HUGO BOSS

ANNUAL REPORT 2018

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,

The HUGO BOSS Group achieved its financial goals in a challenging economic environment in fiscal year 2018, while at the same time making further substantial progress in its strategic realignment. The Supervisory Board continued to perform its **duties with the utmost care** in fiscal year 2018, 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 reports of all **matters of relevance for HUGO BOSS AG and the Group companies pertaining to strategy, planning, business performance, the risk position, changes in the risk situation and compliance**. Monitoring and control duties particularly focused on the annual financial results. 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 material 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 opportunity at all times to review the Managing Board's **reports and proposals** and to contribute their own ideas in Committees and Supervisory Board meetings. If necessary, approvals were issued only after requesting clarification from the Managing Board and extensively discussing the matter with the members of the Managing Board. In urgent cases, the Supervisory Board passed resolutions 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 2018, a total of **four Supervisory Board meetings** were held in March, May, September and December, with the September meeting held over two days. The four Supervisory Board meetings were attended by all members except that Anita Kessel, Axel Salzmann and Martin Sambeth were each unable to attend one meeting, though they participated in the decisions via written votes. A total of six Audit Committee meetings were likewise attended by all members, except that Michel Perraudin and Antonio Simina were each absent once and had written votes submitted on their behalf. Five Working Committee meetings were also attended by all members, except that Anita Kessel, Michel Perraudin, Luca Marzotto and Antonio Simina were each absent once. When resolutions were passed, the absent members generally submitted written votes, with one exception relating to the approval of a set of minutes of a meeting. A total of six Personnel Committee meetings and three Nomination Committee meetings were always attended by all committee members.

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

Member	Full Supervisory Board (4)	Audit Committee (6)	Working Committee (5)	Personnel Committee (6)	Nomination Committee (3)	Attendance rate (24)
Michel Perraudin, Chairman	4/4	5/6	4/5	6/6	3/3	22/24
Antonio Simina, Deputy Chairman	4/4	5/6	4/5	6/6	–	19/21
Tanja Silvana Grzesch	4/4	–	–	–	–	4/4
Anita Kessel	3/4	–	4/5	–	–	7/9
Kirsten Kistermann-Christophe	4/4	–	–	–	–	4/4
Fridolin Klumpp	4/4	6/6	–	–	–	10/10
Gaetano Marzotto	4/4	–	–	–	3/3	7/7
Luca Marzotto	4/4	–	4/5	6/6	–	14/15
Sinan Piskin	4/4	–	5/5	6/6	–	15/15
Axel Salzmann	3/4	–	–	–	–	3/4
Martin Sambeth	3/4	–	–	–	–	3/4
Hermann Waldemer	4/4	6/6	5/5	–	–	15/15

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

The **meeting of the Supervisory Board in March 2018** focused on the annual financial statements of HUGO BOSS AG and the HUGO BOSS Group as of December 31, 2017 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, 2017 were approved and ratified. Furthermore, the Supervisory Board's report to the Annual Shareholders' Meeting was discussed and adopted. The proposals for the adoption of resolutions were adopted at the Annual Shareholders' Meeting of HUGO BOSS AG on Thursday, May 3, 2018 following the review of the independence of the proposed auditor for the fiscal year 2018. Moreover, on the recommendation of the Personnel Committee, Mark Langer was once again appointed as a member of the Managing Board for the period from January 1, 2019 to December 31, 2021 and simultaneously as Chairman of the Managing Board, and his service agreement was renewed accordingly.

At its **meeting in May 2018**, on the recommendation of the Personnel Committee, the Supervisory Board once again appointed Bernd Hake as a member of the Managing Board of HUGO BOSS AG until March 31, 2022 and renewed his service agreement accordingly.

In **September 2018**, the Supervisory Board met and dealt in particular with the current business development, the progress in implementing its strategic priorities, the development of BOSS Womenswear, the audit focuses for 2018 and the project to realign the positioning of HUGO. In addition, on the recommendation of the Personnel Committee, Ingo Wilts was reappointed as a member of the Managing Board until December 31, 2022 and his service agreement was renewed accordingly.

The budget for fiscal year 2019 was discussed and passed in the **meeting of the Supervisory Board in December 2018**. Moreover, the findings of the Supervisory Board efficiency audit, which were collected based on a revised questionnaire and analyzed and presented by a third party, were discussed at length. The Statement of Conformity with the German Corporate Governance Code already approved by the Managing Board was discussed, and the plan for the internal audit for 2019 was agreed. The Statement of Conformity to the German Corporate Governance Code was agreed unanimously by way of circular resolution following the December meeting.

The development of sales and earnings, investment planning, individual investment projects and the current risk situation of the Company were discussed regularly at the Supervisory Board meetings and approved where necessary. In addition, the Supervisory Board dealt above all with the Group's own retail business, in particular the extensive renovation of so-called flagship stores. Other significant topics were the development of the online business and its expansion within the concession model, as well as the capital structure, cost planning, compliance questions and the requirements of the German Corporate Governance Code.

Work of the Committees in 2018

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.

The **Audit Committee** met six times in fiscal year 2018. 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 and reports, 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 2018 and mandating the external auditor, it approved non-auditing services and placed a cap on the fees payable for such non-auditing 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 six times. It focused on preparing the renewal of the Managing Board contracts and preparing the target agreements for the Managing Board. It also reviewed target achievement.

The **Working Committee** met five times in the year under review and dealt with current business development, remuneration of the Supervisory Board, strategy, and preparations for the Annual General Meeting. In addition, developments in the online business and the personnel area as well as the efficiency review of the Supervisory Board and the Corporate Governance Declaration were dealt with.

The **Nomination Committee** met three times in the past fiscal year to prepare in a timely manner 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 2018, 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 Sect. 3.10 of the German Corporate Governance Code including the Corporate Governance Declaration can be found on page 113. The Supervisory Board discussed the various options for implementing the annual efficiency review of Supervisory Board activities recommended by the GCGC, and it decided to stay with the proven review method of using a comprehensive questionnaire, yet revising the latter. The thoroughly revised questionnaire was then completed by the members of the Supervisory Board. External analysis of the completed questionnaires and the improvements suggested were analyzed and discussed at length at the Supervisory Board meeting of December 5, 2018. 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 2018. 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 2018

Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, duly audited the consolidated financial statements of HUGO BOSS AG for 2018, 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, and issued an **unqualified audit opinion**. This was also the case for the annual financial statements of HUGO BOSS AG for 2018 prepared in accordance with the provisions of the German Commercial Code as well as the combined management report for 2018 for 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 3, 2018. 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 grounds for disqualification or factors affecting impartiality that could not be rectified immediately. It was also agreed that the external auditor would be 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 Sect. 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, Group financial statements and combined management report for 2018 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 material 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-auditing services that had been provided in the 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 6, 2019 the Supervisory Board approved the **financial statements for fiscal year 2018** prepared by the Managing Board. The financial statements of HUGO BOSS AG for fiscal year 2018 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 both the Company and its shareholders.

For fiscal year 2018, 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 2018. 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 2018 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 6, 2019. 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 wish to thank the members of the Managing Board and all employees for their high level of personal dedication and great commitment. I also wish to thank the employee representatives of HUGO BOSS AG for their constructive collaboration in fiscal year 2018.

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

Metzingen, March 6, 2019

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)

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
(Sonnenbuehl, Germany)

Chairperson and Treasurer
of the German Metalworkers´ Union
(IG Metall)
Reutlingen-Tuebingen,
Reutlingen, Germany,
Member since/until 2015/2020

Anita Kessel
(Metzingen, Germany)

Administrative Employee
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2015/2020

Fridolin Klumpp
(Caslano, Switzerland)

Senior Vice President
Global Human Resources
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2015/2020

Sinan Piskin
(Metzingen, Germany)

Administrative Employee
HUGO BOSS AG,
Metzingen, Germany,
Member since/until 2008/2020

Martin Sambeth
(Tiefenbronn, Germany)

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

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. 122–132) and the “Legal Disclosures” (pp. 133–135) are further components of the Combined Management Report.

BUSINESS ACTIVITIES AND GROUP STRUCTURE

- **Positioning in the premium segment of the global apparel market**
- **Consistent two-brand strategy pursued with BOSS and HUGO**
- **Distribution via own retail and wholesale business – online and brick-and-mortar retail**

Business activity

Group at a glance

2.8 Sales (billion EUR)	**~14,700** Employees	**129** Countries

HUGO BOSS is one of the leading global companies in the premium segment of the apparel market. With some 14,700 employees around the world, the Company, which is based in Metzingen (Germany), develops and sells high-quality fashion as well as accessories in the womenswear and menswear segments under the **BOSS and HUGO brands**. With its Group strategy, the Company is aiming for a steady increase in brand desirability. In fiscal year 2018, the Group achieved sales of EUR 2.8 billion from the distribution of classic yet modern tailoring, elegant evening wear, casualwear, shoes and accessories. This also includes royalty income that the Company earns with products such as fragrances, eyewear, watches and children's fashion. → **Employees**, → **Group Strategy**

The **development of the BOSS and HUGO collections** largely takes place at the Group headquarters in Metzingen (Germany) and is subdivided into three process stages: design, pattern design and technical product development. In addition, the competence center in Coldrerio (Switzerland) is responsible for the innovation and development activities for certain product groups. → **Research and Development**

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

HUGO BOSS customers can currently purchase BOSS and HUGO products in **129 countries**. The Group's distribution activities are divided into three sales regions. With a share of 62%, Europe contributes the largest proportion of sales. 20% of Group sales are generated in the Americas and 15% in Asia. Within these sales regions, the **six core markets** – Germany, the United States, Great Britain, China, France and Benelux – contribute a total of around 63% of sales. 3% of Group sales is generated from the license business. → **Earnings Development, Sales and Earnings Development of the Business Segments**

HUGO BOSS distribution channels

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

The BOSS and HUGO brands are sold via the Group's own retail business and wholesale business, both online and brick-and-mortar retail. Its **own retail** constitutes the most important distribution channel, and has been further expanded in recent years to focus even more on customer needs. In fiscal year 2018, as in the prior year, it made up 63% of Group sales. At the end of the year, the Group was operating 442 freestanding retail stores around the world (2017: 439). In addition, HUGO BOSS operates outlets as well as a concession model in cooperation with selected wholesalers in the form of self-managed shop-in-shops in department stores. By expanding its omnichannel services, the Group is increasingly connecting its brick-and-mortar retail business with its e-commerce business. By visiting the hugoboss.com website, customers are able to explore the BOSS and HUGO brand worlds and place orders in nine European countries as well as in the United States and China. In addition, the concession model is also intended to be deployed increasingly in the online area in future via cooperations with so-called multibrand platforms.

As in the prior year, 34% of Group sales in fiscal year 2018 were earned via the **wholesale channel**. 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, mostly for the BOSS brand in accordance with the Group's instructions and are mainly based in small markets not addressed by the Group's own retail business. All in all, wholesale business encompasses around 6,500 points of sale (2017: 6,700). Including its own freestanding retail stores, shop-in-shops and outlets, customers can thus purchase HUGO BOSS products worldwide at 7,600 points of sale (2017: 7,800). **→ Group Strategy, → Earnings Development**

Group structure

All main management functions are based at the Group's headquarters in Metzingen (Germany). Management of the Group is the responsibility of the **parent company** HUGO BOSS AG, which has a dual management and control structure as a German stock corporation. The Managing Board has overall responsibility for the strategy and management of the Group. Its executive management 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 licensing business.

HUGO BOSS Group structure

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

The functions established in the **central departments** of HUGO BOSS AG cover significant parts of the value chain, particularly the development, production, sourcing, and market distribution of the collections. The centrally developed Group strategy has been designed and implemented to suit specific markets to ensure strict customer orientation and enable a fast response to market-specific trends. The **individual markets** are placed in hubs that are managed by a responsible director who reports directly to the Chief Sales Officer of HUGO BOSS AG. This ensures close alignment with the central functions and short decision-making processes. In addition, certain functions are pooled in the hubs across countries to make effective use of specialist skills and to generate cost benefits.

Key locations/Global market presence

AMERICAS

~1,600
Points of sale

89
Freestanding retail stores

2
Showrooms

13% Employees

USA (New York)
Headquarters Americas,
Design studio Womenswear

USA (Midway)
Distribution center

EUROPE
(including Middle East and Africa)

~5,500
Points of sale

199
Freestanding retail stores

10
Showrooms

74% Employees

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

Switzerland (Coldrerio)
Development and pattern design

Turkey (Izmir)
Production

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

Poland (Radom)
Production

ASIA/PACIFIC

~500
Points of sale

154
Freestanding retail stores

1
Showroom

13% Employees

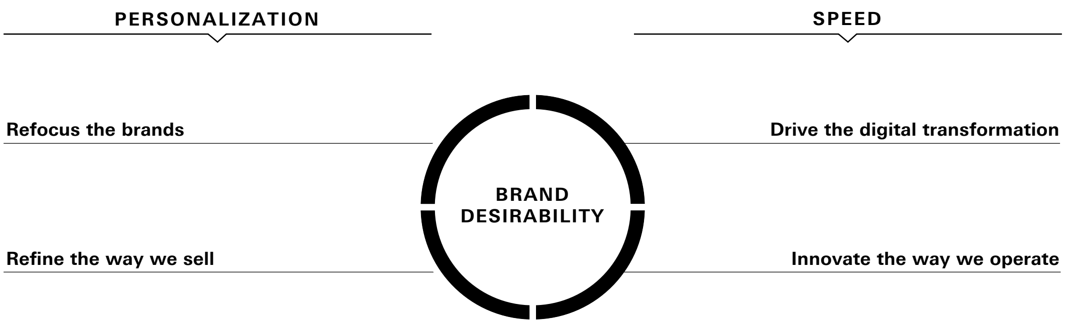
China (Shanghai; Hong Kong)
Headquarters, Asia/Pacific

GROUP STRATEGY

- **Group pursues two brand strategy with BOSS and HUGO**
- **Focus on personalization and speed to further increase brand desirability**
- **Operating profit to grow significantly faster than sales by 2022**

The **environment** faced by HUGO BOSS has changed radically in recent years. Growth rates for the premium and luxury apparel industry have slowed substantially, particularly in the area of classic tailored fashion. At the same time, casualwear and athleisurewear segments of the global apparel market and the contemporary fashion area are recording significant growth. Equally, the paths taken by consumers to buy apparel have changed. **Consumers** today are primarily using digital channels to keep up with trends and the ranges on offer. Although the vast majority of purchases are still made in brick-and-mortar stores, online business is currently enjoying overproportionate growth. Moreover, customers expect the digital offerings and the brick-and-mortar shopping experience to complement one another seamlessly.

Strategic fields of action



The Group strategy takes these changes into account. It is aimed at growing Group sales faster than the relevant market segment in 2019 and beyond. In addition, the operating profit (EBIT) should grow significantly faster than sales starting in 2019. The Company's actions are guided by its **vision of being the most desirable fashion and lifestyle brand in the premium segment**. HUGO BOSS believes that brand desirability will be the most important factor in the Group's long-term success. The objectives of employing the right people, maximizing customer satisfaction and offering the best products in the industry are in line with this fundamental belief and are predicated on profitable growth. To further drive the desirability of its brands, HUGO BOSS is focusing on two strategic priorities in its 2022 business plan: **Personalization** and **speed**. → **Group Strategy, Business Plan 2022**

The Company will therefore expand its **focus on personalized offerings** in coming years. The intent is to increase customer satisfaction sustainably by employing a more individualized customer approach, a personalized product range, and a unique shopping experience. In doing so, HUGO BOSS is building on its strengths: its global retail network, its systematic customer relations management, and its extensive experience in made-to-measure apparel.

