From fiscal 2019, all other operating income and expenses will no longer be reported as separate items in the income statement, but will be broken down into the respective originating functional areas. In order to ensure comparability with the previous period, all figures for the 2018 comparative period have been restated in accordance with the provisions of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

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, 2019. The main Group companies included in the consolidated financial statements are as follows:

GRAMOLERA Grundstücks-Vermietungsgesellschaft Objekt Ticino mbH	Metzingen, Germany[2]
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[2]
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[2]
HUGO BOSS Italia S.p.A.	Milan, Italy
HUGO BOSS Retail, Inc.	New York, NY, USA
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey
HUGO BOSS Ticino S.A.	Coldrerio, Switzerland
HUGO BOSS Trade Mark Management GmbH & Co. KG	Metzingen, Germany[2]
HUGO BOSS UK Limited	London, Great Britain
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG	Metzingen, Germany[2]
Lotus (Shenzhen) Commerce Ltd.	Macau, China
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG	Grünwald, Germany[2]
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG	Grünwald, Germany[1,2]

[1] Investments with a 94% share in capital and 15% of voting rights.
[2] 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, 2019, the number of consolidated companies did not change compared with the consolidated financial statements as of December 31, 2018. BIL Leasing Verwaltungs-GmbH & Co. 869 KG was merged as of October 1, 2019. HUGO BOSS Florida, Inc., which was founded in 2018, was included in the consolidated financial statements as of September 30, 2019.

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

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

[1] Investment with a 100% share in capital and 15% of voting rights.
[2] 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 first-mentioned company, 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, 2019, 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 =	**2019**	2018	**2019**	2018
Australia	AUD	1.6143	1.5858	1.5995	1.6220
China	CNY	7.7880	7.8465	7.8205	7.8750
Great Britain	GBP	0.8476	0.8975	0.8508	0.8945
Hong Kong	HKD	8.6659	8.9011	8.7473	8.9675
Japan	JPY	121.2561	127.8542	121.9400	125.8500
Switzerland	CHF	1.0931	1.1294	1.0854	1.1269
Turkey	TRY	6.4814	6.0303	6.6621	6.0422
U.S.A.	USD	1.1103	1.1380	1.1234	1.1450

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

Income is recognized in accordance with IFRS 15: HUGO BOSS recognizes income from the sale of goods when control of the goods is transferred to the buyer. In the wholesale channel, 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, the control passes to the customer upon payment for 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 control of the goods sold passes 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.

Shop fit contributions to retailers are recognized in the income statement as sales deductions.

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

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

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

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

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

Income taxes
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 for property, plant and equipment and intangible assets are reviewed periodically to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits from the respective assets.

Impairment of non-financial assets
Non-financial assets (property, plant and equipment and right-of-use assets from leases 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
Since fiscal year 2019, leases of the HUGO BOSS Group have been recognized in accordance with the provisions of IFRS 16. In accordance with IFRS 16, there is a lease relationship if the lessor has contractually transferred the right to use an identified asset for a defined period in return for remuneration by the lessee. More detailed information on accounting policies can be found in the "Changes to accounting methods" section.

In fiscal year 2018, HUGO BOSS acquired existing leases in accordance with the requirements of IAS 17. On this basis, leases were classified as finance leases if the lessee essentially bore all the opportunities and risks associated with ownership of the leased asset and therefore the economic ownership of the lease relationship is attributed to the lessee. The depreciation methods and useful lives corresponded to those of comparable acquired assets. Leased assets were 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 were added to the carrying amount of the asset. The lease obligations were amortized and assessed in accordance with the effective interest method and were reported under financial liabilities. The interest portion of the lease liabilities was recognized in the income statement over the term of the lease.

In contrast, leases were classified as operating leases if the lessor was the beneficial owner of the property. The lease objects were therefore recognized in the lessor's books. The lease expenses incurred by HUGO BOSS as lessee were recognized in profit or loss over the term of the lease.

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:

FVTPL Financial assets and liabilities valued at Fair Value Through Profit or Loss.
AC Financial assets and liabilities that continue to be valued at Amortized Cost through the effective interest method.
FVOCI Assets and liabilities valued at Fair Value through Other Comprehensive Income.

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

Financial assets
Financial assets are initially classified under IFRS 9 using a two-stage test whereby the respective cash flow conditions and the business model for management of financial assets are examined. This test takes place at the financial instrument level.

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.

Where material, the HUGO BOSS Group calculates and records an allowance under the Expected Loss Model in IFRS 9 for all financial instruments that are not classified as FVTPL. The Expected Credit Loss (ECL) is always determined in a two-stage process. Only defaults that are likely within one year are considered for portfolios that have seen no significant increase in credit risk since their inception (12-month ECL). However, for portfolios that have seen a significant increase in credit risk since their inception, all defaults expected over their term are considered (lifetime ECL).

In its evaluation of whether the credit risk of a financial asset has changed, the Group utilizes all reasonable and reliable information that is available without excessive cost or expenses.

The simplified approach is used for trade receivables that have no significant financial components. This means that the Group does not monitor changes to credit risk, but rather records an ECL based on their lifetime for each reporting date. Individual receivables are grouped together based on country and business model-specific portfolios and evaluated using an industry-specific average probability of default for calculation. The model implemented is based on internal historical credit default data and is supplemented and adjusted using external market data with a forward-looking component. This means that modifications of future market expectations directly influence the ECL and are recognized respectively as value adjustments.

The FVTPL (fair value through profit or loss) category is assigned to financial assets when they meet the requirements of the SPPI test and the testing of the business model for management of financial asset value under IFRS 9. This includes derivative financial instruments that are not designated to an effective hedging relationship in accordance with IFRS 9. Gains and losses from financial assets are always posted to profit or loss.

Financial assets that are assigned to the AC category 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.

HUGO BOSS classifies a receivable as in default when a debtor does not settle contractual payments that are over 90 days overdue. When receivables are written off or derecognized, the Group continues to conduct recovery measures to collect the receivable due. In some cases, a financial instrument may nevertheless also be treated as in default or partially in default if internal or external information indicates that full collection of the outstanding payment is viewed as unlikely. Individual depreciation rates between 1% and 100% are used in this case. A financial asset is derecognized when there is no reasonable prospect of repayment of the contractual cash flows.

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 IFRS 9 for the designation of hedges are satisfied.

Under IFRS 9, all derivative financial instruments currently held by the Group are generally to be classified as FVTPL (fair value through profit or loss) and to be accounted at fair value, unless they are part of an effective hedging relationship. 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 IFRS 9 (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 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 rebuild obligations
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 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.

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 2019
There were no takeovers in the 2019 financial year.

Takeovers in fiscal year 2018
A store of a franchisee in Grenoble, France, was taken over by HUGO BOSS France SAS in the fourth quarter of fiscal year 2018 under a share deal. The following overview shows the allocation of the purchase price of EUR 849 thousand to the acquired net assets as well as the resulting goodwill:

(in EUR thousand)	2018
Purchase consideration transferred	
Agreed purchase price	849
Liabilities incurred	0
Total purchase price	**849**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	320
Property, plant and equipment	89
Inventories	0
Total assets	**409**
Total liabilities	**0**
Goodwill	**440**

Control over the assets was 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.

Acquisition of non-controlling interests without change of control
On October 1, HUGO BOSS AG acquired the remaining 6% share in the previously fully consolidated BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Pullach, Germany. As a result, all shares in the company were held by HUGO BOSS AG as the only remaining shareholder and BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Pullach, Germany, was transferred to HUGO BOSS AG by accrual. The purchase price paid to the general partner as part of the transaction was EUR 140 thousand. The carrying amount of the non-controlling shares acquired amounted to EUR 213 thousand. The difference between the purchase price and the carrying amount of EUR 353 thousand was recognized directly in equity.

(in EUR thousand)	**2019**
Carry amount of non-controlling interests acquired	(213)
Purchase price agreed upon	(140)
Difference recognized directly in consolidated equity	**(353)**

Notes to the Consolidated Income Statement

1 | Sales and cost of sales

Sales

(in EUR thousand)

	2019	2018
Group's own retail business	1,869,105	1,768,003
Directly operated stores	1,110,163	1,095,547
Outlet	607,861	561,951
Online	151,080	110,505
Wholesale	931,243	951,797
Licenses	83,708	76,163
Total	**2,884,056**	**2,795,963**

Cost of Sales

(in EUR thousand)

	2019	2018[1]
Total cost of goods	**1,008,619**	**972,698**
Cost of purchase	898,954	865,886
Thereof cost of materials	886,318	845,727
Cost of conversion	109,665	106,812

[1] Adjusted previous year figures.

The cost of materials included in the cost of sales include inbound freight and customs costs of EUR 119,620 thousand (2018: EUR 123,175 thousand).

2 | Selling and distribution expenses

(in EUR thousand)

	2019	2018[1]
Expenses for Group's own retail business, sales and marketing organization	963,693	914,578
Marketing expenses	179,600	174,340
Thereof expenses	184,467	189,275
Thereof income from allocation of marketing expense	(4,867)	(14,936)
Logistic expenses	91,294	86,774
Total	**1,234,587**	**1,175,692**
Thereof other taxes	2,505	3,488

[1] Adjusted previous year figures.

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, as well as depreciation of right-of-use assets for lease objects from IFRS 16. They also include sales-based commission, freight-out, customs costs, credit card charges and impairment losses to assets of retail stores. This item also includes impairment losses to trade receivables of EUR 5,766 thousand (2018: EUR 2,089 thousand).

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

3 | Administration expenses

(in EUR thousand)

	2019	2018[1]
General administrative expenses	**231,112**	**237,336**
Research and development costs	**65,242**	**63,428**
Thereof personnel expenses	47,256	45,300
Thereof depreciation and amortization	2,626	1,905
Thereof other operating expense	15,360	16,223
Total	**296,354**	**300,764**
Thereof taxes	4,188	4,584

[1] Adjusted previous year figures.

Administration expenses mainly comprise depreciation of right-of-use assets for lease objects, 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.

Administration expenses include other income of EUR 15,832 thousand (2018: EUR 13,326 thousand). This includes, among other things, capitalized internally developed software and canteen income. Additionally, income was generated by the reversal of provisions by EUR 6,938 thousand (2018: EUR 4,378 thousand).