In addition, HUGO BOSS will **accelerate central business processes** and design them to be much more agile. This will enable the Company to react to customer needs and new market trends even more quickly and flexibly in the future. The existing skills of HUGO BOSS in product design and development, its modern logistics and IT infrastructure and the use of digital showrooms will be the key levers.

The two priorities of personalization and speed are guiding the specific action of the Company within the **four strategic fields of action**: HUGO BOSS is realigning its brand portfolio and the positioning of its brands. It is consistently enhancing its distribution strategy on this basis. In addition, the Group is advancing the digital transformation of its business model and is striving to transform its operating model and its corporate culture in order to make its key business processes faster and more agile, and to promote entrepreneurial thinking and actions.

Realigning the brand portfolio

To appeal clearly and compellingly to its customers, the Company uses two brands – **BOSS and HUGO**. Although the two brands are clearly distinguishable 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 and fit, innovation and 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 status-oriented, rationally-minded customers who wish to dress in a classic yet modern and high-quality style. The **BOSS customer** has exacting standards when it comes to quality and fit, and attaches great importance to an adequate value-for-money proposition. The shopping experience must also meet the highest standards, particularly with regard to personal service. BOSS offers this customer confident businesswear and refined casualwear collections in the upper premium segment, characterized by the highest quality, elegant cuts and clear designs.

As a response to a modern lifestyle, the stronger interplay between modern ready-to-wear and casualwear elements, flexible suit combinations, for example as part of the **"Mix & Match" assortment**, and the strong integration of performance elements, such as suits under the **"Stretch Tailoring" program**, are gaining increasing importance. Building on its many years of experience and its comprehensive apparel offering, BOSS likewise hopes to generate growth in the area of shoes and accessories.

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

The repositioning of the BOSS brand is being accompanied by numerous events and campaigns. BOSS is regularly presented as part of prestigious **fashion shows**. In 2018, BOSS Menswear and BOSS Womenswear presented their new collections together again for the first time at the New York Fashion Week. A 360° approach is intended to ensure the consistency of **marketing campaigns**, from web and social media appearances through external advertising to window displays in retail stores. The Company will increasingly use social media campaigns in future 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. As part of its **collaboration** with auto manufacturer Porsche in Formula E, BOSS will offer a specifically developed capsule collection of different menswear styles in the first half of 2019.

HUGO brand strategy

In contrast to BOSS, the HUGO brand is targeted at customers who are significantly more fashion-conscious and consider their style of dress to be an important element in expressing their personality. The **HUGO customer** is open-minded, individual and spontaneous, and likes to shop, frequently doing so via online and mobile channels. HUGO offers this broad and generally younger customer base fashionable business and casualwear collections that are distinguished by their progressive designs and clear fashion statement. In doing so, HUGO remains anchored in the premium segment of the market. With its focus on contemporary fashion, however, the brand stands apart from BOSS in terms of its fashion statement and pricing. Thus, HUGO prices are up to 30% lower globally than BOSS prices. The Company expects to achieve an overproportionate increase in sales of the HUGO brand by 2022.

Numerous **events and campaigns** are being used to intensify the positioning of HUGO. In doing so, the Company is factoring in that the buying behavior of the HUGO customer is more digital oriented as compared to the BOSS brand. Thus, for example, last year's HUGO Menswear and Womenswear fashion show at the Berlin Fashion Week was accompanied by a comprehensive digital campaign. The show was livestreamed on the website and on social media. As part of its **social media activities**, the Company is increasingly entering collaborations with fashion bloggers and influencers, particularly for HUGO. These activities are growing market reach and enhancing brand awareness and credibility.

Womenswear

Womenswear accounted for 10% of Group sales in 2018 and is an important part of the HUGO BOSS business. In terms of both **fashion and price**, the **positioning** of the two brands BOSS and HUGO in womenswear mirrors that of menswear. A greater simplification of color and theme concepts is improving the consistency of the menswear and womenswear collection statements. At the same time, the fashion elements in parts of the collection will be increased substantially. The expansion of so-called **capsule collections and collaborations** with brand ambassadors offer attractive growth opportunities. For instance, in 2018, the Company launched the "Made in Germany" collection, a selection of pieces, six for men and six for women, designed and produced exclusively in Germany. As faces of the campaign, BOSS chose German top model Toni Garrn and Hollywood actor Daniel Brühl.

Further refinement of the distribution strategy

HUGO BOSS is systematically aligning its **distribution** to cater to BOSS and HUGO customer buying preferences. Both brands are distributed via the Group's own retail and wholesale businesses, both online and via brick-and-mortar retail. For this, the Group attaches particular importance to a globally consistent brand image. Against this backdrop, retail prices have been largely harmonized in the various regions over the last few years.

Distribution strategy

Own retail (Share in sales 2018: 63%)

Exploiting the full potential of online
Expansion of concession model
Utilization of full potential of hugoboss.com
Growth of omnichannel services
Expansion of social commerce

Improving retail sales productivity
Optimization of store network
Renovation of existing BOSS stores
Growth of omnichannel services
Enhancement of product range and services

Wholesale (2018: 34%)

Further strengthening strategic partnerships
Simplification of selling process
Improvement of product offering
Enhancement of brand presentation
Expansion of online cooperations

Licenses (2018: 3%)

Exploiting the full potential of online

The Company sees great growth opportunities above all in expanding its own **online business**. The Group plans to quadruple its sales in this distribution channel by 2022. The expansion of the concession model in the online business and the full utilization of the potential in the Company's own online store, hugoboss.com, should contribute decisively to this.

HUGO BOSS is selectively seeking closer collaborations with those 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 area. The Company already introduced this business model into its business years ago with brick-and-mortar retailers in which HUGO BOSS sells to 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 retail environment. In this context, HUGO BOSS in 2018 has intensified its partnership with well-known online provider Zalando and expanded the product range of the BOSS brand. The Company is thus in a position to better serve its customers. In coming years, the Asia/Pacific and Europe regions will be the focus areas for expanding the concession model via online cooperations.

Moreover, HUGO BOSS intends to fully utilize the potential of its **online store hugoboss.com** and develop it into a digital flagship store. To do so, the Company is continuously optimizing the user-friendliness of its website, which as of today is already present in eleven important markets. Above all, in 2018 the creation of two separate brand worlds for BOSS and HUGO and further improvements in the page structure, the website and mobile app navigation and the integration of additional services like the "Online Fit Finder" or the "Online Stylist" will lead to a marked improvement in user-friendliness. For 2019, the Company plans in particular to further expand personalized online offerings. In future, the expansion of hugoboss.com to online markets not yet accessed by the Company will also contribute to sales growth. The Company also sees potential in the increasingly commercial use of digital channels previously used purely for communication purposes, such as Instagram, for example.

Improving retail sales productivity

Improving retail sales productivity in its own physical retail business is currently another major lever available to HUGO BOSS for growing its business. HUGO BOSS aims to increase its sales per square meter by an average of 4% per year until 2022. This will be supported not only by **optimizing the store portfolio** but, above all, by **enhancing the shopping experience**.

The Group sees an opportunity to expand the distribution of BOSS and HUGO through **selective new store openings**. Particularly in the Chinese market, the Group sees potential to open up more BOSS stores in the coming years. Following the openings of the first HUGO stores with their own store concept in 2018 in select European metropolitan areas like Amsterdam, London and Paris, the Company plans further openings in coming years for HUGO as well. At the same time, the Company will use **expiring lease agreements** to reduce the size of, relocate or ultimately close its own retail stores that are not meeting productivity and yield requirements. Consequently, HUGO BOSS anticipates that total selling space in its own retail stores to remain largely stable in the coming years. **→ Earnings Development, Sales Performance**

The Company sees the enhancement of the shopping experience as another key lever for increasing retail sales productivity. Besides further **enhancing the product range, improving services** will also play a major role. Thus, HUGO BOSS has widened its training opportunities for sales staff to additionally improve the quality of service. Consistent **renovation of existing BOSS stores** using the new store concept already implemented at select locations in 2018 also represents a major lever in upgrading the shopping experience. Particular importance is ultimately being attached to **growing omnichannel services**. 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.

Further strengthening of strategic partnerships in the wholesale channel

The wholesale business will remain an important distribution channel for HUGO BOSS in the future. Consequently, the Group intends to further strengthen its **strategic partnerships in wholesale**. In particular, by aligning its product range more closely to the needs of its partners, taking steps to upgrade its brand presentation at the point of sale, and expanding online cooperations, the Group sees growth opportunities in its wholesale business. Potential also exists in simplifying the selling process, particularly through greater use of digital showrooms. HUGO BOSS reserves the right to continue adjusting its wholesale distribution if the brand presentation and environment do not live up to the requirements of BOSS and HUGO. Finally, the Company expects the wholesale market to continue seeing a trend towards consolidations in bricks-and-mortar retail and closures of smaller, often owner-operated specialist stores.

Digital transformation of 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 wherever this is economically viable.

Digitization along the value chain

Product and collection development	Sourcing and production	Distribution and logistics	Marketing	Sales
Digital trend detection	Smart factory in Izmir (Turkey)	High level of automation	Strong focus on online marketing	Omnichannel services in own retail
Use of digital prototypes	Digital networking with suppliers	Digital systems for inventory planning	Use of advanced analytics	Digital showroom in wholesale
Digital fabrics and trimmings library				

The Company is increasingly developing its products digitally. In particular, the **use of digital prototypes** helps to shorten development times. The high degree of detail provided by 3D virtualization permits a realistic depiction of colors and contours. The product development of parts of the HUGO collections has now already been fully digitized. In coming years, this technology will be expanded and gradually transferred to the BOSS brand as well. Moreover, through the increased use of tools for **digital trend recognition** as well as a **digital fabrics and trimmings database** introduced in 2018, HUGO BOSS expects to further shorten the collection development phase in coming years. → **Research and Development**

In the production process, the Company is focused on the digital transformation of its largest production plant in Izmir (Turkey). On the road to 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. As part of sourcing activities, the enhanced **digital networking** with suppliers makes it possible to reduce lead times and ensure uniform product standards. → **Sourcing and Production**

To achieve efficient utilization of its distribution and logistics capacities, HUGO BOSS relies on a uniform modern IT platform and **high-level automation at its own distribution centres**. Thus both the three distribution centres located in proximity to its headquarters in Metzingen for hanging goods, flat-packed goods and its European online business, as well as logistics facilities like the one in Midway, Georgia, United States have been linked up to the Group-wide ERP system. These modern warehouses achieve high speed and quality in supplying the Group's own retail stores with ready-to-sell articles in particular.

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

HUGO BOSS plans to further increase the effectiveness of its marketing outlays in the coming years. Around three-quarters of the marketing budget will be allocated in future to **digital marketing channels** (2018: around 70%). An emphasis will be placed on expanding the Company's presence in relevant social networks. By using advanced analytics, the effectiveness of digital marketing activities can be effectively measured and useful conclusions for future marketing activities can be drawn.

The use of digital elements is becoming increasingly important in the Group's own retail stores. In particular, the newly launched store concepts for BOSS and HUGO, which differ substantially from the old one due to the integration of **omnichannel services**, are designed to offer customers an improved shopping experience. Besides the use of tablets, HUGO BOSS is relying on large touch screens for customer advising, so-called "Experience Tables" and "Shoppable Kiosks," where products can be ordered conveniently. Lastly, digital channels also extend the aftersales services on offer. In addition to the changes to the existing business model, the Group is also examining **new business ideas** to assess their ability to contribute to future growth.

HUGO BOSS is also advancing digitization in its wholesale business. In the distribution of the HUGO collections, the Company is already relying more and more on a specifically developed **digital showroom**. This offers wholesale partners a flexible, convenient and fast alternative to conventional ordering, covering such aspects as the inspiration for the collection, the selection of individual products and the completion of the ordering process. The Company is convinced that, moving forward, digital showrooms will substantially simplify the wholesale selling process. Consequently, this technology is to be introduced on a comprehensive basis for both brands in the medium term.

Active change in operating model and corporate culture

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

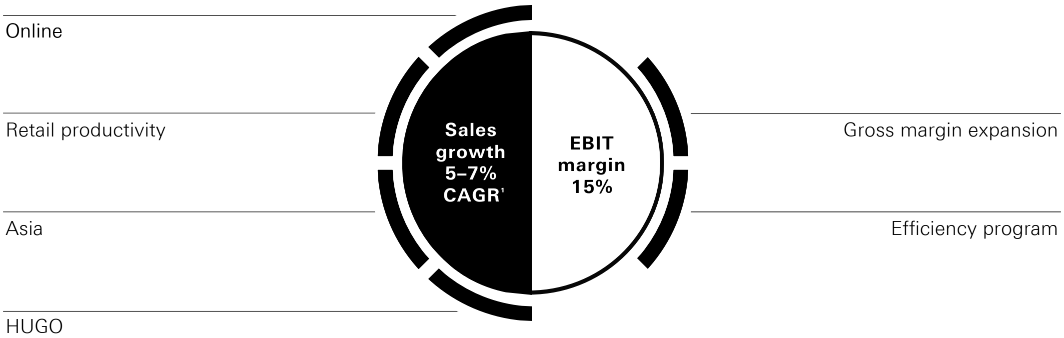
The **formation of cross-functional teams** and the **delegation of clearly defined responsibilities** should accelerate decision-making processes Group-wide and promote an entrepreneurial mindset. The digital HUGO showroom was developed like this in only six months using the "scrum method". Agile project management continuously collected feedback from the wholesale customers and incorporated it in the development of the digital showroom. In the coming years, HUGO BOSS is committed to further implement this transformation across human resources activities by providing suitable concepts and instruments. ➔ **Employees**

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

Business Plan 2022

The Group strategy aims to further increase the desirability of the BOSS and HUGO brands. At the same time, HUGO BOSS aims at creating **long-term value** for shareholders. All entrepreneurial decisions made by the management have the goal of securing sustainable growth of sales and EBIT and ultimately increasing free cash flow. In this context, in November 2018 HUGO BOSS presented its **mid-term targets until 2022** as part of its investor day.

HUGO BOSS outlook 2022



[1] Currency-adjusted.

The Company anticipates to increase **Group sales** on a currency-adjusted basis by an average of 5% to 7% per year until 2022. Sales are therefore expected to outgrow the projected growth of the relevant market segment for HUGO BOSS in the coming years. Four factors are particularly crucial for future growth: significant growth in the Group's own online business, an improvement in retail sales productivity, exploiting the growth potential in Asia, and above-average growth of HUGO in the contemporary fashion segment.

The Company sees great growth opportunities in expanding its **online business**. With overproportionate growth rates, this sales channel is expected to contribute to the company objectives in the coming years, in particular by expanding the concession model and fully utilizing the potential in the Group's own online store, hugoboss.com. The Group plans to quadruple its sales in its own online business by 2022. → **Group Strategy, Further Refinement of the Distribution Strategy**

HUGO BOSS aims to increase **retail sales productivity** by an average of 4% annually until 2022. Along with an optimization of the store network, accelerated modernization of existing BOSS stores, expansion of omnichannel services and improvements in product ranges and services are expected to contribute to this. **→ Group Strategy, Further Refinement of the Distribution Strategy**

The Managing Board sees considerable growth potential particularly in **Asia**. Sales in the region are expected to increase at a double-digit percentage rate on average per year until 2022, with China playing a key role. The share of sales from Asia will thus increase from its current 15% to around 20% by 2022. In addition to the optimization and expansion of the local retail network, the online business supported by various multibrand platforms, should contribute to overproportionate sales growth.

The Company also sees great potential for the **HUGO** brand. In the coming years, the focus on the dynamic contemporary fashion segment should contribute to overproportionate growth and therefore also to achieving company targets. This entails taking full advantage of the potential of the HUGO brand in the casualwear segment. Furthermore, additional HUGO stores with a unique store concept will be opened, and the HUGO brand will increase its social media activity. **→ Group Strategy, HUGO Brand Strategy**

The Company has set itself the target to grow operating profit (EBIT) significantly faster than sales by 2022. In doing so, the **EBIT margin** shall increase to 15% by 2022 (2018: 12.4%). An improved gross profit margin and a Group-wide efficiency program with a strong focus on a more efficient use of operational expenses will contribute to this development.

To improve the **gross profit margin**, particular emphasis in the coming years will be placed on further increasing the sales share from the Group’s own retail business, reducing the complexity of the BOSS and HUGO collections, improving markdown management, and decreasing the sales share of the outlet business. The **efficiency program** aims at improving the profitability of the Group’s own retail business, using marketing expenditures more effectively, and optimizing the organizational structure. Additional investments in digitizing the business model will partly offset the savings achieved. **→ Earnings Development**

The Managing Board expects to generate **free cash flow** of between EUR 250 million and EUR 350 million per year in the coming years. Not only above-average earnings growth but improvements in trade net working capital and efficiencies in the investment budget will also contribute to this. The free cash flow generated by the Group will primarily be used to fund the **dividend distribution**. Taking into account the Group’s very healthy financial position and the anticipated strong free cash flows, HUGO BOSS has set a goal of regularly distributing between 60% and 80% of the Group’s net income to its shareholders. **→ Financial Position, Statement of Cash Flows**

HUGO BOSS has decided not to take into account the **impact of IFRS 16** in formulating its mid-term targets by 2022. This is intended to allow for better comparability of the Group’s current financial, asset and earnings position with the mid-term targets. A full description of the expected impact of IFRS 16 can be found in the Notes to the Consolidated Financial Statements. **→ Notes to the Consolidated Financial Statements, Financial Reporting**

The **targets for fiscal year 2019** are presented in the Outlook section. **→ Outlook**

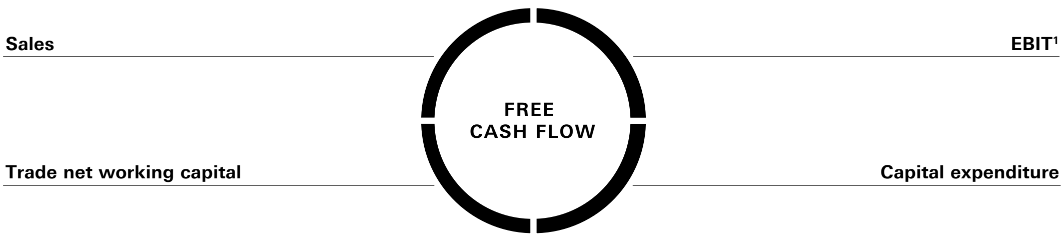
GROUP MANAGEMENT

- **Long-term maximization of free cash flow to increase enterprise value**
- **EBIT to replace EBITDA before special items as key performance indicator**
- **Group planning, reporting and investment controlling form core elements of Group management**

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

Key performance indicators

Key performance indicators



[1] From 2019 onwards, EBIT replaces EBITDA before special items as a key performance indicator.

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

Definition Free cash flow

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

The main **levers for improving free cash flow** lie in increasing sales and operating profit (EBIT). In addition, strict management of trade net working capital and value-oriented investment activities support the development of free cash flow.

As a company committed to sustainable growth, HUGO BOSS attaches particular importance to **profitable sales growth**. All activities for increasing sales will be gauged in future by their potential to generate a long-term increase in EBIT and EBIT margin (ratio of EBIT to sales). Thus, starting in fiscal year 2019, EBIT will replace EBITDA before special items used by the Group up through 2018 as one of the key performance indicators. The **future focus on EBIT** and the associated inclusion of depreciation and amortization of fixed assets is intended to further increase the focus on capital efficiency. In doing so, the Company also takes account of the effects of the accounting standard IFRS 16 which is to be applied mandatorily as from fiscal year 2019. According to this, a majority of the lease payments mainly related to the Group's own retail stores, recorded in the past as lease expenses, will in future be recorded as scheduled depreciation of a right of use for the respective real estate to be capitalized according to IFRS 16. → **Notes to the Consolidated Financial Statements, Financial Reporting**

Definition EBIT and EBITDA before special items

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

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

EBIT is a major driver of free cash flow. To increase the EBIT margin, the Company will focus in coming years on improving the gross profit margin and implementing the Group-wide program to increase efficiency. The efficiency program aims at improving the profitability of the Group's own retail business, using marketing expenditures more effectively, and optimizing the organizational structure. → **Group Strategy, Business Plan 2022**

The Management of the Group companies is **directly responsible** for ensuring profitable business growth. Consequently, the short-term variable compensation of managers of the Group companies and central divisions is tied to the achievement of the goals defined for sales and EBIT (until 2018: EBITDA before special items).

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

Definition Trade net working capital

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

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

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

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

The free cash flow generated by the Group is primarily used to **fund the dividend distribution**. The Group has set a goal of regularly distributing between 60% and 80% of the profit attributable to the equity holders. 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. In addition to the net financial position or rather net financial liabilities, this analysis also takes account of future rental obligations. **→ Financial Position**

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 drawn up annually as part of the Group-wide budget process taking into account the current business situation and the mid-term targets until 2022 that were published by HUGO BOSS in November 2018. Based on targets set by the Managing Board, the Group companies prepare complete earnings and investment budgets for their respective markets or business units. A similar planning model is used for trade net working capital. Taking this as a basis, the development and sourcing units derive mid-term capacity planning. The planning of the business units is tested centrally by Group Controlling for plausibility and is aggregated for Group corporate planning. **→ Group Strategy, Business Plan 2022**

Annual planning is updated at regular intervals to factor in the actual business performance and the existing opportunities and risks. Additionally, regular **liquidity outlook reports** are prepared, based on the expected cash flow. This permits 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 material impact on the Group's earnings must be reported immediately to the Managing Board.

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

Central **investment controlling** appraises planned investment projects in terms of 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 14,700 employees work in the HUGO BOSS Group**
- **Focus of human resource management on recruitment, employee retention and employee development**
- **Numerous awards are proof of successful human resource management**

The core task of global **human resource management** at HUGO BOSS is to recruit, retain and develop the best employees for the Group in order to contribute to the corporate vision of being the most desirable fashion & lifestyle brand in the premium segment. The five corporate values – quality, passion, respect, cooperation and innovation – form the **principles underlying daily working relationships** and describe the corporate culture.

Recruitment

Increasing complexity and a fast-moving competitive environment inevitably lead to a shortage of skilled employees and executives. In order to overcome bottlenecks, HUGO BOSS increasingly relies on actively approaching suitable candidates as part of its **recruitment strategy**. This allows the Company to identify potential employees more quickly and to bind them to the Company even before the actual application is submitted. The aim is to work through a growing network of qualified candidates to fill vacancies in a timely manner and to raise the Company's profile as an employer.

HUGO BOSS is increasingly relying on the **further development of digital communication channels** to contact potential applicants and position itself as an attractive employer. The prerequisite for this was already created in 2018 as part of the employer branding campaign "That's my HUGO BOSS." In addition, HUGO BOSS pursues active reputation management on relevant rating platforms and social networks. In addition to its digital presence, HUGO BOSS presents itself to potential applicants through talks and workshops at its Metzingen location and at career fairs.

In addition to hiring college graduates and experienced professionals, **vocational training** continues to be a high priority at HUGO BOSS. The Company had 79 apprentices and university students last year (2017: 75). 31 new apprentices and students began their training in 2018 (2017: 29). In order to ensure the availability of suitably qualified staff in the strategically important areas of digital and IT in the long term, professional education will be widened to include commercial apprenticeships for e-commerce and the dual course of studies, "Data Science," starting in 2019.

The attractiveness of HUGO BOSS as an employer was awarded several prizes in 2018. The Company is again among the top **100 most attractive employers** in Germany in the annual survey conducted by the "Universum" and "trendence" institutes. HUGO BOSS is also in the top ten companies in the "Working in Fashion" study conducted by the German industry magazine Textilwirtschaft. It scored particularly well in career opportunities, salary levels and working internationally. In addition, HUGO BOSS is rated among the top LinkedIn companies for interesting jobs, employee interest, employee commitment and employee loyalty.

Employee retention

HUGO BOSS has conducted **employee surveys** on an annual basis since 2015. 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 participation rate of 66% (2017: 66%), overall satisfaction throughout the Group stood at 68% (2017: 70%). At HUGO BOSS AG, an overall satisfaction of 74% was recorded (2017: 77%). Once again, HUGO BOSS achieved a good result in comparison to participating companies in Germany.

The employee survey has shown that **fair compensation** is an important matter. In a first step, all key positions in Germany and within the Group were evaluated in order to increase transparency on compensation issues. In the next step, suitable salary bands were defined on the basis of external salary benchmarks. In doing so, the Company wants to ensure that compensation reflects individual responsibility and is in line with the market. In an increasingly competitive environment, the search for talented people is an essential building block in positioning HUGO BOSS as an attractive employer.
→ **Combined Non-Financial Statement, Employee Matters**

The **compensation scheme** 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 and a short-term incentive, of which half is linked to Group targets and half to the achievement of qualitative and quantitative personal goals. The compensation scheme 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 has introduced the **"New Ways of Working"** project on its Metzingen campus to enable more flexible and cross-functional work. Within the scope of the project, most departments were converted to a new and more flexible room layout. In addition, the individual part-time model and the home office concept were further rolled out. The number of employees who make use of the offer amounted to roughly 1,100 in 2018, meaning that it has doubled within one year.

HUGO BOSS attaches great importance to the **health** of its employees. The Company offers a large number of sports activities. Employees can use the Company's gym at the Metzingen headquarters, for example, and take part in a broad range of different sports courses. In addition, nutrition counseling, well-balanced menus in the company restaurant and relaxation courses all support personal well-being and promote the performance of employees. In 2018, the long-term implementation of health measures at the central warehouse sites pushed ahead. Massages, breaks for movement and back courses are offered at almost all warehouse locations. In 2018, the extensive health promotion measures received the Corporate Health Award in the highest category, "Excellent," making them one of the best in Germany. The great commitment of the Company to health management was also awarded as "Best in Class" in the Dow Jones Sustainability Index 2018 in the category of Occupational Health & Safety.

Employee development

The executive promotion program continued to be expanded in 2018. After the successful launch of the **employee development program** for potential professionals and executives in 2017, the number of participants doubled to around 100 in 2018, and the program was rolled out at all European sites. Furthermore, the involvement of executives in the further training measures leads to a sustainable transfer of knowledge and a strengthening of the ties between employees and executives.

In order to design the **selection and promotion process** even more fairly and transparently in future, a project was launched in 2018 – in a collaboration between executives, employees and the central HR department – with the aim of developing a data-based, transparent decision-making process. This can be viewed by any employees at any time. To test out the new procedure, three test groups were successfully implemented in 2018 for the selection and promotion of future department heads.

Face-to-face training sessions and workplace orientations are an integral part of initiating industrial staff at the Company's own production and logistics sites. All administrative and retail staff regularly take part in **online training courses** on the topics of occupational health and safety.

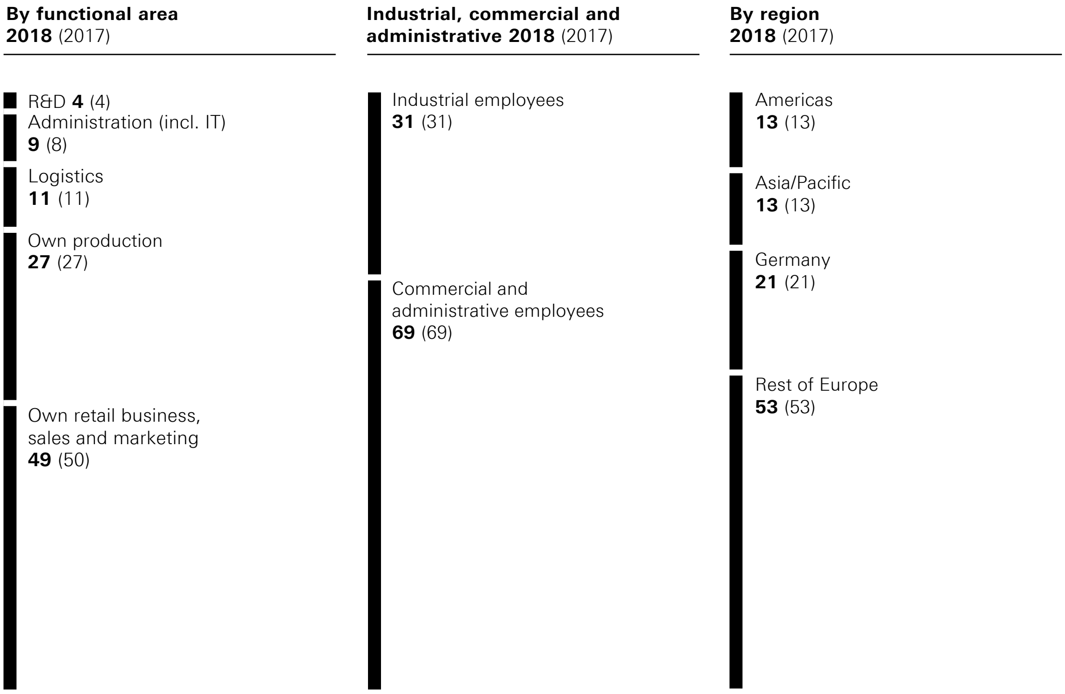
Employee figures

Number of employees as of December 31

2018	**14,685**
2017	13,985
2016	13,798
2015	13,764
2014	12,990

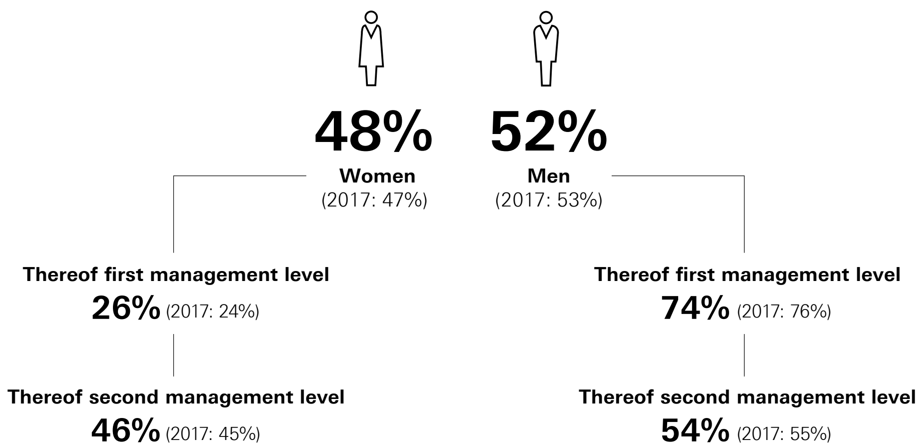
At the end of fiscal year 2018, HUGO BOSS had 14,685 employees. The increase in the **number of employees** reflects the Company's increased activities in the areas of retail, IT, digital and own production. The average age is 36 years and has thus increased slightly compared to the prior year (2017: 35 years).