4 | Financial result

(in EUR thousand)

	2019	2018
Interest and similar income	1,609	2,019
Interest and similar expenses	(33,074)	(5,232)
Net interest income/expenses	**(31,465)**	**(3,213)**
Exchange rate gains/losses from receivables and liabilities	3,202	(3,735)
Gains/losses from hedging transactions	(10,305)	(5,187)
Other financial expenses/income	(335)	1,996
Other financial items	**(7,438)**	**(6,926)**
Financial result	**(38,903)**	**(10,139)**

Interest income includes income from bank deposits amounting to EUR 1,033 thousand (2018: EUR 494 thousand) and other interest income of EUR 576 thousand (2018: EUR 1,525 thousand).

Interest expenses include expenses from financial liabilities in the amount of EUR 2,853 (2018: EUR 2,217 thousand) and other interest expenses in the amount of EUR 30,221 thousand (2018: EUR 3,015 thousand). These items mainly comprise interest expenses from the discounting of future minimum lease obligations of EUR 22,222 thousand (2018: EUR 0 thousand). In addition to interest on loans, this also includes the net interest amount from for pension provisions, interest on non-financial liabilities (such as tax liabilities from tax audits) and interest expenses from the valuation at present value of other non-current provisions in the amount of EUR 7,999 thousand (2018: EUR 3,015 thousand).

The exchange rate gains and losses from receivables and liabilities comprise exchange rate gains of EUR 23,931 thousand (2018: EUR 21,600 thousand) as well as exchange rate losses of EUR 20,729 thousand (2018: EUR 25,335 thousand). The result from hedging transactions contains the effects from the fair value measurement and derecognition of foreign exchange forwards and swaps.

5 | Income taxes

(in EUR thousand)

	2019	2018
Current taxes	105,159	94,619
Deferred taxes	(4,809)	5,851
Total	**100,350**	**100,470**

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% (2018: 29.5%). The tax rates abroad range between 0% and 34%.

Current income taxes for fiscal year 2019 included non-current expenses of EUR 24,396 thousand (2018: EUR 20,088 thousand) and non-current income of EUR 5,337 thousand (2018: EUR 4,028 thousand) and deductible withholding tax of EUR 1,697 thousand (2018: EUR 3,027 thousand). The non-current expenses include provisions for risks from external tax audits of HUGO BOSS AG for the years from 2012 to 2015.

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% (2018: 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% (2018: 15.8%) and a trade tax rate of 13.7% (2018: 13.7%).

(in EUR thousand)

	2019	2018
Earnings before taxes	**305,593**	**336,670**
Anticipated income tax	90,303	99,486
Tax effect of permanent items	11,089	5,136
Tax rate-related deviation	(19,385)	(20,296)
Thereof effects of changes in tax rates	1,832	261
Thereof adjustment of tax amount to diverging local tax rate	(21,217)	(20,557)
Tax refund/tax arrears	20,757	19,087
Deferred tax effects from prior years	2	(2,420)
Valuation allowance on deferred tax assets	(630)	(166)
Tax effects from distributable profit of subsidiaries	(1,028)	11
Other deviations	(758)	(368)
Income tax expenditure reported	**100,350**	**100,470**
Income tax burden	33%	30%

The income tax burden was reduced by tax-free income of EUR 2,350 thousand (2018: EUR 1,152 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 13,439 thousand (2018: EUR 6,288 thousand).

Other comprehensive income includes deferred tax income amounting to EUR 3,247 thousand (2018: expenses of EUR 1,057 thousand). As in the prior year, this amount in the fiscal year 2019 is calculated from the recognition of actuarial gains and losses from provisions for pensions in equity.

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

(in EUR thousand)

	2019		2018	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	21,701	(655)	15,810	(22,588)
Unused tax losses	7,578	0	7,188	0
Inventory measurement	29,580	(5,334)	30,701	(3,680)
Recognition and measurement of non-current assets	35,706	(11,658)	54,304	(16,314)
Receivables measurement	3,960	(165)	4,519	(159)
Financial liabilities and financial assets	12,082	(6)	617	(1)
Retained earnings of subsidiaries	0	(3,988)	0	(4,976)
Other differences in recognition and measurement	5,817	(7,958)	14,566	(2,503)
Net amount	**116,424**	**(29,764)**	**127,705**	**(50,221)**
Netting	(18,500)	18,500	(37,589)	37,589
Total	**97,924**	**(11,264)**	**90,116**	**(12,632)**

Of the deferred tax assets, EUR 60,465 thousand (2018: EUR 59,907 thousand) are non-current, while EUR 15,837 thousand (2018: EUR 44,037 thousand) of the deferred tax liabilities are non-current.

Deferred taxes on IFRS 16 balance sheet items were reported on a net basis. The active deferred tax on lease liabilities amounts to EUR 176,305 thousand; deferred tax on rights-of-use assets amounts to EUR 164,708 thousand. After netting, there is a deferred tax claim of EUR 11,597 thousand, which is reported under financial liabilities.

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 1,087 thousand (2018: EUR 1,393 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 2,901 thousand (2018: EUR 3,583 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 327,715 thousand (2018: EUR 298,546 thousand), as the present intention is to permanently reinvest these profits. If the profits were to be distributed in Germany, 5% would be subject to taxation in Germany or possibly trigger withholding tax in other countries. Distributions thus as a rule lead to an added tax expense. Estimation of unrecognized deferred tax liabilities on undistributed profits would require an unreasonable effort.

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 24,165 thousand (2018: EUR 30,416 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)

	2019	2018
Expiry within		
1 year	4,475	3,123
2 years	648	5,858
3 years	1,998	669
4 years	356	3,824
5 years	2,375	384
After 5 years	13,498	11,761
Unlimited carryforward	61,943	72,134
Total	**85,293**	**97,753**

As in prior fiscal years, a corresponding deferred tax asset of EUR 7,578 thousand was recognized on unused tax losses as of December 31, 2019 (2018: EUR 7,188 thousand were recognized). In the fiscal year 2019, no deferred taxes were recognized for losses carried forward of EUR 53,767 thousand (2018: EUR 60,398 thousand). Of this, EUR 1,008 thousand (2018: EUR 1,019 thousand) thousand expires in 2020, EUR 303 thousand (2018: EUR 282 thousand) in 2021, EUR 1,271 thousand (2018: 334 thousand) in 2022, EUR 356 thousand (2018: EUR 252 thousand) in 2023, EUR 720 thousand (2018: EUR 79 thousand) in 2024, EUR 420 thousand (2018: EUR 10,514 thousand) in over five years and EUR 49,689 thousand (2018: EUR 47,918 thousand) can be carried forward indefinitely.

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.

An external tax audit has been ongoing at HUGO BOSS AG since 2017 for the 2012–2015 assessment periods. Based on the information available to date, the Company has identified possible tax risks from balance sheet and off-balance sheet items, as well as structural changes. The required provisions were created for this, together with interest. As the external tax audit has not yet been concluded as of the time of presentation of the annual financial statement, new information related to the external tax audit may result in changes to liabilities as of December 31, 2019.

6 | Earnings per share

There were no shares outstanding that could have diluted earnings per share as of December 31, 2019, or December 31, 2018.

(in EUR thousand)

	2019	2018
Net income attributable to equity holders of the parent company	205,113	236,152
Average number of shares outstanding[1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR[2]	2.97	3.42

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

7 | Additional disclosures to the consolidated income statement

Personnel expenses

(in EUR thousand)

	2019	2018[1]
Cost of sales	87,126	82,939
Selling and distribution expenses	373,837	371,273
Administration expenses	178,932	175,235
Total	**639,895**	**629,447**

[1] Adjusted previous year figures.

(in EUR thousand)

	2019	2018
Wages and salaries	541,061	534,492
Social security	94,406	89,268
Expenses and income for retirement and other employee benefits	4,428	5,687
Total	**639,895**	**629,447**

The average headcount for the year was as follows:

Employees

	2019	2018
Industrial employees	5,012	5,023
Commercial and administrative employees	12,032	11,792
Total	**17,044**	**16,815**

Ordinary depreciation

(in EUR thousand)

	2019	2018
Cost of sales	6,013	5,764
Selling and distribution expenses	308,254	79,865
Administration expenses	38,071	37,797
Total	**352,338**	**123,426**

Notes to the Consolidated Statement of Financial Position

8 | Intangible assets and property, plant and equipment

(in EUR thousand)