Employees as of December 31 (in %)



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 10,067 employees (2017: 9,683) of the total workforce worked in the **commercial and administrative sector** at the end of 2018, 4,618 employees (2017: 4,302) were assigned to **industrial activities**.

Employees in management



At 59%, women account for the majority of the Group's workforce (2017: 59%). In management, women held 48% of the positions across all four management levels at the end of December 2018 (2017: 47%). The Managing Board has set a **gender quota** target of achieving a minimum of 30% women at the first management level and 35% at the second management level below the Managing Board by December 31, 2021. As at December 31, 2018, the share of women at the first management level amounted to 26% and was thus only slightly below the target figure set for 2021. Compared to the prior year, the Company therefore recorded a slight increase in the share of women at the first management level (December 31, 2017: 24%). The target at the second management level was clearly exceeded as at December 31, 2018, with a share of women of 46% (December 31, 2017: 45%). The Company continues to be committed to the core idea of hiring solely based on applicants' qualifications, even if this might result in a decrease in the proportion of women employed. **→ Corporate Governance Report including the Corporate Governance Statement**

RESEARCH AND DEVELOPMENT

- **Innovation and development work is carried out in five development centers**
- **Further expansion of external partnerships and collaborations**
- **Use of digital elements is shortening development times**

The aim of research and development work at HUGO BOSS is to offer the best products in the industry and thus to directly contribute to the corporate vision of being the most desirable fashion & lifestyle brand in the premium segment. Hence research and development (R&D) refers to the product development process, which involves the transformation of a creative idea into a marketable product. Innovation and development work is 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 major part of its collections. In doing so, the Company makes use of its technical center to test innovative production methods and produce prototypes. Parts of BOSS Womenswear are designed in **New York City**. The **Coldrerio** excellence 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 at the **Morrovalle** and **Scandicci** sites.

Partnerships and collaborations

HUGO BOSS increasingly relies on partnerships and collaborations with designers, artists and organizations around the world. In this way, a creative impetus is to be generated by accessing external knowledge and ideas on the one hand and driving forward innovations on the other. On the occasion of the 60th birthday of Michael Jackson, for example, the Company developed a limited **"BOSS x Michael Jackson"** collection in 2018. In this context, the famous white BOSS suit that Michael Jackson is wearing on the cover of his legendary "Thriller" album was produced again in a strictly limited edition. For the 2018 Christmas campaign, BOSS also entered into a collaborative project with the artist, product designer and author Jeremyville. This resulted in the creation of the limited collection **"BOSS x Jeremyville"**, in which the clear-cut BOSS design meets youthful playfulness. As part of the collaboration with Porsche in Formula E, a **"Porsche x BOSS"** collection was recently developed. Design elements of the innovative Porsche concept car "Mission E" served as a source of inspiration. The collection consists mainly of sporty styles from the casualwear division, yet also modern tailoring. The collection will be available in selected stores and online as of March 2019.

Product innovations were driven forward by BOSS in the past year, in particular for its athleisurewear. In collaboration with partners, a lot of work was put into intelligent golf products that record movements during a game of golf. Using a mobile app, the recorded data can then be analyzed, with the aim of developing a product for the customer that has been optimized in terms of functionality. The development up to a ready-for-sale product is to be continued in 2019.

In 2018, **sustainability** once again played a crucial role in product development. An exclusive selection of premium quality pieces made from merino wool whose origin is completely traceable was developed. The collection includes six complete looks that will be available with the 2019 fall collection. → **Sustainability**

Product development process

Product development process at HUGO BOSS

Research and development			**Sourcing and production**
Design	Pattern design	Technical product development	

The **creative idea** marks the beginning of the product development process. A collection theme is determined taking into account the brand strategy and brand values as well as an analysis of global mega and fashion trends. The transformation of the creative idea and designs into specific collections also takes account of the sales success of earlier seasons as well as factors relevant to the individual markets, such as regional purchasing power, climate, fashion preferences and the prevailing market environment.

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 become more flexible and faster in the development of its collections and accelerate the product development process further, HUGO BOSS is focusing on continuing to drive the **digitization of the product development process**. Digital prototypes are increasingly being used in this context. The development time for the HUGO brand's first digitally developed assortment was thus shortened from eight months to six weeks. In the coming years, this concept is to be expanded further and the share of the digitally developed assortment will continue to increase. A digital fabrics and trimmings library was also established for the HUGO brand in 2018. It contains a selected number of fabrics and trimmings that are available at all times and whose use was already successfully tested in previous collections. → **Group Strategy, Digital Transformation of the Business Model**

After the prototype has been assembled, a **sample collection is produced** for presentation and sale to wholesale partners. A digital showroom was used for the first time in 2018 to sell HUGO collections to wholesale partners in Europe and the Americas. It will also be used for the BOSS brand in 2019. Following the **sale of the collections** to wholesale partners, collections then go into production and are shipped to the wholesale partners as well as to the Group's own retail stores.

The **Spring/Summer 2019 collection of BOSS** is themed "California Breeze." The collection was inspired by the coastal cities of California and the relaxed lifestyle on the Pacific coast. The seamless transition between beach and city life shaped a collection that combines modern design with easiness and summeriness. Complete looks in pastel shades emphasize the easiness of the collection. In addition, intense colors such as yellow and orange provide color accents. The **Spring/Summer 2019 collection of HUGO** tells the story of a Berlin geek who works hard during the day and parties in a techno club at night. HUGO is inspired by this "mixmaster" who consciously chooses a creative and daring clothing style and is ready to combine styles from different decades. The combination of natural fibers and synthetic materials accentuates this contrast. Oversized looks and the use of the HUGO logo also characterize the collection.

R&D key figures

Number of employees in R&D as of December 31

2018	**584**
2017	588
2016	577
2015	573
2014	555

The creative and development departments of the HUGO BOSS Group 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)
2018	**63**	**2.3**
2017	63	2.3
2016	64	2.4
2015	65	2.3
2014	62	2.4

At 71%, personnel expenses accounted for the bulk of **R&D expenses** last year (2017: 70%). The rest is primarily composed of other operating expenses. In 2018, R&D expenses were again mostly recognized as 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

- **Group’s own production facilities manufacture sophisticated businesswear**
- **Sourcing volumes for casualwear and athleisurewear further increased**
- **Compliance with high quality standards is of crucial importance**

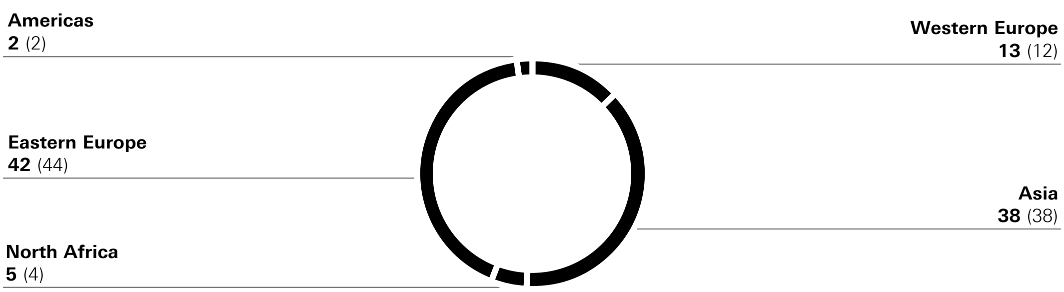
In order to meet the high quality standards of HUGO BOSS and to dress BOSS and HUGO customers perfectly for every occasion, the **sourcing of high-quality fabrics and trimmings** has top priority. The goal of offering the best products in the industry directly contributes to the Company’s vision of being the most desirable fashion & lifestyle brand in the premium segment. → **Group Strategy**

In terms of value, 17% of the total **sourcing volume** was produced at the Group’s own facilities in 2018 (2017: 18%). The remaining 83% comprises products sourced from independent contract suppliers or sourced as merchandise (2017: 82%). The slight increase in the external sourcing volume reflects the rising demand for casualwear and athleisurewear. HUGO BOSS primarily sources these products from external suppliers.

The Company derives important expertise in the ongoing development of production technologies and quality standards from its own production facilities. The **four own production facilities** are located in Izmir (Turkey), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). **Izmir** is by far the largest own production site. Primarily high-quality businesswear products such as suits, blazers, shirts and coats as well as the full range of womenswear are produced here. The Technical Center in **Metzingen** is mainly used by the Company to develop and produce prototypes such as sample and material testing pieces. Tailor-made suits and limited collections such as the “Made in Germany” collection presented in 2018 are also produced at the Metzingen site. High-quality business shoes are made in **Radom** and **Morrovalle**.

Regional split of sourcing and production volume (in %)

2018 (2017)



Within Eastern Europe, **Turkey** accounts for the largest share of sourcing and production volume. Of the sourcing and production volume in Eastern Europe, roughly 30% is attributable to the Group’s own production facility in Izmir. **China** is by far the largest sourcing market in Asia.

HUGO BOSS attaches key importance to the **careful selection of suppliers** and the establishment and maintenance of long-term strategic relationships. In addition to economic criteria, strict compliance with internationally recognized environmental and social standards is of crucial importance in this respect. In countries where the national statutory requirements fall short, the HUGO BOSS Social Standards set a minimum standard. **Product quality**, a key element in the selection of suppliers, is comprehensively analyzed and evaluated in advance in test orders. Last year, HUGO BOSS procured finished goods from 180 external suppliers (2017: 175) using 210 production facilities (2017: 202). The Company procured raw materials from 312 external companies (2017: 357) using 334 production facilities (2017: 371). In the interests of risk mitigation, the Company ensures as balanced distribution of sourcing volumes as far as possible. Thus, the **largest independent supplier** accounted for only 9% of the total sourcing value sourced in 2018 (2017: 9%). This relates to a long-term partnership for the sourcing of high-quality casualwear and athleisurewear products. **→ Combined Non-Financial Statement, Respect for Human Rights, → Report on Risks and Opportunities**

The **fabrics and trimmings** sourced by HUGO BOSS are mainly outer materials and inner linings, buttons, yarns and zippers. The most frequently used materials are cotton, wool and synthetic fibers. The Group purchases most of its required fabrics from suppliers in Europe. HUGO BOSS works with long-standing partners, mainly from Italy, particularly in the area of suits. For products **made under contract**, HUGO BOSS provides suppliers with the fabrics, trimmings and the required patterns. In this way, the Company ensures that the manufactured products meet its high quality standards. The suppliers, which are mostly based in Eastern Europe, primarily produce businesswear requiring high levels of production expertise and technical equipment. The share of products made under contract in the sourcing volume remained unchanged at 38% (2017: 38%). The **merchandise** sourced by the Group is primarily composed of athleisurewear and casualwear products. In this case, the suppliers, which are mostly based in Asia, Eastern Europe and Africa, only receive the patterns but they source the materials and trimmings themselves. Compliance with the high quality standards of HUGO BOSS is ensured by regular audits. At 62%, the share of merchandise in the sourcing volume is at the prior year's level (2017: 62%).

In 2018, the own production site in Izmir has made further progress in its transformation to a **"smart factory."** The target is to create a full-scale "digital twin" of the facility, making it possible to simulate the production process before it actually starts. In 2018, the focus was on the generation and analysis of important production data. HUGO BOSS was thus able to gain important insights into measuring data in order to predict potential defects in a production machine or possible production errors with a high degree of probability. On the basis of this analysis, employees are optimally assigned to the respective work steps with the target of increasing quality. This way, error-free production could be increased by more than 20% straight away. In order to optimize further defect detection during seam sewing, HUGO BOSS has developed a camera system that automatically detects missing stitches and thus avoids reworking. This system will be rolled out to other machines in 2019.

Ensuring high quality standards not only plays a role in the company's own production, but a **continuous quality control and improvement process** also takes place within the framework of numerous initiatives. Thus, members of the Managing Board and product managers meet for monthly **round tables** and regular **quality walks** to discuss a wide range of different quality aspects. The aim of the round tables is to analyze products with qualitative irregularities and use the improvement potential identified for future product development. The quality walks evaluate individual product groups in terms of workmanship, fit, design, material and trimmings with the aim of identifying further potential for optimization. In addition, **wearing tests** are an important tool for testing products under real conditions and for obtaining direct customer feedback. The tests last several months and are backed up by regular feedback discussions. **Customer surveys** are also used to compare the Company's quality expectations with customer perceptions.

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

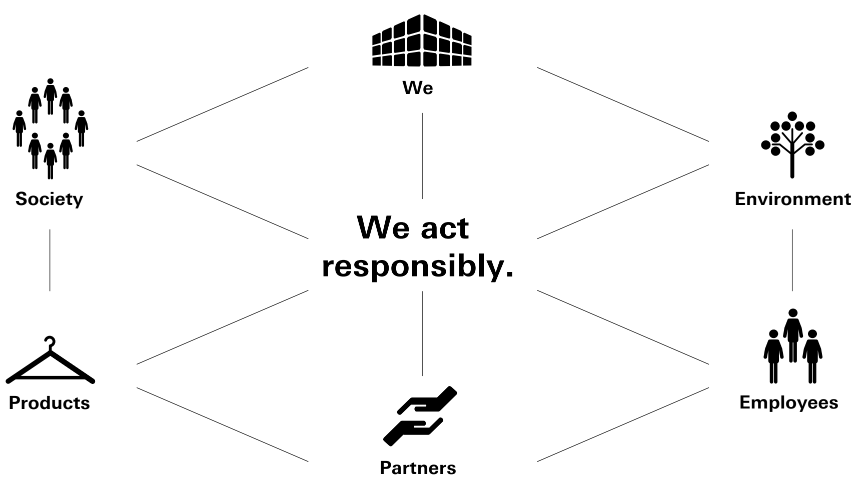
SUSTAINABILITY

- **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 sees sustainability as the interplay between quality, innovation and responsibility and thus as an integral part 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 thus acknowledges the economic, ecological and social impact of its actions. Besides the high quality of products, customers today increasingly demand compliance with high social and ecological standards. By its **diverse sustainability activities**, HUGO BOSS creates a significant condition for customer loyalty and innovation capacity and thus for the future viability of the Company. All sustainability activities are managed by the central Global Sustainability division, which reports directly to the Chief Executive Officer.

The six fields of action **we, environment, employees, partners, products** and **society** provide the framework for the sustainability strategy of HUGO BOSS.

Strategic fields of action for sustainability



We – "Creating values together": HUGO BOSS engages in regular dialog with its stakeholders. The purpose is to recognize and understand their interests and expectations at an early stage in determining and prioritizing activities. The findings gained also find their way into risk and opportunity management and help HUGO BOSS to enhance its ethical principles and Code of Conduct.