2019	Gross value Jan. 1	Change in the basis of consolidation	Currency differences	Additions	Disposals	Transfers	Gross value Dec. 31	Accumulated amortization, depreciation and impairment Jan. 1	Change in the basis of consolidation	Currency differences	Depreciation	Impairment	Write-up	Disposals	Transfers	Accumulated amortization, depreciation and impairment Dec. 31	Net value Dec. 31
Software, licenses and other rights	**263,448**	524	600	29,988	(5,591)	23	**288,992**	**167,516**	0	2,254	20,128	0	0	(5,571)	0	**184,327**	**104,665**
Brand rights	**14,992**	0	0	0	0	0	**14,992**	**0**	0	0	0	0	0	0	0	**0**	**14,992**
Key Money	**43,592**	0	757	3,521	(2,135)	0	**45,735**	**25,905**	0	486	1,451	1,063	(1,475)	(2,636)	0	**24,794**	**20,941**
Internally developed Software	**0**	0	0	0	0	0	**0**	**0**	0	0	0	0	0	0	0	**0**	**0**
Goodwill	**57,804**	0	398	171	0	0	**58,373**	**1,519**	0	3	0	0	0	0	0	**1,522**	**56,851**
Right of Use	**990,682**	0	16,768	154,141	(64,552)	0	**1,097,039**	**0**	0	(618)	228,601	0	0	(8,369)	0	**219,614**	**877,425**
Intangible Assets	**1,370,518**	**524**	**18,523**	**187,821**	**(72,278)**	**23**	**1,505,131**	**194,940**	**0**	**2,125**	**250,180**	**1,063**	**(1,475)**	**(16,576)**	**0**	**430,257**	**1,074,874**
Lands and buildings	**196,134**	49,665	2,033	44,774	(11,355)	979	**282,230**	**102,385**	0	1,157	9,513	0	0	(10,615)	0	**102,440**	**179,790**
Technical equipment and machinery	**80,165**	33,719	176	6,559	(2,247)	1,342	**119,714**	**65,291**	0	159	5,013	0	0	(2,218)	0	**68,245**	**51,469**
Other equipment, operating and office equipment	**840,598**	266	12,670	100,487	(72,671)	26,246	**907,596**	**600,858**	0	8,860	87,632	10,836	(300)	(71,910)	0	**635,976**	**271,620**
Construction in progress	**34,681**	0	46	7,772	(17)	(28,590)	**13,892**	**3**	0	0	0	0	0	0	0	**3**	**13,889**
Property, plant and equipment	**1,151,578**	**83,650**	**14,925**	**159,592**	**(86,290)**	**(23)**	**1,323,432**	**768,537**	**0**	**10,176**	**102,158**	**10,836**	**(300)**	**(84,743)**	**0**	**806,664**	**516,768**
Total	**2,522,096**	**84,174**	**33,448**	**347,413**	**(158,568)**	**0**	**2,828,563**	**963,477**	**0**	**12,301**	**352,338**	**11,899**	**(1,775)**	**(101,319)**	**0**	**1,236,921**	**1,591,642**
2018																	
Software, licenses and other rights	**247,361**	0	356	30,189	(14,694)	236	**263,448**	**152,372**	0	290	29,292	237	0	(14,675)	0	**167,516**	**95,932**
Brand rights	**14,992**	0	0	0	0	0	**14,992**	**0**	0	0	0	0	0	0	0	**0**	**14,992**
Key Money	**45,374**	320	258	841	(3,201)	0	**43,592**	**28,221**	0	118	1,598	1,088	(1,919)	(3,201)	0	**25,905**	**17,687**
Internally developed Software	**5,603**	0	0	0	(5,603)	0	**0**	**5,603**	0	0	0	0	0	(5,603)	0	**0**	**0**
Goodwill	**57,330**	450	64	0	(40)	0	**57,804**	**1,524**	0	(5)	0	0	0	0	0	**1,519**	**56,285**
Right of Use	**0**	0	0	0	0	0	**0**	**0**	0	0	0	0	0	0	0	**0**	**0**
Intangible Assets	**370,660**	**770**	**678**	**31,030**	**(23,538)**	**236**	**379,836**	**187,720**	**0**	**403**	**30,890**	**1,325**	**(1,919)**	**(23,479)**	**0**	**194,940**	**184,896**
Lands and buildings	**216,244**	0	1,982	4,866	(18,108)	(2,450)	**202,534**	**112,367**	0	1,198	9,432	0	0	(18,084)	(2,528)	**102,385**	**100,149**
Technical equipment and machinery	**80,760**	0	82	1,904	(2,978)	397	**80,165**	**63,892**	0	81	4,277	0	0	(2,959)	0	**65,291**	**14,874**
Other equipment, operating and office equipment	**851,648**	89	6,171	95,135	(118,244)	5,799	**840,598**	**623,329**	0	5,662	78,827	9,359	(2,511)	(116,336)	2,528	**600,858**	**239,740**
Construction in progress	**16,600**	0	164	21,925	(26)	(3,982)	**34,681**	**3**	0	0	0	0	0	0	0	**3**	**34,678**
Property, plant and equipment	**1,165,252**	**89**	**8,399**	**123,830**	**(139,356)**	**(236)**	**1,157,978**	**799,591**	**0**	**6,941**	**92,536**	**9,359**	**(2,511)**	**(137,379)**	**0**	**768,537**	**389,441**
Total	**1,535,912**	**859**	**9,077**	**154,860**	**(162,894)**	**0**	**1,537,814**	**987,311**	**0**	**7,344**	**123,426**	**10,684**	**(4,430)**	**(160,858)**	**0**	**963,477**	**574,337**

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 85,096 thousand (2018: EUR 86,440 thousand) were capitalized in connection with the ERP system, of which EUR 72,270 thousand (2018: EUR 72,052 thousand) had already been amortized as of the reporting date. The remaining amortization period is 4.2 years (2018: 2.1 years). Apart from the aforementioned software, other software licenses totaling EUR 85,229 thousand (2018: EUR 73,812 thousand) are included, whose remaining amortization period is 4.8 years (2018: 3.6 years). The average useful life of software and licenses is in between 3 to 7 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 (2018: 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 20,941 thousand (2018: EUR 17,687 thousand) was recognized as of the reporting date. Of that amount, EUR 9,589 thousand (2018: EUR 6,719 thousand) pertains to key money with an infinite useful life and EUR 11,353 thousand (2018: EUR 10,968 thousand) to key money with a finite useful life. As of December 31, 2019, key money with an infinite useful life only concerns the Group's own retail stores in France. The key money with a finite useful life has a remaining amortization period of 8.7 years (2018: 7.5 years) and mainly refers to the Group's own retail stores in Switzerland, Spain, and Italy. 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 135,419 thousand (2018: EUR 27,177 thousand).

Impairment losses amounting to EUR 10,836 thousand and reversals of impairment losses amounting to EUR 300 thousand, net impairment amounting to EUR 10,536 thousand (2018: EUR 6,848 thousand), were record 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 401 thousand (2018: EUR 8,591 thousand). Of this amount, EUR 104 thousand (2018: EUR 7,241 thousand) is attributable to property, plant and equipment and EUR 297 thousand to intangible assets (2018: EUR 1,350 thousand). The obligations as of December 31, 2019, are due for settlement within one year.

Acquisition of a group of assets

In the fourth quarter of 2019, HUGO BOSS AG made a severance payment in the amount of EUR 4,300 thousand to the general partner of the Distribution Center Vermietungsgesellschaft mbH & Co.object HUGO BOSS Filderstadt KG. As a result, all shares were transferred to HUGO BOSS AG after the general partner resigned. The Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG was thus transferred to HUGO BOSS AG.

This transaction does not constitute an acquisition of a business as defined by IFRS 3, but rather the acquisition of a group of assets. As part of the acquisition process, all assets and liabilities were therefore measured on the basis of the respective standard. The difference between the total purchase price and the fair values of the assets and liabilities was allocated on the basis of the relative fair values. This led to an addition of intangible assets of EUR 500 thousand and property, plant and equipment of EUR 83,659 thousand.

9|Leases

The HUGO BOSS Group has been applying the new standard IFRS 16 since January 1, 2019. Information on the first-time application of IFRS 16 is provided in the “Changes to accounting methods” section. In prior years, leases were recognized in accordance with the requirements of IAS 17. More detailed information can be found in the note on the accounting policies.

HUGO BOSS has concluded material lease agreements for the rental of retail stores and office and storage space, with an average term of 5 years, which were classified as relevant for IFRS 16. Some of the agreements include purchase and renewal options. For leases of low-value assets and for short-term lease liabilities, the option of immediately recognizing expenses was exercised. Similarly, leases with variable rent payments for which no minimum rents are stipulated in the contract are directly recognized as expenses. As a result, the right-of-use asset and lease liability are not recognized.

The effects of all HUGO BOSS Group leases on the balance sheet, the income statement and the consolidated statement of cash flows as at December 31, 2019, are presented below:

Leases in the balance sheet

Additions, depreciation and changes in the right-of-use assets of lease objects are divided as follows between the assets underlying the leases as at December 31, 2019:

(in EUR thousand)

	Stores	Warehouse	Offices and others	Total
Carrying amount as of Jan. 1, 2019	**814,350**	**86,237**	**90,095**	**990,682**
Additions	138,083	6,330	9,728	154,141
Depreciation	(203,678)	(6,771)	(18,152)	(228,601)
Disposal	(2,980)	(53,010)	(193)	(56,183)
FX differences				17,386
Carrying amount as of Dec. 31, 2019	**745,775**	**32,786**	**81,478**	**877,425**

Maturity analysis of lease liabilities

The following table shows the breakdown of lease liabilities according to their maturities:

(in EUR thousand)

	Discounted
Due within one year	167,703
Due between one and five years	538,485
Due after five years	250,987
Total	**957,175**

In the prior year, HUGO BOSS only recognized lease assets and lease liabilities for leases that were classified as financial leases under IAS 17. The liabilities of EUR 4,750 thousand were reported under the current and non-current financial liabilities. The associated assets were classified under property, plant and equipment. For operating leases, the lease objects were recognized by the lessor. The lease expenses incurred for this purpose were recognized as expenses on a straight-line basis over the term of the lease. In fiscal year 2018, rental expenses in the amount of EUR 402,708 thousand were incurred for operating leases. In the subsequent periods, nominal minimum lease payments of EUR 1,270,634 thousand were expected for these contracts.

The amounts included in the income statement and the consolidated statement of cash flows as of December 31, 2019, applicable to the leases are shown in the following tables:

Leases in the income statement

(in EUR thousand)

	2019
Depreciation RoU Assets	(228,601)
Impairment of RoU Assets	0
Net income from disposal of RoU Assets	281
Interest expenses for lease liabilities	(22,222)
Income/expenses from foreign exchange differences on lease liabilities	9
Expenses from variable lease payments	(132,992)
Expenses for short-term leases	(2,578)
Expenses for leases of low-value assets	(4,641)
Income from subleases	1,397
Lease expenses for software	(15,764)
Other expenses (service costs)	(34,046)
Total expenses from lease agreements	**(439,157)**

Leases in the consolidated statement of cash flows

(in EUR thousand)

	2019
Interest paid on lease liabilities	(22,222)
Repayment of lease liabilities	(227,394)
Variable lease payments	(132,992)
Payments for short-term leases	(2,578)
Payments for operating leases of low-value assets	(4,641)
Payments received from subleases	1,397
Payments for software	(15,764)
Other payments	(34,046)
Total cash outflows for leases	**(438,240)**

Material future non-recognized lease payments with maturities

The following future lease payments are not included in the valuation of lease liabilities as a result of IFRS 16 regulations:

(in EUR thousand)

	Due 2020	**Due 2021 – 2024**	**Due after 2024**	**Total**
Variable lease payments	160,704	667,284	891,978	1,719,966
Payments from uncertain termination options	229	167	0	396
Payments from uncertain extension options	3,600	151,727	276,823	432,150
Total lease payments	**164,533**	**819,178**	**1,168,801**	**2,152,512**

In addition, payments from short-term leases, leases for software and for low-value assets are expected, although these are immaterial from the perspective of the HUGO BOSS Group.

The determination of future off-balance sheet lease payments is based on management assumptions regarding the term of the leases and the amount of the lease payment. In determining future lease payments, HUGO BOSS assumes the remaining term of the original lease plus the one-time exercise of renewal options, which are not yet sufficiently certain based on current knowledge. The future variable lease payments are derived on the basis of the sales planned for DOS and outlets bottom-up for 2020 and projected using a like-for-like growth rate. Future payments from uncertain renewal options take into account all contracts with renewal options existing as of December 31, 2019, and are based on the assumption of constant future rental payments.