Environment – "Preserving natural resources": The aim of environmental management is to continually reduce the environmental impact of the Company's activities. The Company's scope for exerting direct influence covers such aspects as the construction and operation of administration, warehousing and production buildings as well as over the transportation of goods and distribution. It works on the reduction of its emissions and thus contributes to climate protection by employing energy-efficient building concepts and technologies as well as optimized transport routes. 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 further strengthening its position in the international competition for the most qualified employees. The basis for relations between the Company and its employees in a fair and value-based corporate culture is formed by the corporate values and the Code of Conduct. The latter provides the basis for legally and ethically correct conduct in day-to-day business. This also entails the acknowledgment of diversity and equal opportunities, which is a high priority at HUGO BOSS. For the Company, this means ensuring non-discriminatory working conditions and equal opportunities for all employees regardless of their nationality, gender, age or possible handicaps. → **Employees**

Partners – "Achieving joint responsibility": Complying with environmental and social standards throughout its global supply chain is crucially important for HUGO BOSS and its partners and forms an integral part of contractual agreements. These are based on internationally acknowledged standards and include, among others, rules governing compliance with national legislation, working-hour restrictions, human and safe working conditions, bans on child labor and forced labor, the payment of appropriate salaries and the freedom of association. The Company attaches key importance to the careful selection of partners, cooperations based on a spirit of mutual trust and the maintenance of long-term strategic relationships.

Products – "Ideas for tomorrow": In developing its products, HUGO BOSS applies the highest standards to the quality of materials and workmanship. In this connection, it makes sure that its products do not cause any health or ecological hazards. The Company works together with suppliers and other stakeholders to find innovative solutions for environmental protection and animal welfare. The Company is able to substantially reduce its environmental footprint through the growing utilization of sustainably produced materials, continuous optimization of the use of materials and the application of advanced production technologies.

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, career development and creative development. 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 fields of action and, accordingly, has set itself corresponding targets. Sustainability ratings act as an objective indicator of the progress achieved. In 2018, HUGO BOSS was added to the **Dow Jones Sustainability Index (DJSI) World** for the second time in a row. It was ranked "Industry Best" in the categories of brand management, risk and crisis management, occupational health and safety, and tax strategy. In total, the Group ranks among the best four companies in the industry. The inclusion in the DJSI World underscores the success of the Group's sustainability activities over the last few years.

Details on the sustainability strategy, sustainability activities of the Company as well as the six fields of action can be found in the annual **Sustainability Report** and on the Company's website. → **group.hugoboss.com**

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**
- **Thirteen 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 addition, the Company presents further material disclosures in the additionally defined aspect of **customer 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 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 for selection of the topics presented in this statement is a **materiality analysis** conducted by HUGO BOSS in 2017, which encompassed in particular a materiality review according to Section 289c (3) HGB. It has been analyzed to which extent the topics are of particular relevance for understanding the Company's development, performance, position and impact of its activity on the aspects. The analysis was reviewed for up-to-dateness in 2018 and was found to be valid without change. The following sections discuss the 13 topics identified as material in the course of the analysis. → **Sustainability Report 2017**

Aspects and material topics

Aspect	**Environmental matters**	**Employee matters**	**Social matters**	**Respect for human rights**	**Anti-corruption and bribery matters**	**Customer matters**
Topic	Water pollution	Employee engagement	Ethically correct payment of corporate taxes	Human rights and labor standards	Anti-corruption, anti-bribery and antitrust	Customer satisfaction
		Human rights and labor standards		Occupational health and safety		Product safety
		Fair compensation		Fair compensation		Data protection
		Occupational health and safety				
Stage in value chain	Value chain (fabrics and trimmings)	Own operations	Own operations	Value chain (finished goods)	Own operations	Own operations

Environmental matters

Water pollution

In fabric and trimmings production, 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 or recycled fibers. If chemicals are released in the production processes, this can lead above all to a negative impact on the **water quality and water supply** of local communities in the vicinity of the respective production site. HUGO BOSS consequently makes its suppliers aware of the need for the responsible handling of chemicals.

Environmental concerns in the supply chain are managed by the central **Global Sustainability** division. Its guidelines on adherence to corresponding environmental standards are implemented by the operational sourcing units in cooperation with the 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

Analyses by HUGO BOSS to evaluate natural capital demonstrate that the environmental impact of wet processes is particularly high. Therefore, the Company's objective is to further reduce the **environmental impact of the wet processes** on the supplier's side.

Measures

Within the **Zero Discharge of Hazardous Chemicals (ZDHC)** program, HUGO BOSS joins with other companies in the apparel industry to eliminate hazardous chemicals in the textile supply chain. In future, for instance the **audit protocol** of the ZDHC program will help in the exchange of information on important environmental topics between the Company and its suppliers and will in particular enable standardized evaluation of the suppliers' chemical management. The audit protocol of the ZDHC program follows a similar logic as the Global Social Compliance Programme (GSCP) previously followed by HUGO BOSS, but it is specifically geared to the wet processes. In 2018, the focus was on, among other things, supporting suppliers with wet processes in improving their environmental performance. In 2018, moreover, the Group prepared to migrate to the ZDHC program audit protocol. This migration is to be completed in 2019. For 2019, the Company also plans to promote 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, HUGO BOSS also aims to reduce the environmental impacts in its supply chain. → group.hugoboss.com

Employee matters

Employee engagement

HUGO BOSS relies on a corporate culture that promotes the **active involvement of employees**. Employee engagement is an important prerequisite for the Company in increasing the motivation and commitment as well as the loyalty of employees to the Company. Employee engagement also promotes the employees' identification with the Company's objectives and thus contributes to their achievement.

HUGO BOSS is working for an **active transformation of its corporate culture**. The Company encourages its employees to embrace change in order to realize their own potential and create additional customer value. This requires the abandonment of complex organizational and reporting structures and the establishment of an environment that encourages innovation and forgives mistakes. The responsibility lies above all with the managers and the central HR department of the Company. → Group Strategy

Targets

The target of HUGO BOSS is the Group-wide **strengthening of employee engagement**. Various communication measures are intended to promote information exchange among employees, to enable them to make autonomous decisions more often and thus to remove barriers to creativity and innovation.

Measures

A **transparent flow of information** and the consideration of individual needs are important prerequisites for strengthening employee engagement. The Managing Board and the managerial staff regularly inform the employees about current developments, mostly in the form of e-mails, articles in the Group-wide intranet or in regular departmental meetings. An essential element for determining the needs of employees is the Group-wide employee survey that takes place annually.

By means of modern **training programs**, the Company intends to enable its employees to apply agile working methods, greater self-reflection and an open feedback culture. One successful example of autonomous working is the corporate project **"New Ways of Working,"** which is managed by self-organized teams and tries out agile working methods in practice. → Employees

Performance indicators

HUGO BOSS determines the satisfaction and the needs of its employees as part of an employee survey conducted annually since 2015 in cooperation with Great Place to Work® Germany. With a Group-wide participation rate of 66%, **overall satisfaction of 68%** was measured in 2018 (2017: overall satisfaction of 70% with a participation rate of 66%). At HUGO BOSS AG, an overall satisfaction of 74% was recorded (2017: 77%). The knowledge gained provides the Company with an important impetus for the further development of its human resources work and the corporate culture.

Human rights and labor standards

HUGO BOSS considers respect for human rights and compliance with applicable labor standards to be an **integral part of its corporate culture**. The aim is to ensure the wellbeing of employees in all areas of its global business activity – in administration, its own production sites, logistics and in its own retail business.

Any violations will be investigated, sanctions imposed, and action taken under the primary responsibility of the central **Compliance department**, jointly with the local HR departments and relevant managers if necessary. Anonymous complaints are initially received by the external ombudsman, who forwards them to the Compliance department to handle. As part of Compliance reporting the department provides the Managing Board with regular reports of any compliance violations.

Targets

The target of HUGO BOSS is strict **compliance throughout the Group with statutory and internal company rules** concerning human rights and labor standards.

Measures

Given the high standards that already exist at all the Company's own sites and the high importance of the Company's own production site in Izmir (Turkey), HUGO BOSS has focused its activities concerning human rights and labor standards on the issue of **freedom of association** and the **principle of non-discrimination**. Freedom of association for HUGO BOSS includes granting staff the right to join employee representative committees and works councils and enabling them to participate in collective bargaining in accordance with the relevant national law. A working environment that is free from discrimination is as axiomatic for HUGO BOSS as recognizing and promoting diversity and equal opportunity for all employees, regardless of nationality, gender, age or disability.

The **HUGO BOSS Social Standards**, which are based on internationally accepted standards of the United Nations and the International Labor Organization (ILO), are the key regulatory framework for compliance and improvement of social issues in the Company. With regard to freedom of association and the principle of non-discrimination, the standards are supplemented by the Company's own **Code of Conduct** and its internal **Social Compliance Policy**. There are also regular training courses aimed at educating staff about social compliance issues. As part of social audits, the Company arranges for external auditors to perform regular audits on compliance with the Social Standards in the Company's own production sites.

Performance indicators

As of December 31, 2018, three of the Company's four production sites had a **valid social audit**, meaning that a (follow-up) audit was performed in those production facilities according to a results-based audit frequency of within 24 months. The audit for the production site at the headquarters in Metzingen will be performed for organizational reasons in early 2019. → **Combined Non-Financial Statement, Respect for Human Rights**

During the reporting year, eleven **discrimination cases** were reported within the Group, including two cases in HUGO BOSS AG (2017: ten discrimination cases, none of which were in HUGO BOSS AG). Corresponding action was initiated in all reported cases. Six cases have already been closed, one of them in HUGO BOSS AG.

Fair compensation

A **fair compensation system** has equal opportunity and freedom from discrimination at its core and contributes to employee motivation and respect for employee rights. HUGO BOSS also sees the issue of fair compensation as an opportunity to foster staff retention and make the Company more competitive.

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. The relevant amount of compensation is based on job-dependent qualification and performance indicators without regard to gender or other diversity factors. This principle is also set forth in the HUGO BOSS **Code of Conduct**, which is available online. There are also works agreements for HUGO BOSS AG that govern compensation components such as the employee performance bonus. They are available to all employees on the Company's intranet.

The ongoing review and further development of the Group-wide compensation system is the responsibility of the **central Human Resources department** in close cooperation with the managers of the central divisions and the HR departments and managers of the Group companies. The HR department is also in close contact with the Managing Board regarding this aspect.

Targets

The target of HUGO BOSS is to further improve the **fairness and competitiveness of the compensation system**.

Measures

The central HR department, in close dialog with the managers of the central divisions and the Group companies, is currently working on a Group-wide **job grading** system that rates jobs according to standardized criteria and allocates them to corresponding salary bands. The aim is to make the Group-wide compensation system more transparent, and easier to understand and accept. **External salary benchmarks** are also used in this process to further improve the competitiveness of the compensation system as it continues to be developed. The Company is proceeding on the assumption that the project can be completed in 2019.

Occupational health and safety

As a **responsible employer**, HUGO BOSS attaches great importance to the occupational health and safety of its employees. This is reflected in high standards of health and safety at work. These apply to all the Company's sites, ranging from production and logistics sites to administration and the Company's own retail stores. The **Health and Safety Commitment** published on the Company's website emphasizes how much of a priority the issue is for the Company. The commitment is shown in the HUGO BOSS Code of Conduct and supplements the rules set forth there. ➔ **group.hugoboss.com**

Responsibility for occupational health and safety is decentralized at HUGO BOSS. **Clear responsibilities** are defined both in the respective Group companies and in the Group's own retail stores. The relevant staff report to the central HR department at regular intervals and also when the occasion demands it. That department is also in close contact with the Managing Board regarding occupational health and safety matters.

Targets

The target of HUGO BOSS is to **prevent accidents at work** and **safeguard the health** of staff. High occupation health and safety standards should play a major part in achieving this goal.

Measures

HUGO BOSS has defined Group-wide standards for achieving additional **improvements in occupational health and safety**. In-house occupational safety specialists, managers, and, where needed, also external experts, are involved in health and safety inspections and risk assessments. This allows potential risks to be identified and assessed early and solutions developed. There is an in-house medical service at the headquarters in Metzingen and at other international sites.

Face-to-face training sessions and workplace orientations are an integral part of initiating industrial staff at the Company's own production and logistics sites. Administrative and retail staff regularly undergo **online training courses** on the topics of occupational health and safety.

HUGO BOSS is currently revising its **Occupational Health and Safety Strategy**. By 2020, the corresponding processes and structures are to be aligned across the entire Group, particularly in its own retail business. The first step taken was the implementation of standardized health and safety inspections and risk assessments for the Group's own retail business in Germany and Austria. In the next step, local managers will ensure that the standards that have been developed are implemented in the relevant markets. ➜ **Employees**

Performance indicators

In 2018, the HUGO BOSS Group had **250 work accidents**, resulting in **4,248 lost days** (2017: 183 accidents and 2,312 lost days). Of these, 57 work accidents and 888 lost days were attributable to HUGO BOSS AG (2017: 49 accidents and 560 lost days).

Social matters

Ethically correct payment of corporate taxes

The **ethically correct payment of corporate taxes** plays an important role for HUGO BOSS in its global economic and social relationships. In the countries in which it is present the Company is responsible for its activities and makes an important contribution towards funding public services. This supports the development of the infrastructure required for a sustainable economy.

Internal structures and processes at HUGO BOSS have been clearly defined, aiming at compliance with applicable tax laws. Overall responsibility for all tax-related matters at HUGO BOSS lies with the Chief Financial Officer. The **central Finance and Tax department**, which regularly analyzes and assesses all tax-related issues, reports to him. Its assessment is an integral part of Group-wide risk management, although local external experts are also consulted for their opinion. The Managing Board as a whole is provided with a comprehensive update on the Group's tax position and all relevant tax-related matters on a regular basis. The Supervisory Board is also updated regularly about tax-related matters.

Targets

Compliance with applicable tax laws is the principal target in all areas of the Company. The ethically correct payment of corporate taxes plays a key role for HUGO BOSS in tax compliance.

Measures

HUGO BOSS generally pays tax on income in the countries in which it is generated, and when disclosing it complies with internationally accepted standards and corresponding local laws. The HUGO BOSS **tax strategy** can be consulted on the Company's website. **→ group.hugoboss.com**

The Group Tax department is responsible for developing **guidelines and instructions** for all tax-related processes and keeping them up to date. The Group Tax department also conducts **staff training courses** on a regular basis. **→ Risk Report, Report on the Accounting-Related Internal Control System and the Risk Management System**

Performance indicators

HUGO BOSS does not maintain any Group structures for the purpose of aggressive tax planning or tax avoidance. This is also reflected in the broadly **stable Group tax rate** over the past few years. In fiscal year 2018, the Group tax rate was 30% (2017: 30%). A reconciliation between expected and actual Group income tax expense is shown in the Notes to the Consolidated Financial Statement. **→ Notes to the Consolidated Financial Statements, Note 6**

Respect for human rights

Under "Respect for human rights", HUGO BOSS lists what it identifies as three material topics relating to the social impacts in the supply chain (finished goods): **Human rights and labor standards, occupational health and safety** and **fair compensation**. An overall report is provided below on the three topics since they are all part of the HUGO BOSS social compliance program and are therefore closely interconnected.

Observance of social standards along the global supply chain is of crucial importance for HUGO BOSS. The Company attaches key importance to the careful selection of its partners, on cooperations 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.