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, 2019:

- 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 to low double-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 4.2% and 19.5% (2018: between 3.7% and 20.8%). This was based on a risk-free interest rate with an equivalent term of (0.7)% (2018: 0.1%) and a market risk mark-up of 6.5% (2018: 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 legal framework and available information, the fair value, in particular for key money with a limited useful life, is determined on the basis of past and comparable transactions using a multiplier method or as the present value of rental price differences between the current rental agreement and the current market rent, with the rental agreement determining the valuation period. If the carrying amount of the DOS assets exceeds the calculated value in use, the fair value of the right of use is also calculated separately using external data sources. If the conditions under which the lease was concluded correspond to current market conditions, the value of the right of use is assumed to be recoverable.

Reversals of past depreciation and amortization were also analyzed from the study of the reversal for 2019 under the impairment model. An additional triggering event test was conducted for this to check whether the indicators show that stores amortized in the past could achieve a turnaround and become profitable again. In so doing, stores that experienced an impairment loss in the last three years are reviewed, as the life cycle of a store's fixed assets limits possible reversal to an average of five years.

A reversal was estimated in fiscal year 2019 at EUR 1,775 thousand (2018: EUR 4,430 thousand) for 5 stores based on the additional triggering events tests.

Scheduled DOS impairment testing in the past fiscal year resulted in net impairment losses on non-current assets of EUR 10,348 thousand (2018: EUR 6,184 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 net write-up gains of EUR 224 thousand (2018: net impairment losses of EUR 70 thousand) were allocated in the fiscal year 2019.

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 year 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 four 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, 2019, is based on a risk-free interest rate of 0.1% (2018: 1.00%) and a market risk mark-up of 6.5% (2018: 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**
2019				
DOS within the sales unit France	1,476	9,589	5.5%	3.3%
Sales unit Macau	6,373	0	5.9%	3.1%
Sales unit Australia	8,336	0	6.9%	3.0%
Sales unit South Korea	7,471	0	6.6%	3.5%
Sales unit China	9,058	0	8.3%	3.5%
Sales unit U.S.A & Canada	3,288	13,615	7.1%	3.0%
Sales unit Italy	436	1,377	7.1%	2.2%
Sales unit Dubai	6,342	0	8.6%	3.0%
Other sales units	14,071			
Total	**56,851**	**24,581**	**5.5–8.6%**	**2.2–3.5%**
2018				
DOS within the sales unit France	1,472	6,719	5.4%	3.3%
Sales unit Macau	6,212	0	5.6%	3.1%
Sales unit Australia	8,224	0	7.0%	3.0%
Sales unit South Korea	7,574	0	6.5%	3.5%
Sales unit China	8,995	0	7.8%	3.5%
Sales unit U.S.A.	3,106	13,615	7.1%	3.0%
Sales unit Italy	435	1,377	7.1%	2.2%
Sales unit Dubai	6,226	0	8.4%	3.0%
Other Sales units[1]	14,041			
Total	**56,285**	**21,711**	**5.4–8.4%**	**2.2–3.5%**

[1] Other sales units adjusted compared to the previous year.

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.

As in the previous year, no impairment loss was recognized for goodwill in fiscal year 2019.

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 2019 and 2018.

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, 2019, 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, with the expection of the CGU in South Korea, as in the prior year, exceed their carrying amounts. In regards to the CGU in South Korea, a reduction of the growth rate by 15.0% with the same costs would result in a write-down requirement of EUR 6,577 thousand.

If the annual growth rate were reduced by 4.7%, the recoverable amount would be equal to the carrying amount of the CGU.

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)

	2019			2018		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	49,586	32,341	17,245	49,281	31,998	17,283
Tax refund claims and prepayments	18,098	18,098	0	23,709	23,697	12
Other assets	107,223	105,103	2,120	101,906	99,026	2,880
Other financial assets	4,273	0	4,273	1,737	0	1,737
Total	**179,180**	**155,542**	**23,638**	**176,633**	**154,721**	**21,912**

Financial assets include positive market values of currency hedges amounting to EUR 1,828 thousand (2018: EUR 560 thousand) as well as rent deposits for the Group's own retail stores of EUR 10,923 thousand (2018: EUR 10,728 thousand). Financial assets also include receivables from credit card companies amounting to EUR 23,587 thousand (2018: EUR 26,641 thousand).

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

Other assets mainly include prepayments for service agreements in the amount of EUR 18,576 thousand (2018: EUR 18,267 thousand), reimbursement claims from returns in the amount of EUR 18,007 thousand (2018: EUR 20,973 thousand) and receivables from supplier arrangements in the amount of EUR 17,746 thousand (2018: EUR 19,845 thousand). Impairment losses were recognized on other assets in fiscal year 2019; this related to a receivable from the buyer of the former production site in Cleveland for the reimbursement of existing obligations to employees in the amount of EUR 1,602 thousand.

Other financial assets include the shares of jointly controlled entities accounted for using the equity method. The carrying amount of the shares in the property companies whose activities involve the rental of buildings and the related land is EUR 10 thousand. The maximum default risk corresponds to this capital contribution. In addition, the carrying amount of the shares of HUGO BOSS AL FUTTAIM UAE TRADING L.L.C. as of December 31, 2019, was EUR 4,263 thousand (2018: EUR 1,702 thousand). In the fourth quarter of 2019, Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS AG was merged with HUGO BOSS AG. The shares of EUR 25 thousand were transferred to HUGO BOSS AG.

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)

	2019[1]	2018
Non-current assets	47,066	97,777
Current assets	11,085	9,321
Liabilities	47,144	115,637
Sales	42,700	41,943
Depreciation and amortisation	(7,536)	(8,761)
Other interest and similar income	1	5
Interest and similar expenses	(1,033)	(3,802)
Net profit (loss)	5,720	1,782

[1] The financial information is based on the statements under local law and on the provisional, unaudited annual financial statement as of December 31, 2019. In the previous year, Distributionszentrum Vermietungsgesellschaft mbH & Co. KG was included.

12 | Inventories

(in EUR thousand)

	2019	2018
Finished goods and merchandise	577,466	564,956
Raw materials and supplies	42,931	47,376
Work in progress	6,117	5,615
Total	**626,514**	**617,947**

The carrying amount of inventories carried at net realisable value is EUR 86,252 thousand (2018: EUR 80,114 thousand). In fiscal year 2019, impairment losses of EUR 8,372 thousand (2018: EUR 12,890 thousand) were recognized particularly on finished goods and raw materials. This was counterbalanced by reversals of impairment losses of EUR 6,495 thousand (2018: EUR 14,871 thousand), as previously impaired inventories of finished goods and raw materials could still be sold. Impairment losses on inventories and the reversal of write-downs resulted in net expenses of EUR 1,876 thousand (2018: net income of EUR 1,981 thousand). This is included in the cost of sales.

Significant estimates were made for inventories as shown below: Write-downs are made for inventory risks resulting from the length of storage and the resulting reduced usability in some cases. For raw materials, write-downs are made on the basis of range of coverage and marketability analyses. For work in progress, finished goods and merchandise, the valuation is based on the net selling price still to be achieved through the Group's own sales channels. To determine the net selling price, the Group uses analyses of the storage period for merchandise and finished goods.

13 | Trade receivables

(in EUR thousand)

	2019	2018
Trade receivables, gross	225,826	225,792
Accumulated allowance	(9,604)	(11,655)
Trade receivables, net	**216,222**	**214,137**

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

(in EUR thousand)

	2019	2018
Trade receivables, net	**216,222**	**214,137**
Thereof neither overdue nor impaired	**193,035**	**184,685**
Thereof overdue, but not impaired	**20,109**	**25,566**
≤ 30 days	15,578	17,959
31 to 60 days	2,414	4,154
61 to 90 days	2,117	3,453
91 to 120 days	0	0
121 to 180 days	0	0
181 to 360 days	0	0
> 360 days	0	0
Thereof: overdue and impaired	**3,078**	**3,886**

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)

	2019	2018
Allowances for doubtful accounts as of January 1	**11,655**	**13,897**
Additions	5,489	3,758
Use	(2,133)	(1,495)
Release	(5,466)	(4,341)
Currency differences	59	(164)
Allowances for doubtful accounts as of December 31	**9,604**	**11,655**

In fiscal year 2019, an expected credit loss (ECL) to be recognized under IFRS 9 was created based on non-due receivables in the amount of EUR 162,130 thousand. As of December 31, this came to EUR 2,399 thousand (2018: EUR 2,207 thousand).

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.

As of December 31, 2019, receivables written-off in the amount of EUR 2,445 thousand (2018: EUR 1,705 thousand) were still subject to recovery measures.

The maximum credit risk from trade receivables corresponding to their gross value is EUR 225,826 thousand (2018: EUR 225,792 thousand) as of the reporting date.

14 | Cash and cash equivalents

(in EUR thousand)

	2019	2018
Balances with banks and other cash items	122,789	135,511
Checks/ec cash	692	800
Cash in hand	9,145	10,406
Total	**132,626**	**146,717**

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, 2019. 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 15, 2024, 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 EBIT 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, 2019, and December 31, 2018.

In addition, the efficient use of capital and the capital structure are regularly monitored on the basis of financial strength, i.e. the ratio of net debt to operating profit (EBITDA) in accordance with the provisions of the current loan agreement:

(in EUR thousand)

	2019	2018
Liabilities due to banks	215,303	168,725
Cash and cash equivalents	(132,626)	(146,717)
Net financial liabilities	**82,677**	**22,008**
Operating profit (EBITDA excl. the impact of IFRS 16)	**466,524**	**489,423**
Total leverage	**0.2**	**0.0**

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 (2018: 1,383,833). The overall percentage amounts to 2.0% of subscribed capital (2018: 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 205,113 thousand. The net retained profit of HUGO BOSS AG for 2019 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 189,794 thousand. This corresponds to EUR 2.75 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 3,806 thousand be carried forward to the new account.

In 2019, a dividend of EUR 186,344 thousand was paid out for shares outstanding for the fiscal year 2018 (in 2018 for 2017: EUR 182,893 thousand). This corresponds to EUR 2,70 per share for 2018 (2017: EUR 2,65 per share).

17 | Provisions

(in EUR thousand)

	2019	2018
Provisions for pensions	50,982	35,517
Other non-current provisions	35,837	33,512
Non-current provisions	**86,819**	**69,029**
Current provisions	**91,746**	**97,671**
Total	**178,565**	**166,700**

Other provisions of EUR 127,583 thousand (2018: EUR 131,183 thousand) comprise current provisions of EUR 91,746 thousand (2018: EUR 97,671 thousand) and other non-current provisions of EUR 35,837 thousand (2018: EUR 33,512 thousand). The risk-free interest rates used to discount other non-current provisions range between 0.3% and 4.5% (2018: between 0.5% and 4.5%) depending on the term and currency zone in question. In fiscal year 2019, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2019	**Changes in currency and the consolidated group**	**Compounding**	**Addition**	**Use**	**Release**	**Balance on Dec. 31, 2019**
Provisions for personnel expenses	63,840	265	33	47,096	(43,337)	(6,597)	61,300
Provisions for goods returned	26,627	196	0	21,044	(23,009)	(594)	24,264
Provisions for rebuild obligations	17,268	487	82	1,845	(1,161)	(1,194)	17,327
Costs of litigation, pending legal disputes	3,443	(44)	0	4,245	(4,349)	(696)	2,599
Other provisions	20,005	194	0	18,035	(10,657)	(5,484)	22,093
Total	**131,183**	**1,098**	**115**	**92,265**	**(82,513)**	**(14,565)**	**127,583**

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.

In the previous year, a provision was recognized for liability obligations in connection with the sale of the former production site in Cleveland, Ohio, USA. In 2015, HUGO BOSS Cleveland Inc. sold the production site in Cleveland, Ohio. The sale included the transfer of the production employees' obligations from the multi-employer pension fund and other liabilities to the purchaser. Under the provisions of the Employee Retirement Income Security Act (ERISA), the seller may, under certain conditions, be held liable for the subsidiary if the purchaser terminates participation in the pension plan before the end of five years. In January 2019, the purchaser notified HUGO BOSS that it will close its production facility in Cleveland in March 2019. Participation in the multi-employer pension fund terminates as a result of the closure, creating a payment obligation. Subsequently, an assessment was made of the payment obligation of the purchaser by the pension fund, which can be settled quarterly over 20 years or by a one-time payment in accordance with the provisions of the Employee Retirement Income Security Act. Since then, the acquirer has made quarterly payments to the pension fund and it is assumed that the acquirer is in discussions with the pension fund to reduce the amount of the one-time payment. The provision for liability of HUGO BOSS Cleveland Inc. based on the agreed subsidiary liability was adjusted accordingly.

It is expected that EUR 17,481 thousand (2018: EUR 16,386 thousand) of the personnel provisions will be paid out after more than twelve months.

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.

Miscellaneous other provisions

Miscellaneous other provisions are recognized for the potential ramifications of legal issues. 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 | Share-based long-term compensation program

A large part of the long-term provisions for personnel expenses consists of the **Long Term Incentive (LTI) Program** implemented at the beginning of fiscal year 2016. This program serves as a long-term share-based compensation component for the Managing Board and eligible management staff of the HUGO BOSS Group. As of December 31, 2019, there are four tranches in the LTI Program:

- 2016 – 2018 LTI Bonus Plan (issued on January 1, 2016)
- 2017 – 2019 LTI Bonus Plan (issued on January 1, 2017)
- 2018 – 2020 LTI Bonus Plan (issued on January 1, 2018)
- 2019 – 2021 LTI-Bonus Plan (issued on January 1, 2019)

Each plan has a total duration of four years, which is split into a performance term of three years and a qualifying period of one year. The plan participant receives an individual number of virtual shares, the so-called “performance shares” (initial grant) at the beginning of the performance term, calculated as follows:

Individual LTI-budget in euros / average HUGO BOSS share price over the three months before the beginning of the performance term.

The number of the virtual shares issued as of December 31, 2019, and the remaining terms of each plan are displayed in the following table:

LTI Bonus Plan	Number of virtual Shares (Initial Grant)	Remaining Terms
2016 – 2018	136,727	0 years
2017 – 2019	164,681	1 year
2018 – 2020	153,798	2 years
2019 – 2021	187,089	3 years

The final entitlement of the participants in the plan depends on the following components:

(1) individual number of performance shares (initial grant)

(2) degree of attainment of pre-defined targets (components): relative total shareholder return (RTSR); return on capital employed (ROCE); degree of employee satisfaction; score in the Dow Jones Sustainability Index (DJSI) during the performance term

(3) average HUGO BOSS share price over the last three months of the waiting period.

A detailed explanation of the individual target components can be found in the management report on page 115 et seq.

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 years 2019, 2020, 2021 and 2022 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. The expected entitlement of the plan participant is the basis for the calculation of a long-term personnel provision recognized on a pro rata basis over the term of the respective plans and re-evaluated on each reporting date. The amount of the entitlement and the provision are evaluated using a Monte Carlo simulation, considering the following components:

(1) expected degree of attainment of individual target components listed above

(2) fair value per share option/performance shares (expected HUGO BOSS share price at the end of the period)

The fair value of the performance shares is calculated by an external expert using an option pricing model.

The fair values for the three plans moved in the following ranges as of December 31, compared to the previous year:

LTI Bonus Plan	Fair values per share option 2019	Fair values per share option 2018
2016–2018	EUR 33.62	between EUR 45.66 and EUR 51.89
2017–2019	between EUR 23.53 and EUR 26.72	between EUR 38.64 and EUR 49.90
2018–2020	between EUR 23.78 and EUR 30.71	between EUR 32.70 and EUR 47.99
2019–2021	between EUR 20.36 and EUR 29.88	–

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

	2019	2018
HUGO BOSS share price at reporting date in EUR	43.26	53.92
Expected dividend return in %	4.00	4.00
Expected volatility in %	30.00	30.00
Risk free interest rate in % (LTI Plan 2016)	(0.73)	(0.70)
Risk free interest rate in % (LTI Plan 2017)	(0.69)	(0.65)
Risk free interest rate in % (LTI Plan 2018)	(0.63)	(0.56)
Risk free interest rate in % (LTI Plan 2019)	(0.58)	–

As of December 31, 2019, the provision recognized in this connection for the four plans totaled EUR 10,471 thousand (2018: EUR 6,972 thousand). Therefore, a total expense for share-based payment pursuant to IFRS 2 of EUR 3,499 thousand (2018: EUR 3,081 thousand) was recognized in personnel expenses in fiscal year 2019.

19 | 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 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 order to simplify the settlement, a former member of the Managing Board was made an offer in 2019 to cancel the previous pension commitment in return for payment of a one-off capital payment in the amount of the actuarial commercial present value. The offer was accepted and the payment will be made in the first quarter of 2020.

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**	
	2019	2018	**2019**	2018	**2019**	2018
Germany	120,089	100,849	98,287	86,129	21,802	14,720
Switzerland	59,687	44,322	38,025	33,099	21,662	11,223
Others[1]	10,920	9,574	0	0	10,920	9,574
Total	**190,696**	**154,745**	**136,312**	**119,228**	**54,384**	**35,517**

[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 2019, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2019	2018
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	154,744	150,834
Currency differences	1,207	196
Service cost	5,398	5,892
Interest expense	3,643	2,865
Payments from settlements	(21)	(48)
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	21,748	(4,086)
Actuarial gains/losses due to changes in demographic assumptions	0	(112)
Experience adjustments	3,771	(396)
Benefits paid	(3,704)	(3,479)
Contribution by participants of the plan	3,906	3,291
Past service cost	3	(212)
Present value of benefit obligation on December 31	**190,695**	**154,745**
Changes in plan assets		
Fair value of plan assets on January 1	119,228	110,881
Currency differences	1,294	1,118
Offsetting with plan assets	0	0
Expected return on plan assets	2,277	1,955
Expected return on plan assets (without interest income)	7,457	633
Benefits paid	(2,169)	(2,347)
Contribution by the employer	4,318	3,697
Contribution by participants of the plan	3,906	3,291
Fair value of plan assets on December 31	**136,311**	**119,228**
Funding status of the benefits funded by plan assets	**54,384**	**35,517**

As of December 31, 2019, EUR 117,758 thousand (2018: EUR 98,642 thousand) of the present value of the defined benefit obligation is financed through employer's pension liability insurance and EUR 59,687 thousand (2018: EUR 44,322 thousand) through foundation assets; while the remaining EUR 13,306 thousand (2018: EUR 11,781 thousand) was unfunded.

Actuarial assumptions underlying the calculation of the present value of the pension obligations as of December 31, 2019

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	**2019**	2018
Discount rate		
Germany	1.45%	2.20%
Switzerland	0.10%	1.10%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	2.00%	2.00%

Pension benefits in Germany are determined on the basis of biometric principles in accordance with the 2018 G mortality tables of Prof. Dr. Klaus Heubeck. The BVG 2015 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, 2019.

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	**2019**	2018
Discount rate		
December 31,		
Increase of 75 basis points	(21,131)	(16,037)
Decline of 75 basis points	25,670	19,666
Future pension increases		
December 31,		
Increase of 25 basis points	5,859	4,590
Decline of 25 basis points	(4,080)	(3,247)
Future salary increases		
December 31,		
Increase of 50 basis points	1,636	1,213
Decline of 50 basis points	(1,542)	(1,168)
Life expectancy		
December 31,		
Increase of 10 percent	6,279	4,452
Decline of 10 percent	(6,166)	(4,444)

Breakdown of the pension expenses in the period

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

(in EUR thousand)

	2019	2018
Current service costs	5,398	5,892
Past service costs	3	(212)
Net interest costs	1,366	910
Recognized pension expenses in the comprehensive statement of income	**6,767**	**6,590**
Expense from plan assets (without interest effects)	(7,457)	(633)
Recognized actuarial (gains)/losses	25,520	(4,594)
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**18,063**	**(5,227)**

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 2019, the Group expects employer contributions to plan assets of EUR 4,198 thousand (2018: EUR 3,841 thousand).

Duration

The duration of the benefit-based plans of the HUGO BOSS Group on December 31, 2019, is 18 years for Germany (2018: 17 years) and 20 years for Switzerland (2018: 19 years).

Defined contribution plans

Employer contributions to contribution-based plans totaled EUR 21,938 thousand in the past fiscal year (2018: EUR 19,292 thousand) and are reported under personnel expenses. The HUGO BOSS Group's main contribution-based plan is in Germany. They receive the contributions to statutory pension insurance and the employer's contribution to employer-funded direct insurance in Germany.

20 | 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)

	2019	**With remaining term up to 1 year**	2018	With remaining term up to 1 year
Financial liabilities due to banks	215,303	110,269	168,725	90,609
Lease liabilities	957,175	167,703	4,750	1,318
Other financial liabilities	2,650	1,745	2,661	1,434
Total	**1,175,128**	**279,717**	**176,136**	**93,361**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 2,650 thousand (2018: EUR 2,661 thousand).