A key part of the sourcing volume of HUGO BOSS is attributable to finished goods, which are finished by suppliers in less economically developed regions. In some of these regions the political and social protection mechanisms for workers are relatively minimal. HUGO BOSS therefore bears **shared responsibility** for the staff in its supply chain.

Respect for human rights in the supply chain is recorded and managed by the central **Global Sustainability** division in close consultation with the operational sourcing units. The results of the work are the subject of regular reports to the Managing Board.

Targets

The target of HUGO BOSS is compliance with statutory and internal company rules on **human rights and labor standards** on the part of its suppliers. In doing so, all staff of suppliers shall be granted **safety at work, health protection** and **adequate compensation**.

Measures

HUGO BOSS imposes an obligation on both itself and its suppliers to comply with the **HUGO BOSS Social Standards**, which represent the Company's most important framework for compliance and improvement of social issues 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, human and safe working conditions, bans on child labor, forced labor and discrimination, the payment of reasonable salaries, freedom of association and environmental protection. 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. ➔ **group.hugoboss.com**

Compliance with the HUGO BOSS Social Standards is reviewed in **regular audits**. 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. Since 2017, for example, the Company has been conducting **social compliance training courses** at its finished goods suppliers and has been supporting them by providing extensive documentation in implementation of the Social Standards. In the event of incidents, employees of the supplier have the option of using a defined **grievance mechanism** to directly contact the responsible contacts at HUGO BOSS or an independent external ombudsman.

HUGO BOSS is involved in designing industry-wide standards and is working on **compensation practices** for its suppliers' employees. To this end the Company regularly collects and analyzes wage data from its finished goods suppliers. The work is based on internationally accepted standards such as those of the German Partnership for Sustainable Textiles and the Fair Labor Association (FLA). The Company has been an accredited member of the FLA since 2018. 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.

Performance indicators

In 2018, HUGO BOSS was in an active commercial relationship with 210 external finished goods production facilities in 28 countries (2017: 202 production facilities in 28 countries). During the reporting period, **153 audits** were conducted in 123 existing finished goods production facilities (including the Company's own production sites) (2017: 151 audits in 127 existing production facilities). Infringements that were identified related primarily to the areas of social compliance management, occupational safety and working time.

For 97% of the production facilities with which there was a working relationship in 2018 in the finished goods area (including the Company's own production sites), there is a **valid audit** (2017: 84%), meaning that a (follow-up) audit was performed at those suppliers according to a results-based audit frequency of within 24 months. In 2016, HUGO BOSS set itself the goal of purchasing 90% of its sourcing volume by 2020 from finished goods suppliers (including its own production sites) that had **good to satisfactory performance levels** in their last audit in each case. As at December 31, 2018, this proportion was 91% (2017: 84%). The goal was thus achieved early. HUGO BOSS also aims to maintain the high level of this indicator in the future.

Anti-corruption and bribery matters

Anti-corruption, anti-bribery and antitrust
Ethically correct and legal conduct includes the prevention of corruption, bribery and antitrust violations. 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 adhere with 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 Chief Executive Officer in his function 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 is kept regularly informed of the Compliance department's activities. → **Corporate Governance Report including the Corporate Governance Statement**

Targets
Compliance management at HUGO BOSS aims at **Group-wide legally compliant behavior**. The target 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. → **group.hugoboss.com**

A Group-wide **e-learning program** to be completed by all employees with access to a PC should heighten awareness of the compliance rules. 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 persistent 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. → **group.hugoboss.com**

Performance indicators
As in the prior year, there were **no corruption, bribery or antitrust cases** identified in the Company in 2018.

Customer 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 consistently focuses all its activities on the customer. Customer benefit and customer satisfaction are consequently both a benchmark and a goal in all key decisions. → **Group Strategy**

Customer satisfaction is measured and analyzed at HUGO BOSS in, among other places, **customer service**, by **sales staff** in stores and by the central **Strategy department**. This department provides the Managing Board with regular updates on the results of its work in detailed reports.

Targets

Particularly in times of intense competition and increasing customer demand, the **target of maximizing customer satisfaction** contributes to the long-term increase in the Company's 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 quality. For example, the new store concepts for BOSS and HUGO that were already implemented in 2018 at selected sites and the regular training of sales staff represent key investments in enhancing the shopping experience. In 2018, for instance, the Company also enhanced both the quality and price of BOSS Casualwear and gave it more space in its own retail stores. → **Group Strategy**

HUGO BOSS uses different formats to **measure customer satisfaction**. In addition to customer surveys, the Company also uses feedback from specially trained test buyers of outside 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. The Managing Board is also actively involved in dialog with customers using special dialog formats. HUGO BOSS offers its customers the opportunity to get in touch with the Company through its own website.

Performance indicators

In analyzing the data obtained through the various channels, what is known as the **Net Promoter Score** (NPS) is a key indicator. The NPS uses customer surveys to measure the likelihood of a customer recommending a brand to someone else, and allows to further increase the brand dynamic and customer satisfaction based on objective and measurable data. A high NPS compared to the competition was once again achieved in 2018. The Group's goal is to further improve this indicator in the future.

Product safety

HUGO BOSS is aware of its responsibility for the health and safety of the people who come into contact with its products both during the manufacturing process and as customers. Clear responsibilities, coordinated processes and extensive guidelines therefore focus on adherence to high **safety and quality standards** in the Company's product development.

Responsibility for product safety lies with the central **Global Sustainability** division, which is responsible among other things for the specification of internal policies and standards and compliance with statutory requirements. In the sourcing units, operational implementation is carried out by the staff responsible for product safety and quality.

Targets

HUGO BOSS aims to ensure that all products meet both its own and statutory safety and quality standards. The target of further improving the **environmental impact and safety of the products** is to be achieved primarily by reducing the use of environmentally harmful chemicals in the supply chain.

Measures

HUGO BOSS pays attention to strict product safety requirements being complied with along its supply chain. As early as the **product development process**, extensive tests are used to check the safety and environmental compatibility of the materials used. If the product 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 relevant **production steps**, such as, for example, the dyeing of fabrics and the tanning of leather, the Company is increasingly focusing on new technologies and innovative processes to prevent the release of pollutants that are harmful to health and to the environment.

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. By joining the **Zero Discharge of Hazardous Chemicals (ZDHC)** initiative in 2017, HUGO BOSS is also working to further reduce the use of environmentally harmful chemicals in the supply chain. In 2018, the Company worked on a **Manufacturing RSL**, based on the ZDHC tools, to encourage the use of alternative environmentally-friendly chemicals in the production process in future. → **Sustainability Report**

Performance indicators

HUGO BOSS has the safety and quality of its products tested by accredited institutes using **comprehensive tests for harmful substances**, with the goal of minimizing the proportion of products that do not meet market requirements. In 2018, around 3,050 materials were tested (2017: around 2,950). In this process less than 0.5% of the tested products turned out not to be market-compliant and were consequently rejected (2017: less than 0.5%).

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 digitalized, 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 high relevance for the future success of HUGO BOSS. Breaches of data protection laws represent an increased compliance risk. The Group aims to counter this risk with a system that complies with data protection laws as well as robust security and data privacy controls. → **Risk Report, Material Organizational Risks**

The **central Data Protection Officer** is responsible for data protection monitoring and compliance. Support is provided by specified data protection officers within the 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.

Measures
All employees are educated on data protection issues through activity-related **training courses** and the obligation to adhere to the **Code of Conduct**. The Company has additionally enacted an internal **data protection policy** as well as other data protection guidelines. With the EU General Data Protection Regulation now applicable, there has been more of a focus on data protection, and on implementation of and compliance with the new changes in the law.

All internal **processes and systems** for processing personal data are measured against legal data protection requirements on an ongoing basis and are constantly being improved. The improvements focus on preventing the misuse and theft of data and on ensuring that customers' privacy is protected. 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 2018, 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.

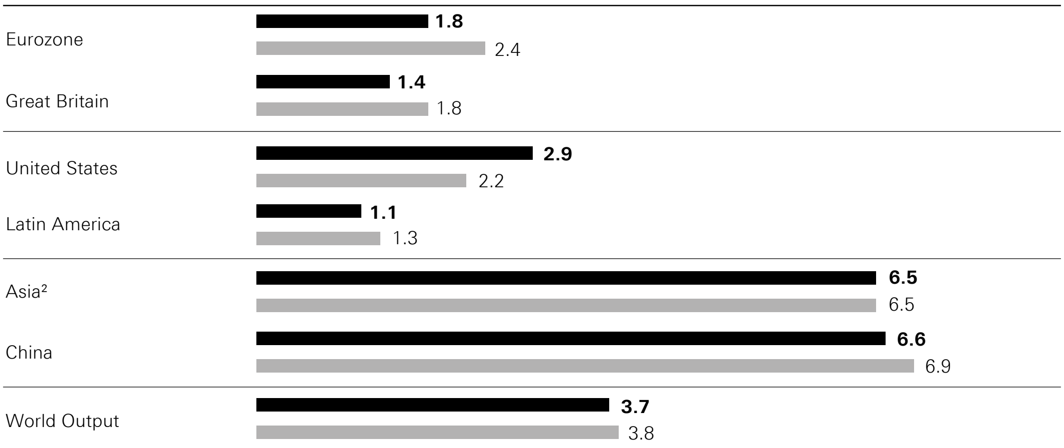
GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

- **Momentum of the global economy slackens over the course of the year**
- **Perceptible slowdown of growth in Europe and China**
- **Premium and luxury goods industry benefits from strong demand from Chinese customers and rising U.S. business**

General economic situation

According to an estimate of the IMF, growth in the **global economy** in 2018 was, at 3.7%, 20 basis points lower than anticipated at the start of the year and also slightly below the growth achieved in the prior year (2017: 3.8%). Over the course of the year, general economic uncertainties increased steadily. In particular, the ongoing trade conflicts and punitive tariffs between the U.S. and China, increasing concerns about China's growth prospects and political uncertainties, for example with regard to Brexit or Italy's budgetary policy, led to a marked slowdown in global economic growth in the second half of the year. As a result of the increasing uncertainties, the manufacturing sector and capital expenditure also suffered. While the U.S. economy expanded further in 2018, mainly due to the positive impetus of the tax reform, the economic development in Europe and in many emerging markets lost perceptible momentum over the course of the year.

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



[1] Estimates IMF.
[2] Without Japan.
■ **2018**
■ 2017

According to an IMF estimate, the economy of the **Eurozone** grew by 1.8% in 2018 and thus clearly less than initially expected (2017: 2.4%). Although it still benefited from the expansive monetary policy being pursued by the ECB and generally upbeat consumer confidence, lower growth in exports and increased political risks caused a perceptible slowdown in economic momentum. Germany, France and Italy in particular saw a weaker development than in the prior year and weaker than had been expected at the beginning of the year. Compared with the Eurozone, in **Great Britain**, the economy grew at a below-average rate of 1.4%, also lower than in the prior year (2017: 1.8%).

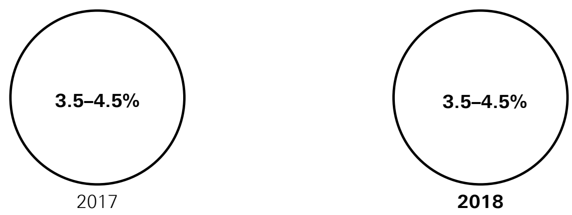
The IMF estimates that, at 2.9%, economic growth in the **United States** was considerably above the prior year's level and slightly above the expectations set out at the start of the year (2017: 2.2%). The robust economic growth in the United States was driven in particular by the private sector, which benefited from the tax reform and higher government spending. Growth of the Canadian economy was slightly down compared to the prior year's level. According to IMF estimates, growth in economic output in **Latin America** also remained down slightly from the prior year at 1.1% (2017: 1.3%).

According to the IMF estimate, the economic growth of the emerging and developing markets of **Asia** equated to 6.5% during the past fiscal year and was thus, as expected, at the prior year's level (2017: 6.5%). While the growth rates of smaller emerging markets continued to rise in the past year, the IMF expects economic growth for **China** to have slowed to 6.6% (2017: 6.9%). The trade conflict with the United States and the resulting punitive tariffs on Chinese exports, the increasing indebtedness of the private sector and a downturn in consumer confidence burdened the Chinese economy. The Japanese economy grew only slightly last year.

Industry development

In a joint study, The Business of Fashion and the consulting firm McKinsey & Company estimate that sales of the **global apparel industry** increased by between 4% to 5% in 2018 when adjusted for currency effects. Growth was hence significantly higher than in the prior year (2017: 2.5% to 3.5%). Key drivers included strong demand for apparel in both the luxury and value segments, U.S. industry sales benefiting from the tax reform and higher demand in emerging markets.

Industry growth[1] (in %)



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

For HUGO BOSS, the **upper premium segment of the apparel industry** represents the best benchmark. The Business of Fashion as well as McKinsey & Company estimate that the growth of this segment was only slightly behind that of the industry as a whole and stood, as in the prior year on a currency-adjusted basis at 3.5% to 4.5% (2017: 3.5% to 4.5%). A high level of demand especially from Chinese customers for premium and luxury goods, the strong U.S. business and robust growth in the emerging markets had a positive impact on conditions in the industry. However, these were still marked by substantial regional and company-specific differences in 2018. In particular, those market participants who were able to increase their brand's appeal among younger customers by means of innovative, attractive collections and a persuasive digital approach performed well.

According to estimates by The Business of Fashion and McKinsey & Company, the apparel industry in the mature countries in **Europe** grew on a currency-adjusted basis by 2% to 3% and thus at a similar rate as in the prior year. Growth in the region's emerging markets was up to four percentage points higher. The appreciation of the euro led to a slight weakening of business with tourists. However, the region benefited from a slight overall increase in local demand, with the individual markets showing marked differences, those in Great Britain and Germany in particular performing below average.

In **America**, the recovery of the apparel industry continued in 2018. The Business of Fashion and McKinsey & Company estimate that the sector in North America, with currency-adjusted growth of 3% to 4%, developed better than in the prior year and thus stronger than expected at the beginning of the year. In the U.S. market, the development of the industry was supported not only by the tax reform but also by business with tourists. In Canada and the markets of Latin America, the industry also reported sales increases.

In **Asia** too, there were regional differences among growth rates in the apparel industry. According to the estimate of The Business of Fashion and McKinsey & Company, while the industry in the mature markets of the region only saw growth in the single-digit range in 2018, the emerging markets of the region, including the markets of China, Hong Kong and Macau, which are important to the industry, recorded a currency-adjusted sales growth of 6.5% to 7.5%. The industry was thus able to grow more strongly than in the prior year, thanks in particular to strong demand from Chinese customers. Many of the market participants are becoming more successful at adapting to the needs of younger, increasingly fashion-conscious customer groups on the Asian market who are strongly influenced by social media.