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

	2019		2018	
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	0.38%	110,269	0.30%	90,609
1 to 5 years	2.75%	60,186	1.21%	72,394
More than 5 years	3.87%	44,847	3.35%	5,722
Other financial liabilities				
Up to 1 year	1.52%	1,908	2.69%	2,752
1 to 5 years	5.80%	904	4.27%	4,659
More than 5 years	0.00%	0	0.00%	0

The interest-bearing financial liabilities increased as a result of the takeover of a loan as part of acquiring of DZ Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. In contrast, there is a reduced utilization of the syndicated loan. In comparison with the prior year, the share of non-interest-bearing financial liabilities has increased. 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)

2019			**Expected cash flows**		
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1–5 years**	**> 5 years**
Financial liabilities due to banks	215,303	220,260	110,538	63,632	46,090
Lease liabilities	957,175	1,041,297	188,282	584,828	268,187
Derivative financial liabilities					
Undesignated derivatives	2,329	2,329	1,425	904	0
Derivatives subject to hedge accounting	321	321	321	0	0
Other financial liabilities	0	0	0	0	0
Total	**1,175,128**	**1,264,207**	**300,566**	**649,364**	**314,277**
2018					
Non-derivative financial liabilities					
Financial liabilities due to banks	168,725	173,677	103,243	64,520	5,914
Lease liabilities	4,750	5,964	1,473	4,491	0
Derivative financial liabilities					
Undesignated derivatives	1,906	1,906	678	1,228	0
Derivatives subject to hedge accounting	755	755	755	0	0
Other financial liabilities	0	0	0	0	0
Total	**176,136**	**182,302**	**106,149**	**70,239**	**5,914**

21 | Other liabilities

(in EUR thousand)

	2019			2018		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	130,512	130,022	490	183,762	123,092	60,670
From accruals of rental obligations for the Group's own retail business	5,832	5,731	101	80,189	19,954	60,235
From taxes	57,312	57,312	0	48,557	48,557	0
From social security, accrued vacation, wages and salaries	29,756	29,756	0	28,875	28,875	0

22|Additional disclosures on financial instruments

Carrying amounts and fair values by category of financial instruments

(in EUR thousand)

		2019		2018	
Assets	**IFRS 9 category**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	AC	132,626	132,626	146,717	146,717
Trade receivables	AC	216,222	216,222	214,137	214,137
Other financial assets		53,859	53,859	49,281	49,281
Thereof:					
Undesignated derivatives	FVTPL	327	327	560	560
Derivatives subject to hedge accounting	Hedge Accounting	1,501	1,501	0	0
Other financial assets	AC	47,758	47,758	48,721	48,721
Liabilities					
Financial liabilities due to banks	AC	215,303	220,539	168,725	170,547
Trade payables	AC	314,646	314,646	295,106	295,106
Lease liabilities	n.a.	957,175	957,175	4,750	4,750
Other financial liabilities		2,650	2,650	2,661	2,661
Thereof:					
Undesignated derivatives	FVTPL	2,329	2,329	1,906	1,906
Derivatives subject to hedge accounting	Hedge Accounting	321	321	755	755
Other financial liabilities	AC	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, 2019, 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, 2019, as in the prior year, all financial instruments measured at fair value in the category FVTPL and derivatives designated to a hedge relationship were assigned to level 2. During fiscal year 2018, 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 1,828 thousand and liabilities to EUR 2,650 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.

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	2019	2018
Derivatives (FVTPL)	0	(518)	0	0	(9,616)	(10,134)	(4,799)
Financial Assets Measured at Amortised Cost (AC)	1,609	0	3,397	(5,766)	0	(760)	(6,792)
Financial Liabilities Measured at Amortised Cost (AC)	(2,853)	0	(204)	0	0	(3,057)	770

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 AC 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	Cash flows	Acquisition of groups of assets	Changes in portfolio	Change in the maturity	Currency translation effects	**Gross Value Dec 31**
2019							
Short-term liabilities arising from financing activities							
Financial liabilities due to banks	90,609	(107)	11,467	8,293	8,293	7	110,269
Lease liabilities	226,592	(227,394)	(7,968)	142,085	142,085	2,295	167,703
Long-term liabilities arising from financing activities							
Financial liabilities due to banks	78,116	(35,000)	69,750	(8,293)	(8,293)	461	105,034
Lease liabilities	834,638	0	(45,409)	(142,085)	(142,085)	9,300	789,472
Total	**1,229,955**	**(262,501)**	**27,840**	**0**	**0**	**12,063**	**1,172,478**
2018							
Short-term liabilities arising from financing activities							
Financial liabilities due to banks	67,603	25,077	0	0	0	(80)	90,609
Lease liabilities	1,235	77	0	0	0	6	1,318
Long-term liabilities arising from financing activities							
Financial liabilities due to banks	54,725	20,310	0	0	0	1,089	78,115
Lease liabilities	4,558	(1,324)	0	0	0	199	3,433
Total	**128,121**	**44,140**	**0**	**0**	**0**	**1,214**	**173,475**

In the fiscal year 2019, Distributionszentrum Vermietungsgesellschaft mbH & Co Objekt HUGO BOSS Filderstadt KG was acquired. This resulted in an increase in liabilities due to banks since a loan was acquired in the amount of EUR 81,217 thousand. Due to the acquisition of the property, the lease liabilities recognized as of January 1, 2019, were derecognized.

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
2019						
Trade receivables	227,695	(11,473)	216,222	0	0	216,222
Other financial assets	53,859	0	53,859	(35)	0	53,824
Thereof derivatives	1,828	0	1,828	(35)	0	1,793
Total	**281,554**	**(11,473)**	**270,081**	**(35)**	**0**	**270,046**
2018						
Trade receivables	221,510	(7,373)	214,137	0	0	214,137
Other financial assets	49,281	0	49,281	(150)	0	49,131
Thereof derivatives	560	0	560	(150)	0	410
Total	**270,791**	**(7,373)**	**263,418**	**(150)**	**0**	**263,268**

(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
2019						
Trade payables	325,328	(10,682)	314,646	0	0	314,646
Other financial liabilities	2,813	0	2,813	(35)	0	2,778
Thereof derivatives	2,650	0	2,650	(35)	0	2,615
Total	**328,141**	**(10,682)**	**317,459**	**(35)**	**0**	**317,424**
2018						
Trade payables	304,187	(9,081)	295,106	0	0	295,106
Other financial liabilities	7,411	0	7,411	(150)	0	7,261
Thereof derivatives	2,661	0	2,661	(150)	0	2,511
Total	**311,598**	**(9,081)**	**302,517**	**(150)**	**0**	**302,367**

The liabilities of EUR 11,473 thousand (2018: EUR 7,373 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 10,682 thousand (2018: EUR 9,081 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)

	2019		2018	
	Nominal-values	**Fair values**	Nominal-values	Fair values
Assets				
Currency hedging contracts	78,186	1,828	122,839	560
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracts	(113,470)	(1,333)	(91,048)	(978)
Interest hedging contracts	(7,412)	(1,316)	(8,230)	(1,683)
Total	**(42,696)**	**(821)**	**23,561**	**(2,101)**

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 (1,998) thousand (2018: EUR (1,346) thousand) stems from financial assets and liabilities that were classified as held for trading.

The positive effects from the fair value measurement of currency hedges of EUR 1,180 thousand were recognized in other comprehensive income as of December 31, 2019 (2018: EUR (755) thousand). Of the amount recognized in other comprehensive income, gains of EUR 825 thousand on securities falling due were recycled into operating earnings in the fiscal year 2019 (2018: losses of EUR 3,444 thousand).

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.

The Group has production facilities at HUGO BOSS Textile Industry Ltd. in Turkey, among other locations. The euro is used as the functional currency of this subsidiary; however, certain local payments are made in Turkish lira. This results in a transaction risk, both from the local and Group point of view, due to the fluctuating exchange rate between the EUR and the TRY.

The risk management strategy aims at limiting transaction risks and smoothing the income statement. Therefore, future cash flows (including wages, salaries, social security contributions and transport costs) are hedged using forward exchange transactions and then linked with a hedging relationship shown on the balance sheet as cash flow hedges as per IFRS 9 (hedge accounting).

HUGO BOSS uses a mechanistic hedging method for its implementation. Cash flow planning for the following fiscal year is employed on a yearly basis for determining exposures to be hedged. A total of 75% of expected exposures are subsequently hedged using forward exchange transactions based on this planning. These are traded on specific dates, divided into three tranches of approximately 25% each. This makes it possible for the HUGO BOSS Group on one hand to participate in market opportunities while on the other smoothing out hedged rates by the split into two tranches. This also makes it possible to take changed plan assumptions into account.

The currency of the underlying transaction is identical to the currency of the hedging instrument. In addition, only the cross-currency basis spread (CCBS) contained in the hedging instrument was evaluated on the reporting date, and classified as immaterial. As this results in the underlying risk of the currency forward contract being identical to the hedged risk (the exchange rate risk between the EUR and TRY), HUGO BOSS sets a hedging ratio of 1:1 for the hedging relationship indicated above.

The forward exchange contracts are normally concluded in such a way that their due date corresponds with the due date of the expected cash flows. As already noted above, the risk of the hedging instrument also corresponds with the hedged risk. As a result, HUGO BOSS prospectively assumes an economic relationship between the underlying transaction and the hedging instrument. This is reviewed on a regular basis, but no less often than every reporting date.

In principle, differences between planned and actual due dates for cash flows can cause some partial inefficiency. Furthermore, inefficiency may occur in the calculation of the difference in value between the hedging transaction and the underlying transaction, since the currency basis or forward points are not excluded when designating the hedging instruments.

The HUGO BOSS Group holds the following forward exchange contracts for hedging future cash flow as of the reporting date:

	2020				
Maturity	**Jan.–Mar.**	**Apr.–Jun.**	**Jul.–Sept.**	**Oct.–Dec.**	**Total**
Nominal amount in TRY thousand	35,490	37,725	39,638	37,575	150,428
Average hedged rate	7.072	7.359	7.657	7.956	7.519

Based on historical experience, the HUGO BOSS Group anticipates all underlying transactions currently designated as cash flow hedges to accrue as of the reporting date.

Hedging instruments that the Company has designated in hedging relationships have the following impact on the balance sheet as of December 31, 2019:

(in EUR thousand)

Balance sheet item	**2019** Derivatives subject to hedge accounting	2018 Derivatives subject to hedge accounting
Carrying amount assets	1,501	0
Carrying amount liabilities	(321)	(755)
Change in fair value of hedges held as of the reporting date	1,180	(755)
Nominal volume	20,047	12,442

The hedging relationships shown above have the following impact on the income statement or other comprehensive income (OCI):

(in EUR thousand)

	2019	2018
Change in fair value of the underlying transaction	(1,180)	755
Cash flow hedge reserve from existing hedges	1,180	(755)
Cash flow hedge reserve from hedges no longer in existence	0	0
Ineffectiveness recognized in income	0	0
Amount reclassified from OCI due to non occurence of underlying transaction	0	0
Amount reclassified from OCI due to maturity of underlying transaction	825	(3,444)

As of the reporting date, EUR 7,411 thousand (2018: EUR 8,230 thousand) in variable interest financial liabilities without designation were secured as a hedging relationship.

For additional information and a detailed description of other financial risks, refer to the Risk/Reward Report.

Other Notes

23|Contingent liabilities

There were no contingent liabilities as of 31 December 2019.

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 the segment profit. Since fiscal year 2019, the segment profit has been defined as EBIT and therefore replaces the item EBITDA before special items used by the Group up to and including 2018. For this reason, the prior-year figures presented differ from those reported in the previous year.

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
2019					
Sales	**1,802,843**	**559,755**	**437,750**	**83,708**	**2,884,056**
Segment profit comparable to 2018	**471,810**	**61,494**	**93,980**	**70,062**	**697,346**
In % of sales	26.2	11.0	21.5	83.7	24.2
IFRS 16 effect	4,888	3,064	2,817	0	10,769
Effect IC charges	(20,647)	(4,272)	(2,981)	0	(27,900)
Segment profit	**456,051**	**60,286**	**93,816**	**70,062**	**680,215**
In % of sales	25.3	10.8	21.4	83.7	23.6
Segment assets	274,115	156,470	109,691	23,298	563,574
Capital expenditure	129,508	47,637	82,405	16	259,566
Impairments	(7,009)	(2,469)	(646)	0	(10,124)
Thereof property, plant and equipment	(7,523)	(2,656)	(657)	0	(10,836)
Thereof intangible assets	(1,063)	0	0	0	(1,063)
Thereof write up	1,577	187	11	0	1,775
Depreciation/amortization	(157,720)	(63,555)	(79,932)	0	(301,207)
2018					
Sales	**1,735,810**	**573,967**	**410,003**	**76,183**	**2,795,963**
Segment profit	**492,609**	**68,337**	**81,839**	**63,617**	**706,402**
In % of sales	28.4	11.9	20.0	83.5	25.3
Segment assets	247,717	182,088	94,208	21,945	545,958
Capital expenditure	49,952	15,219	19,099	5	84,275
Impairments	(2,353)	(3,842)	(59)	0	(6,254)
Thereof property, plant and equipment	(3,723)	(4,783)	(848)	0	(9,354)
Thereof intangible assets	829	(235)	0	0	594
Thereof write-up	541	1,176	789	0	2,506
Depreciation/amortization	(44,894)	(18,810)	(17,350)	0	(81,054)

[1] Including Middle East/Africa.

Reconciliation

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

Sales

(in EUR thousand)

	2019	2018
Sales – operating segments	**2,884,056**	**2,795,963**
Corporate units	0	0
Consolidation	0	0
Total	**2,884,056**	**2,795,963**

Operating income

(in EUR thousand)

	2019	2018
Segment profit (EBIT) – operating segments	**680,215**	**706,402**
Corporate units	(335,244)	(359,245)
Consolidation	(475)	(348)
Operating income (EBIT) HUGO BOSS Group	**344,496**	**346,809**
Net interest income/expenses	(31,465)	(3,213)
Other financial items	(7,438)	(6,926)
Earnings before taxes HUGO BOSS Group	**305,593**	**336,670**

Segment assets

(in EUR thousand)

	2019	2018
Segment assets – operating segments	**563,574**	**545,958**
Corporate units	279,162	286,126
Consolidation	0	0
Current tax receivables	33,359	38,682
Current financial assets	32,341	31,998
Other current assets	123,200	122,723
Cash and cash equivalents	132,626	146,717
Current assets HUGO BOSS Group	**1,164,262**	**1,172,204**
Non-current assets	1,713,203	686,353
Total assets HUGO BOSS Group	**2,877,465**	**1,858,557**

Capital expenditures

(in EUR thousand)

	2019	2018
Capital expenditure – operating segments	**259,566**	**84,275**
Corporate units	81,446	71,025
Consolidation	0	0
Total	**341,012**	**155,300**

Impairments / Write-ups

(in EUR thousand)

	2019	2018
Impairment – operating segments	**10,124**	**6,254**
Corporate units	0	0
Consolidation	0	0
Total	**10,124**	**6,254**

Depreciation/amortization

(in EUR thousand)

	2019	2018
Depreciation/amortization – operating segments	**301,207**	**81,054**
Corporate units	51,131	42,372
Consolidation	0	0
Total	**352,338**	**123,426**

Geographic information

(in EUR thousand)

	Third party sales		Non-current assets	
	2019	2018	**2019**	2018
Germany	412,458	429,379	459,125	237,825
Other European markets	1,474,092	1,382,614	637,316	208,434
U.S.A.	406,223	422,341	217,496	40,800
Other North and Latin American markets	153,531	151,626	54,575	16,763
China	239,294	227,878	42,710	30,557
Other Asian markets	198,458	182,125	186,813	44,575
Total	**2,884,056**	**2,795,963**	**1,598,035**	**578,954**

26 | Related party disclosures

In the reporting period from January 1 to December 31, 2019, the following transactions requiring disclosure were conducted with related parties:

Non-consolidated subsidiaries
There were no transactions with non-consolidated subsidiaries in the fiscal year 2019. In fiscal year 2018, transactions were conducted with the non-consolidated subsidiary HUGO BOSS Florida, Inc. resulting in receivables in the amount of EUR 1,517 thousand as of the reporting date.

Entities under joint control
In the fiscal year 2019, rental payments in the amount of EUR 11,905 thousand (2018: EUR 11,696 thousand) were made to companies under joint management under existing property leases. There were no open receivables or liabilities relating to these business transactions as of December 31, 2019. The leasing agreements include purchase options for the respective property at the expected market value. In addition, there was a lease extension option at market conditions for the agreement with Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. The non-cancelable remaining term of the leases is seven years for GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG. Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG was added to the distribution center in the fourth quarter of 2019.

In the fiscal year 2019, 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 40,653 thousand (2018: EUR 29,857 thousand) and receivables amounting to EUR 210 thousand (2018: EUR 316 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 194 to 195.

Compensation for the Managing Board

The total remuneration of the Management Board amounts to TEUR 5,061 (2018: TEUR 6,903). Expenses for current benefits in 2019 totalled EUR 3,352 thousand (2018: EUR 4,881 thousand). A service cost of EUR 1,209 thousand (2018: EUR 1,322 thousand) was incurred for the company pension scheme in 2019. Expenses for share-based compensation in 2019 amounted to EUR 500 thousand (2018: EUR 700 thousand).

The total remuneration of the members of the Management Board in accordance with section 314 (1) no. 6 a) sentences 1 to 4 of the HGB amounted to EUR 4,454 thousand in financial year 2019 (2018: EUR 7,299 thousand). Of this amount, EUR 2,646 thousand was attributable to basic remuneration including fringe benefits (2018: EUR 2,890 thousand). As in the previous year, no special remuneration was granted in the fiscal year (2018: EUR 0 thousand). An amount of EUR 0 thousand (2018: EUR 1,991 thousand) is attributable to the “Short Term Incentive” (STI) agreed for fiscal year 2019; no payment is made due to the current level of target achievement. An amount of EUR 1,811 thousand is attributable to the LTI 2019 – 2021, which results for 28,330 subscription rights granted in 2019.

In 2019, former members of the Managing Board and their surviving dependents received total compensation of EUR 3,962 thousand (2018: EUR 309 thousand). This includes termination-of-employment benefits amounting to EUR 3,513 thousand (2018: EUR 0 thousand).

Pension obligations for former members of the Board of Management and their surviving dependents amount to EUR 51,268 thousand (2018: EUR 47,171 thousand). The corresponding plan assets in the form of employer’s liability insurance amount to EUR 35,715 thousand (2018: EUR 35,473 thousand).

Compensation of the Supervisory Board

The Supervisory Board received compensation for its activities in 2018 amounting to EUR 1,464 thousand. For fiscal year 2019, total compensation is expected to come to EUR 1,205 thousand. This figure includes a variable component of EUR 450 thousand (2018: EUR 709 thousand), which is calculated on the basis of the actual 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% (2018: less than 1%) of the shares issued by HUGO BOSS AG.

Members of the Managing 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

At the time this report was prepared on February 20, 2020, the business of HUGO BOSS was significantly impaired by the spread of the novel coronavirus and the associated restrictions on public life, first and foremost in mainland China. Since late January, a large proportion of the Company’s own retail stores in mainland China, Hong Kong and Macau have been either closed or operating with severely limited opening hours. During the same period, the Company also recorded a noticeable decline in the sales generated from Chinese tourists in other key markets.

Against this backdrop and given the prevailing high levels of uncertainty regarding the ongoing development of this situation at the time of preparing this report, HUGO BOSS anticipates that the economic consequences of the spread of coronavirus are very likely to have a significant impact on the Group's sales and profit development in 2020. According to the Company's assumption, the situation should gradually normalize by the middle of the year. Any negative impacts above and beyond this could cause the actual results in fiscal year 2020 to differ from the projected values.

Between the end of fiscal year 2019 and the release of this report for publication on February 20, 2020, there were no further macroeconomic, socio-political, industry-related or Company-specific changes that the Management expects to have a significant impact on the Group's earnings, net assets or financial position.