The growth prospects of the global economy and the industry for **fiscal year 2019** are presented in the section Outlook. → **Outlook**

COMPARISON OF ACTUAL AND FORECAST BUSINESS PERFORMANCE

- **HUGO BOSS achieves its annual targets for 2018**
- **Accelerating sales momentum especially in the Group's own retail business**
- **Progress in strategy implementation and consistent cost management with positive impact on Group business performance**

HUGO BOSS looks back on a successful 2018. The Group has achieved its targets set for fiscal year 2018. At the same time, it has made considerable progress in the implementation of its strategic priorities. Besides the successful realignment of the BOSS and HUGO brands, which became visible to customers for the first time with the launch of the Spring/Summer 2018 collection, the Group also successfully further developed its distribution strategy in 2018, especially in the online business. Moreover, HUGO BOSS has perceptibly driven forward the digitization of its business model. The **consistent implementation of its strategic priorities** and **continued strict cost management** had a positive impact on the Group's course of business. The Group also benefited from the **positive development of the global economy and the industry** in 2018. In particular, the strong demand from Chinese customers for premium and luxury goods together with the benefits from U.S. tax reform, providing stimulus to the industry's growth, had a positive impact on the Group's overall sales performance. → **Group Strategy,** → **General Economic Situation and Industry Development**

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

	Actual figures 2017	Original forecast 2018	Adjusted forecast in November 2018	**Result 2018**
Group sales	2,733	Increase at a low to mid single-digit percentage rate[1]		Increase by 4%[1] to EUR 2,796 million
Gross profit margin	66.2	Largely stable	Decline of between 50 and 100 basis points	Decrease by 90 basis points to 65.2%
EBITDA before special items	491	Development within a range of (2)% and +2%		With EUR 489 million stable to prior year
Group's net income	231	Increase at a low to mid single-digit percentage rate		Increase by 2% to EUR 236 million
Capital expenditure	128	EUR 170 million to EUR 190 million	EUR 150 million to EUR 170 million	Increase by 21% to EUR 155 million
Free cash flow	294	EUR 150 million to EUR 200 million		Decrease by 42% to EUR 170 million

[1] Currency-adjusted.

With a currency-adjusted increase of 4%, **Group sales** were within the initial forecast range. In addition to the accelerating sales momentum in the Group's own retail business, growth in the wholesale business also contributed to this development. → **Earnings Development, Sales Performance**

In the third quarter of 2018, the overall challenging market environment resulted in higher markdowns and thus in a significant decline in the gross profit margin. As a result, HUGO BOSS adjusted its outlook for the gross profit margin in November and assumed a decline in the **gross profit margin** of 50 to 100 basis points compared to the prior year. With a decline of 90 basis points to 65.2%, the gross profit margin in fiscal year 2018 was finally within the adjusted forecast range. For the **operating profit (EBITDA before special items)**, the Group expected a development within a range of –2% to +2% compared to the prior year level. At EUR 489 million, EBITDA before special items remained stable, and was thus in the middle of the forecast range. The **Group's net income** amounted to EUR 236 million, representing an increase of 2%, and was therefore in line with the forecast range. → **Earnings Development, Income statement**

With the publication of the results for the third quarter of 2018, the Group also adjusted its outlook for **capital expenditure** for 2018 and henceforth anticipated an amount of between EUR 150 million and EUR 170 million. The reduction of the original forecast primarily resulted from a different phasing of investments. In fiscal year 2018, capital expenditure finally amounted to EUR 155 million and was thus within the adjusted forecast range. **Free cash flow** amounted to EUR 170 million and was likewise within the original forecast range. → **Net Assets**, → **Financial Position**

The targets for fiscal year 2019 are presented in the section **Outlook**. → **Outlook**

EARNINGS DEVELOPMENT

- **Currency-adjusted Group sales up 4% in fiscal year 2018**
- **Investments in product quality significantly contributed to a decline in gross profit margin by 90 basis points**
- **EBITDA before special items on prior-year level**

Sales performance

In fiscal year 2018, HUGO BOSS generated **Group sales** of EUR 2,796 million, up 2% in the Group's reporting currency compared to the prior year (2017: EUR 2,733 million). Currency effects had a negative impact on Group sales in the reporting period, following the appreciation of the euro against most other currencies. Consequently, in local currencies, HUGO BOSS recorded a 4% increase in sales compared to the prior year.

Sales by region

Sales by region (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,736	62	1,681	62	3	4
Americas	574	20	577	21	(1)	4
Asia/Pacific	410	15	396	14	4	7
Licenses	76	3	79	3	(4)	(4)
Total	**2,796**	**100**	**2,733**	**100**	**2**	**4**

[1] Including Middle East and Africa.

All three regions recorded currency-adjusted sales increases in fiscal year 2018. **Europe**, including the Middle East and Africa, benefited in particular from double-digit growth in Great Britain. In the **Americas**, in addition to a mid-single-digit growth in the United States, the other markets also contributed to the sales increase. In **Asia/Pacific**, China continued to be the growth engine with high single-digit growth rates. → **Earnings Development, Sales and Earnings Development of the Business Segments**

Sales by distribution channel

Sales by distribution channel (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,768	63	1,732	63	2	4[1]
Directly operated stores	1,096	39	1,103	40	(1)	2
Outlet	562	20	550	20	2	4
Online	110	4	79	3	39	41
Wholesale	952	34	922	34	3	5
Licenses	76	3	79	3	(4)	(4)
Total	**2,796**	**100**	**2,733**	**100**	**2**	**4**

[1] On a comp store basis 5%.

Currency-adjusted sales in the **Group's own retail business** grew by 4% in fiscal year 2018, supported by increases in all sales formats. In particular, the online business achieved significant double-digit growth and increased by 41% compared to the prior year. At the end of fiscal year 2018, the online sales of HUGO BOSS for the first time exceeded the EUR 100 million mark. Overall, at 63%, the share of the own retail business in Group sales remained stable in fiscal year 2018. On the basis of retail comp store sales, i.e. including retail spaces opened or taken over before December 31, 2016, sales in the own retail business rose by 2% year on year in the reporting currency. In currency-adjusted terms, this represents an increase of 5%.

Sales in the **wholesale channel** also developed positively. This was due both to high single-digit growth in the replenishment business, with which HUGO BOSS responds to short-term demand from wholesale partners, as well as delivery shifts compared with the prior year. At 34%, the share of the wholesale business in Group sales remained stable in fiscal year 2018.

Sales in the **license business** declined slightly in fiscal year 2018. Higher license income from watches and eyewear only partially offset declining license income from fragrances. At 3%, the share of license business in Group sales remained stable compared to the prior year.

Sales by brand

Sales by brand (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %	Currency-adjusted change in %
BOSS	2,422	87	2,336	85	4	6
HUGO	374	13	397	15	(6)	(4)
Total	**2,796**	**100**	**2,733**	**100**	**2**	**4**

The sales development of BOSS and HUGO was impacted by ongoing **changes in the distribution strategy** in fiscal year 2018. The Group had decided to transfer selling space from HUGO to BOSS both for certain product categories in the wholesale channel and in selected own retail stores. Besides that, the Group reduced the presence of HUGO in the outlet channel. These measures were intended to sharpen the brand positioning of HUGO. → **Group Strategy, HUGO Brand Strategy**

As a result, sales of the **HUGO** brand declined, as expected, in fiscal year 2018. Double-digit growth in casualwear could only partially compensate for declines in businesswear. The **BOSS** brand, on the other hand, recorded significant increases in sales, driven by high single-digit growth in businesswear and casualwear.

Sales by gender

Sales by gender (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %	Currency-adjusted change in %
Menswear	2,517	90	2,440	89	3	5
Womenswear	279	10	293	11	(5)	(3)
Total	**2,796**	**100**	**2,733**	**100**	**2**	**4**

Menswear benefited from double-digit growth in casualwear and mid-single-digit growth in businesswear. The decline in sales of **womenswear** is attributable to the reduction of retail space of the BOSS brand in freestanding stores. This could not be offset by growth in the HUGO brand. → **Group Strategy**

Network of own retail stores

Number of Group´s own freestanding retail stores

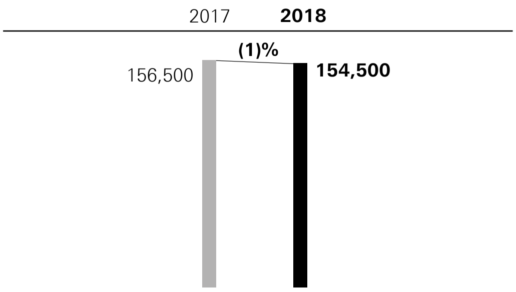
In fiscal year 2018, the number of own **freestanding retail stores** increased by a net figure of three to 442 (2017: 439). 13 newly opened **BOSS stores**, mainly in Europe and Mainland China, were offset by 22 store closures with expiring leases. This included the relocation of two sites within the same metropolitan area. In addition, twelve **HUGO stores** with their own store concept were opened in fiscal year 2018 in selected metropolises, including London and Paris.

Number of Group's own retail stores by region

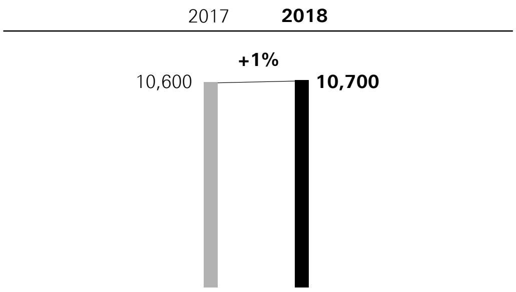
2018	Freestanding stores	Shop-in-shops	Outlets	Total
Europe	199	317	69	**585**
Americas	89	92	50	**231**
Asia/Pacific	154	91	52	**297**
Total	**442**	**500**	**171**	**1,113**
2017				
Europe	192	351	65	**608**
Americas	90	99	50	**239**
Asia/Pacific	157	88	47	**292**
Total	**439**	**538**	**162**	**1,139**

Including shop-in-shops and outlets, the total number of **retail stores** operated by HUGO BOSS worldwide were reduced as at December 31, 2018, by a net figure of 26 to 1,113 (2017: 1,139). The decline was mainly due to the conversion of small shop-in-shops from the retail model to the wholesale model in Europe.

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



Selling space productivity
(in EUR per square meter)



The **total selling space** of the Group's own retail business decreased by 1% and amounted to around 154,500 sqm at the end of the year (December 31, 2017: 156,500 sqm). **Selling space productivity** in the brick-and-mortar retail business increased by 1% to around EUR 10,700 per sqm in fiscal year 2018 (2017: EUR 10,600 per sqm).

Income statement

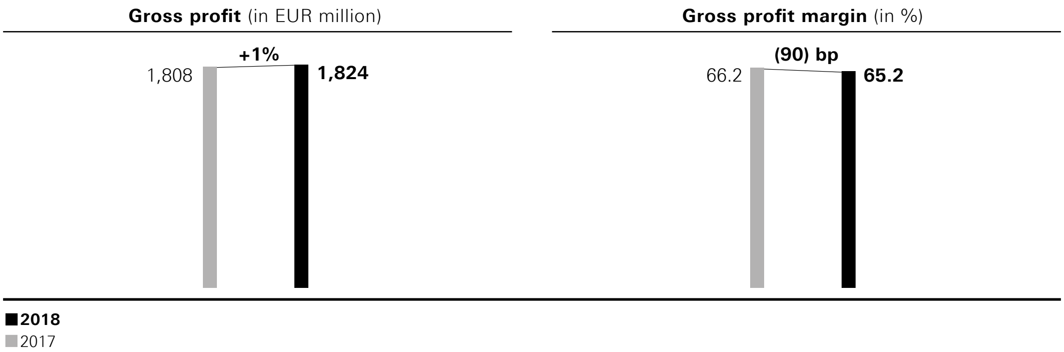
Income statement (in EUR million)

	2018	In % of sales	2017	In % of sales	Change in %
Sales	**2,796**	**100.0**	**2,733**	**100.0**	**2**
Cost of sales	(972)	(34.8)	(925)	(33.8)	(5)
Gross profit	**1,824**	**65.2**	**1,808**	**66.2**	**1**
Selling and distribution expenses	(1,174)	(41.9)	(1,195)	(43.7)	2
Administration expenses	(290)	(10.4)	(280)	(10.3)	(4)
Other operating income and expenses	(13)	(0.5)	8	0.3	<(100)
Operating result (EBIT)	**347**	**12.4**	**341**	**12.5**	**2**
Financial result	(10)	(0.4)	(10)	(0.4)	(4)
Earnings before taxes	**337**	**12.0**	**331**	**12.1**	**2**
Income taxes	(101)	(3.6)	(100)	(3.6)	0
Net income	**236**	**8.4**	**231**	**8.5**	**2**
Earnings per share (EUR)[1]	**3.42**		**3.35**		**2**
EBITDA before special items	**489**	**17.5**	**491**	**18.0**	**0**
Income tax rate in %	**30**		**30**		

[1] Basic and diluted earnings per share.

At 65.2%, the **gross profit margin** in fiscal year 2018 was 90 basis points below the prior year's level (2017: 66.2%). The decline is mainly due to investments in the product quality. In addition, currency effects had a slightly negative impact on the gross margin development.

Development of gross profit and gross profit margin



In fiscal year 2018, **selling and distribution expenses** were 2% below the prior year level. Relative to sales, they declined from 43.7% to 41.9%. A slowdown in retail expansion and positive effects from renegotiated rental contracts in the Group's own retail business in particular led to a 2% decrease in selling expenses. At 32.6%, they accounted for a lower percentage of sales compared to the prior year's level (2017: 34.0%). Marketing expenses decreased by 6% compared to the same period of the prior year. At 6.2%, they were also below the prior year level as a percentage of sales (2017: 6.8%). Logistics expenses, by contrast, rose by 6% over the prior year and, at 3.1% of sales, were slightly up on the prior year (2017: 3.0%). This was mainly due to the positive performance of the online business that led to higher personnel costs and other expenses. → **Notes to the Consolidated Financial Statements, Note 2**

Consistent cost management limited the increase in **administrative expenses** in the past fiscal year. General administrative costs grew by 4%, mainly due to investments in the digital transformation of the business model. HUGO BOSS expects these investments to deliver an important stimulus to sales and to accelerate operational processes. At 8.1%, general administrative expenses as a percentage of sales were only slightly above the prior year level (2017: 8.0%). Research and development costs incurred during the collection development increased by 1% compared to the prior year. As a percentage of sales, however, research and development costs remained stable at 2.3% (2017: 2.3%). → **Notes to the Consolidated Financial Statements, Note 3**

Net expenses arising from **other operating expenses and income** amounted to EUR 13 million in fiscal year 2018 (2017: net income of EUR 8 million). In the reporting period, expenses were incurred in connection with organizational changes. Furthermore, the item includes expenses that arose from the recognition of a provision for liabilities in the context of the former production site in Cleveland, Ohio, United States. → **Notes to the Consolidated Financial Statements, Note 4**

EBIT and EBITDA before special items (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %
Earnings before taxes	**337**	**12.0**	**331**	**12.1**	**2**
Financial result	(10)	(0.4)	(10)	(0.4)	(4)
Operating result (EBIT)	**347**	**12.4**	**341**	**12.5**	**2**
Depreciation and amortization	(129)	(4.6)	(158)	(5.8)	18
EBITDA	**476**	**17.0**	**499**	**18.3**	**(5)**
EBITDA related special items	(13)	(0.5)	8	0.3	<(100)
EBITDA before special items	**489**	**17.5**	**491**	**18.0**	**0**

EBITDA before special items recorded a stable development in the fiscal year. Positive effects resulting from the increase in sales and the consistent cost management were offset by investments in product quality and in the digital transformation of the business model. Currency effects had an overall negative impact on earnings development. This was mainly due to the currency devaluations outside the Eurozone. At 17.5%, the **adjusted EBITDA margin** was down 50 basis points on the prior year's level (2017: 18.0%).