28|German Corporate Governance Code

In December 2019, 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)

	2019	2018
Audit services	1,772	1,740
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	479	510
Other assurance services	146	184
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	86	92
Tax advisory services	73	193
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	0	44
Other services	101	26
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	0	0
Total	**2,092**	**2,143**

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 since January 15, 2010 Member of the Managing Board, since May 19, 2016 Chairman of the Managing Board	Corporate Strategy, Corporate Communication, Own Retail, Wholesale, Global Sustainability, Global Production and Sourcing, Supply Chain Management, Business Unit BOSS Menswear
Yves Müller (Hamburg/Metzingen, Germany) since December 1, 2017 Member of the Managing Board	Controlling, Finance & Tax, Investor Relations, Internal Audit, IT, Legal/Compliance, Human Resources, Real Estate Management
Ingo Wilts (Amsterdam, Netherlands) since August 15, 2016 Member of the Managing Board	Product Creation, Global Marketing, Licenses Management, Business Unit BOSS Womenswear, Business Unit HUGO
Bernd Hake (Eningen, Germany) till July 1, 2019 Member of the Managing Board	Own Retail, Wholesale, Global Merchandising

Supervisory Board

Shareholder representatives	Employee representatives
Michel Perraudin (Hergiswil, Switzerland) Management Consultant Chairman of the Supervisory Board Member since/until 2015/2020	**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
Kirsten Kistermann-Christophe (Oberursel, Germany) Managing Director Société Générale S.A., Frankfurt/Main, Germany Member since/until 2015/2020	**Tanja Silvana Grzesch** (Inzigkofen, Germany) Chairperson and Treasurer of the German Metalworkers´ Union (IG Metall) Reutlingen-Tuebingen, Reutlingen, 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	**Anita Kessel** (Metzingen, Germany) Administrative Employee HUGO BOSS AG, Metzingen, Germany Member since/until 2015/2020
Luca Marzotto (Venice, Italy) Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy Member since/until 2010/2020	**Fridolin Klumpp** (Caslano, Switzerland) Business Director BOSS Womenswear HUGO BOSS AG, Metzingen, Germany Member since/until 2015/2020
Axel Salzmann (Großhansdorf, Germany) Chief Financial Officer Hensoldt Holding GmbH, Taufkirchen, Germany Member since/until 2015/2020	**Sinan Piskin** (Metzingen, Germany) Administrative Employee/ Deputy Chairman of the Works Council HUGO BOSS AG Metzingen, Germany Member since/until 2008/2020
Hermann Waldemer (Blitzingen, Switzerland) Management Consultant Member since/until 2015/2020	**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 (Switzerland)[2]	Huenenberg, Switzerland
Fridolin Klumpp	HUGO BOSS Ticino AG (Switzerland)	Coldrerio, Switzerland
Gaetano Marzotto	Style Capital SGR S.p.A.[2]	Milan, Italy
	TIP PRE-IPO S.p.A.	Milan, Italy
	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
Luca Marzotto	Dimora 01	Milan, Italy
	Forte Forte S.r.l.	Sarcedo, Italy
	Isotex Engineering S.r.l.	Trissino, Italy
	Multitecno S.r.l.	Fossalta di Portogruaro, Italy
	Santex Rimar Group S.r.l.	Trissino, Italy
	Smit S.r.l.	Trissino, Italy
	Solwa S.r.l.	Trissino, Italy
	Sperotto Rimar S.r.l.	Trissino, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
Axel Salzmann	Team Viewer	Goeppingen, Germany

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

Members of the Managing Board

The members of the Managing Board of HUGO BOSS AG did not hold any mandates on supervisory boards or comparable supervisory bodies of companies not belonging to the HUGO BOSS Group during the reporting period. In the reporting period, members of the Managing Board held mandates on supervisory boards or comparable other supervisory bodies of Group companies for the purpose of Group management and monitoring.

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, 2020

HUGO BOSS AG
The Managing Board

Mark Langer
Yves Müller
Ingo Wilts

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ADDITIONAL INFORMATION

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, 2020

HUGO BOSS AG
The Managing Board

Mark Langer
Yves Müller
Ingo Wilts

INDEPENDENT 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 2019, the statement of comprehensive income for the fiscal year from 1 January to 31 December 2019, the consolidated statement of financial position as of 31 December 2019, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2019, 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 for the fiscal year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the non-financial statement included in the "Non-financial statement" section of the group management report and the statement on corporate governance pursuant to Section 315d HGB ["Handelsgesetzbuch": German Commercial Code] published on the Company's website and referenced in the management report.

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 of 31 December 2019, and of its financial performance for the fiscal year from 1 January to 31 December 2019, 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 does not cover the content of the group non-financial statement or the group 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 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 2019. 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 fixed 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). The assets allocated to the DOS make up the bulk of fixed assets of the HUGO BOSS Group and account for approx. 4.7% of total assets. For the purpose of the impairment test, the DOS are defined as independent cash-generating units (CGUs).

The varying development of regional and local sales markets necessitates extensive estimates and assumptions with regard to the valuation model applied, the calculation of indicators for impairment testing (particularly the development of sales and profitability indicators), the calculation of the discount rate as well as the calculation of expected future cash inflows. This applies in particular to specific growth rates used to roll forward the budget of the Company. The impairment testing of the fixed assets assigned to the DOS was a key audit matter due to the judgment exercised.

Auditor's response:
We discussed with the Company's executive directors and assessed the method applied for the calculation of impairments and reversals of impairments. With the support of internal valuation experts and in particular against the backdrop of the changes required by IFRS 16, we examined the discounted cash flow valuation model, particularly its mathematical accuracy, the composition 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 (triggering event test) 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 composition of the carrying amounts and of the amortized cost of the assets allocated. 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's executive directors and in some cases obtained evidence substantiating the individual assumptions of the forecasts.

In cases where impairment testing was not based on the useful life but rather on the net realizable value, we compared the calculation of the net realizable value with the valuations of the expert calculations obtained by 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 recoverability of the fixed assets assigned to the 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 testing of the fixed assets assigned to the DOS can be found on pages 141 et seq. and 160 et seq. of the notes to the consolidated financial statements.

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 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.

The measurement of inventories was a key audit matter due to the judgment exercised.

Auditor's response:
In our audit, we first examined the procedures established by the Company's executive directors for determining write-downs recognized for slow-moving goods and assessed the effectiveness of the controls implemented in this process.

We verified the suitability of the IT-supported write-down procedure for the assessment of inventory risks resulting from saleability, range 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 the reasons and their implementation. We compared the computational logic of the model with the accounting and measurement policies used by the Company and mathematically 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.

We discussed additional, manual write-downs with the Company's executive directors, obtained evidence and performed further substantive audit procedures.

Our audit did not lead to any reservations concerning the measurement of inventories of the Company.

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 142 and 165 et seq.

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 receivables.

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 Germany, the USA, China and Japan, in particular on the future taxable earnings, 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.

There were no 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 140 et seq. and 150 et seq.

4) Accounting treatment of rental and lease agreements

Reasons why the matter was determined to be a key audit matter:
The Group concludes rental and lease agreements to a considerable extent for the rental and leasing of directly operated stores, office and warehouse space as well as plots of land. As of 1 January 2019, the new standard on leases (IFRS 16) required that right-of-use assets as well as corresponding lease liabilities be recognized for the first time. As of 31 December 2019, right-of-use assets accounted for approximately 30% of total assets.

Recognition and measurement pose significant risks regarding the complete identification and correct recognition of contracts containing leases. There are also significant estimates and assessments with regard to the discount rate for the calculation of discounted future lease payments.

The accounting treatment of the rental and lease agreements was a key audit matter due to materiality as well as the risks and judgment exercised in their recognition and measurement.

Auditor's response:
We first assessed the accounting policies applied by HUGO BOSS taking into account the various types of rental and lease agreements. We also examined the process established by HUGO BOSS for the complete and appropriate recognition of contracts, the determination of discount rates as well as the calculation of the value of the right-of-use assets capitalized.

To assess the transition effect as of 1 January 2019, we drew a statistical sample and compared the relevant data in the rental and lease agreements with the calculation of the right-of-use assets. In addition, we verified that the Company had appropriately allocated the contracts on a sample basis for the audit of completeness from the total population of the contracts classified by the Company as not relevant for IFRS 16. In addition, with the support of internal valuation experts we verified the discount rates used, comparing market data with external evidence and examining the mathematical accuracy of the calculation.

For leases already recognized on 1 January 2019, we assessed the development of the right-of-use assets and lease liabilities recognized. For new contracts and changes to contracts in 2019, we used a statistical sample to assess the Company's approach to recognizing a lease within the meaning of IFRS 16. Furthermore, we verified the calculation of the value of the right-of-use assets, lease liabilities as well as depreciation and interest expenses.

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

Our audit procedures have not led to any reservations.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the accounting treatment of rental and lease agreements can be found in the notes to the consolidated financial statements on pages 133 et seq. and 157 et seq.

Other information
The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the disclosures contained in section 1 and 5 as well as section 3 of the corporate governance report with the corporate governance declaration, the section "Non-financial statement" contained in the group non-financial statement of the group management report as well as the statement on corporate governance pursuant to Sec. 315d HGB published on the Company's website as part of the group management report and referenced in the management report. We received a version of this other information prior to issuing this independent auditor's report.

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 auditor of the consolidated financial statements by the Annual Shareholders' Meeting on 16 May 2019. We were engaged by the Supervisory Board on 24 July 2019. 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. Peter Werling.

Stuttgart, February 20, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werling	Sturm
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German PDF version of the combined non-financial statement 2018 of HUGO BOSS AG. The following text is a translation of the original German Independent Assurance Report.

To HUGO BOSS AG, Metzingen

We have performed a limited assurance engagement on the non-financial statement of HUGO BOSS AG according to § 289b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial statement of the group according to § 315b HGB, consisting of the chapter "Combined non-financial statement" as well as the chapter "Business Activities and Group Structure" in the combined management report being incorporated by reference for the reporting period from 1 January 2019 to 31 December 2019 (hereafter combined non-financial statement). Our engagement did not include other references to information outside the combined non-financial statement as well as disclosures for prior years.

Management's responsibility
The legal representatives of the Company are responsible for the preparation of the combined non-financial statement in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the combined non-financial statement as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a combined non-financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's declaration relating to independence and quality control
We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

Auditor's responsibility
Our responsibility is to express a limited assurance conclusion on the combined non-financial statement based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the combined non-financial statement of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between December 2019 and February 2020, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the combined non-financial statement, the risk assessment and the concepts of HUGO BOSS for the topics that have been identified as material,

- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the combined non-financial statement, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the combined non-financial statement,

- Identification of likely risks of material misstatement in the combined non-financial statement,

- Inspection of relevant documentation of the systems and processes for compiling, aggregating, and validating data in the relevant areas, e.g. human rights and labor standards in production, in the reporting period and testing such documentation on a sample basis,

- Analytical evaluation of disclosures in the combined non-financial statement at parent company and group level,

- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,

- Evaluation of the presentation of disclosures in the combined non-financial statement.

Assurance conclusion
Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial statement of HUGO BOSS AG for the period from 1 January 2019 to 31 December 2019 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended use of the assurance report
We issue this report on the basis of the engagement agreed with HUGO BOSS AG. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Engagement terms and liability
The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (**www.de.ey.com/general-engagement-terms**). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be pre-cluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, February 20, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Richter	Johne
Wirtschaftsprüferin	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]