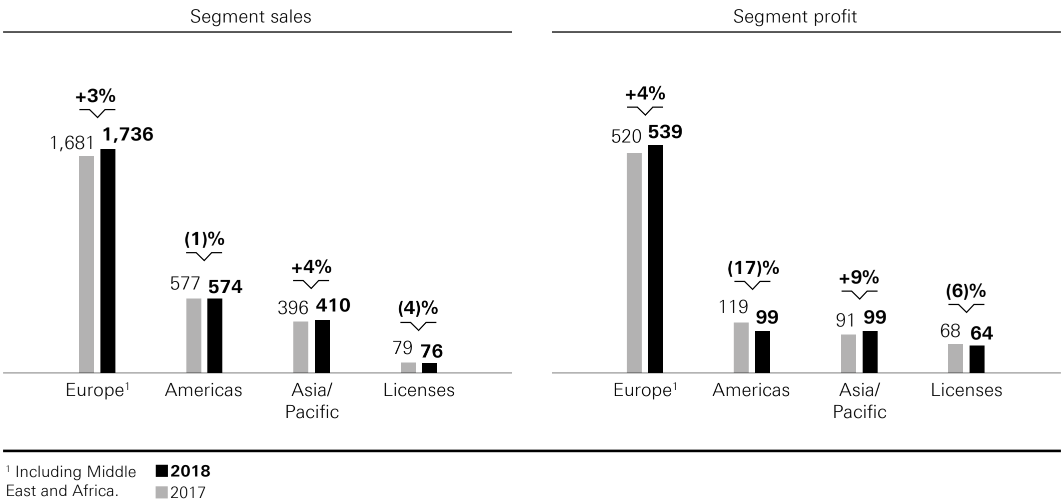
EBIT rose by 2%. The **EBIT margin**, on the other hand, recorded a slight decrease of 10 basis points to 12.4% (2017: 12.5%). **Amortization and depreciation** amounted to EUR 129 million, down 18% on the prior year's period due to lower capital expenditure in the prior years and decreased impairments recognized on property, plant and equipment in own retail stores (2017: EUR 158 million).

The **financial result** as a net expense of the interest result and other financial items was at the prior year's level. In fiscal year 2018, the **Group tax rate** remained stable at 30% (2017: 30%). Income tax expenditure increased during the reporting period as a result of costs related to the recognition of a provision for risks arising from a tax field audit at HUGO BOSS AG. On the other hand, expenses recognized in the prior year from the revaluation of deferred tax assets in connection with the U.S. tax reform did not recur. → **Notes to the Consolidated Financial Statements, Note 5 and 6**

The **Group's net income** consequently rose 2%.

Sales and earnings development of the business segments

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



[1] Including Middle East and Africa.

Europe

Currency-adjusted sales in **Europe** including the Middle East and Africa increased by 4% due to growth in both distribution channels. Sales in the Group's own retail business increased by a mid-single-digit percentage rate, on a comp store and currency-adjusted basis.

Sales development Europe (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,004	58	975	58	3	4
Wholesale	732	42	706	42	4	5
Total	**1,736**	**100**	**1,681**	**100**	**3**	**4**

Against the background of a challenging market environment in **Germany**, both the Group's own retail business and the wholesale business declined year on year. In total, sales, at EUR 429 million, were 4% below the prior year's level (2017: EUR 448 million). **Great Britain** was once again the strongest single market in the region in fiscal year 2018, recording significant sales growth in both distribution channels. Sales in the Group's reporting currency were up 11% to EUR 360 million (2017: EUR 325 million). In local currency, the market achieved a sales increase of 12%. In **France**, sales amounted to EUR 168 million, up 1% on the prior-year level (2017: EUR 165 million). Growth in the Group's own retail business more than compensated for a decline in wholesale business in this market. In the **Benelux countries**, sales increased by 7% to EUR 143 million (2017: EUR 134 million), reflecting growth in both distribution channels.

At EUR 539 million, **segment profit** in Europe was up 4% over the prior year's level (2017: EUR 520 million). The increase in sales was able to more than offset slightly higher operating expenses. At 31.1%, the adjusted EBITDA margin was therefore up 10 basis points on the prior year (2017: 30.9%). → **Notes to the Consolidated Financial Statements, Note 26**

Americas

In the **Americas**, sales in local currencies rose by 4%. This was due to growth in both, the Group's own retail business and wholesale business. On a comp store and currency-adjusted basis, sales in the Group's own retail business increased by a mid-single-digit percentage rate.

Sales development Americas (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	389	68	392	68	(1)	4
Wholesale	185	32	185	32	0	4
Total	**574**	**100**	**577**	**100**	**(1)**	**4**

In the **United States**, sales in the reporting currency slightly declined and totaled EUR 422 million (2017: EUR 423 million). By contrast, sales in the local currency rose by 4% as a result of growth in both distribution channels. In **Canada**, sales declined by 3% in the reporting currency to EUR 82 million (2017: EUR 84 million). Supported by a positive sales development in the Group's own retail business, currency-adjusted sales grew 1%. In **Latin America**, sales remained at the prior year's level at EUR 70 million (2017: EUR 70 million). This represents a 9% sales increase in local currencies. Both distribution channels supported this development, with the Group's own retail business in particular showing strong growth.

At EUR 99 million, the **segment profit** of the Americas region was 17% below the prior year's level (2017: EUR 119 million). This was primarily due to the decline in gross profit, mainly as a result of negative currency effects, which more than offset the positive effect of lower operating expenses. At 17.2%, the adjusted EBITDA margin for this region was 340 basis points below the prior year's level (2017: 20.6%).

Asia/Pacific

Currency-adjusted sales in **Asia/Pacific** rose by 7% in the past fiscal year. Currency-adjusted sales in the Group's own retail business grew at a high single-digit percentage rate both in total and on a comp store and currency-adjusted basis.

Sales development Asia/Pacific (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	376	92	365	92	3	7
Wholesale	34	8	31	8	11	15
Total	**410**	**100**	**396**	**100**	**4**	**7**

At EUR 228 million, sales in **China** were 3% up on the prior year's level (2017: EUR 221 million). This represents a currency-adjusted sales increase of 7%. With double-digit growth rates on a comp store basis, the Group's own retail business developed extremely positively both on the Chinese Mainland and in Hong Kong and Macau. In **Oceania**, sales in the Group's reporting currency declined by 8% to EUR 56 million (2017: EUR 61 million). This represents a currency-adjusted sales decrease of 2%. At EUR 52 million, sales in **Japan** grew 7% over the prior year (2017: EUR 49 million). In local currency, Japan recorded an increase in sales of 10%.

At EUR 99 million, the **segment profit** of Asia/Pacific was 9% up on the prior year's level (2017: EUR 91 million). In addition to the positive sales development, a decline in operating expenses also contributed to this development. At 24.2%, the adjusted EBITDA margin in this region was up 120 basis points on the prior year (2017: 23.0%).

Licenses

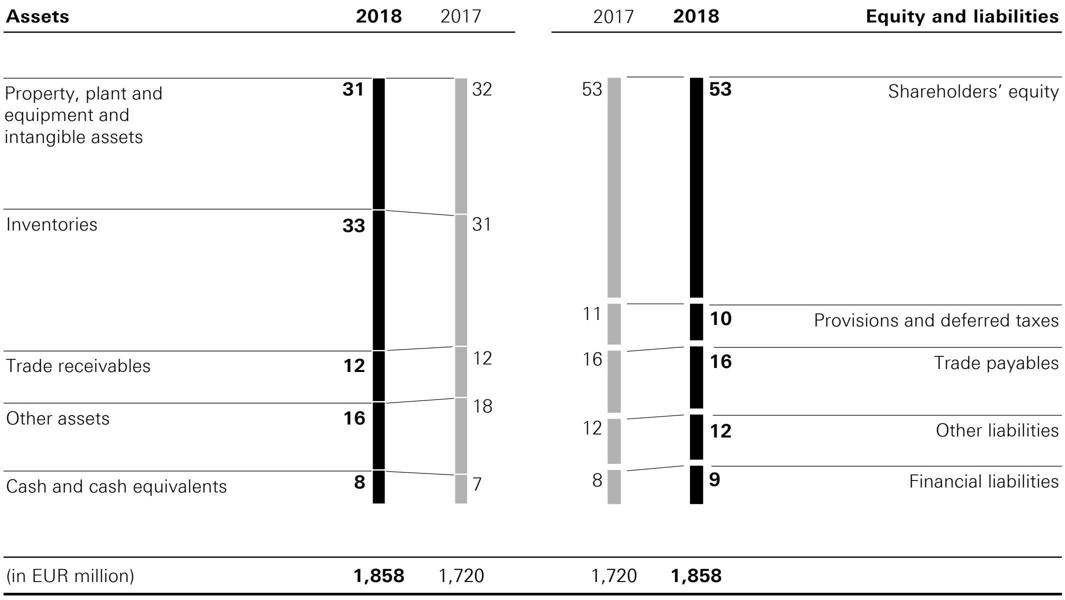
Sales in the **license business** declined by 4% to EUR 76 million (2017: EUR 79 million) in fiscal year 2018. → **Earnings Development, Sales by Distribution Channel**

As a result, the **segment profit** was 6% below the prior year's level, totaling EUR 64 million (2017: EUR 68 million).

NET ASSETS

- **Equity ratio remains at 53%, unchanged to the prior year**
- **Higher capital expenditure results in a 5%-increase in property, plant and equipment and intangible assets**
- **Increase in inventories causes higher trade net working capital**

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



Total assets rose by 8% compared to the prior year. This development is mainly due to higher **inventories** as well as an increase in **property, plant and equipment and intangible assets**. The latter increased this year, mainly due to capital expenditure being 5% higher than in the prior year. → **Financial Position, Capital Expenditure**

At 63%, the **share of current assets** increased compared to the prior year (December 31, 2017: 61%). Accordingly, the **share of non-current assets** decreased to 37% as of December 31, 2018 (December 31, 2017: 39%). Unchanged compared with the prior year, the **equity ratio** was at 53% at the end of the year (December 31, 2017: 53%). → **Consolidated Financial Statements, Consolidated Statement of Financial Position**

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

	2018	2017	Change in %	Currency-adjusted change in %
Inventories	618	537	15	14
Trade receivables	214	208	3	3
Trade payables	295	286	3	2
Trade net working capital	**537**	**459**	**17**	**16**

The increase in **inventories** aims in particular at temporarily supporting sales momentum in the Group's own retail business. Key for the development of **trade receivables** were higher sales in the wholesale channel. **Trade payables** also recorded a slight increase year-on-year as a result of delays in the receipt of invoices. Consequently, **trade net working capital** grew 17% in the Group´s reporting currency and 16% in local currencies, as compared to the prior year. At 19.7%, the moving average of **trade net working capital as a percentage of sales** based on the last four quarters was 110 basis points above the prior year's level (2017: 18.6%).

Other assets remained at the prior year level. This item essentially comprises deferred tax assets, income tax receivables as well as other current and non-current assets. The slight decrease in the **provisions and deferred tax liabilities** item is derived essentially from lower provisions for goods returned. The increase in **other liabilities** is mainly due to slightly higher personnel and income tax liabilities over the prior year. ➔ **Notes to the Consolidated Financial Statements, Note 17 and 21**

The total of **current and non-current financial liabilities** increased by 34% to EUR 176 million as of the reporting date (December 31, 2017: EUR 132 million). This was driven by a lower cash inflow from operating activities. ➔ **Financial Position, Capital Structure and Financing**

FINANCIAL POSITION

- **Free cash flow of EUR 170 million below the prior year level as expected**
- **Net financial liabilities remain at a low level**
- **Capital expenditure focuses on own retail 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 apply 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, investor diversification, flexibility, covenants and terms to maturity are taken into account when selecting financial instruments. External loans for Group financing are taken out centrally and primarily in the Group's reporting currency (euro) within the framework of an **"inhouse bank" concept**. To cover the financing needs of the Group companies, funds are made available in the form of intercompany loans. This allows economies of scale to be exploited and the cost of capital to be minimized. 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 until 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 0.0, the ratio continues to be substantially below the maximum permissible as of the reporting date (December 31, 2017: 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 is to be applied as of 2019, on EBITDA before special items. **→ Notes to the Consolidated Financial Statements, Note 15**

As of the reporting date, the Group's **debt** continued to account for 47% of total assets (December 31, 2017: 47%). Current and non-current **financial liabilities** accounted for 20% or EUR 176 million of this (December 31, 2017: 16% or EUR 132 million). As of the reporting date, EUR 35 million of the syndicated loan had been drawn (December 31, 2017: EUR 16 million).

To **ensure further liquidity**, the Group has bilateral credit lines at its disposal with a total volume of EUR 217 million (December 31, 2017: EUR 210 million), of which EUR 134 million was claimed due to favorable interest rates by December 31, 2018 (December 31, 2017: EUR 106 million). The variable-interest financial liabilities amounting to EUR 138 million (December 31, 2017: EUR 100 million) included therein are largely subject to a short-term fixed interest rate. As of the reporting date, EUR 8 million of these liabilities were hedged against an increase in interest rates using interest rate swaps (December 31, 2017: EUR 9 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 498 million (December 31, 2017: EUR 538 million), the Group had at its disposal **cash and cash equivalents** in the amount of EUR 147 million (December 31, 2017: EUR 116 million). **→ Financial Position, Statement of Cash Flows**

Land charges in connection with land and buildings amount to EUR 27 million (2017: EUR 31 million).

Financing is supplemented by **operating leases** for the Group's own retail stores and for logistics and administration properties. In subsequent periods, nominal minimum lease payments of EUR 1,369 million are due (2017: EUR 1,389 million). There are no other contingent liabilities. **→ Notes to the Consolidated Financial Statements, Note 24**

Statement of cash flows

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

Statement of cash flows (in EUR million)

	2018	2017
Cash flow from operating activities	322	420
Cash flow from investing activities	(152)	(126)
Cash flow from financing activities	(139)	(254)
Change in cash and cash equivalents	**31**	**32**
Cash and cash equivalents at the beginning of the period	116	83
Cash and cash equivalents at the end of the period	147	116

In 2018, the **free cash flow**, measured as the sum of cash inflow from operating activities and cash outflow from investing activities was, at EUR 170 million, clearly below the prior year's level (2017: EUR 294 million). This development is mainly due to a lower cash inflow from operating activities compared to the prior year.

At EUR 322 million, the **cash inflow from operating activities** was 23% below the prior year's level (2017: EUR 420 million). This was mainly due to an increased cash outflow from changes in trade net working capital. In particular, higher inventories as compared to the prior year had a negative impact. As a result of a low amount of debt and low market interest rates, the net cash outflow from interest expenses and income was close to zero (2017: EUR 1 million).

Cash outflow from investing activities was EUR 152 million, 20% above the prior year (2017: EUR 126 million). This was mainly driven by higher capital expenditures on property, plant and equipment and intangible assets.

Cash outflow from financing activities was down sharply in fiscal year 2018, amounting to EUR 139 million (2017: EUR 254 million). This development reflects higher cash inflow from taking on current and non-current financial liabilities compared to the prior-year. At EUR 183 million, the dividend payment was slightly above the prior-year level (2017: EUR 179 million).

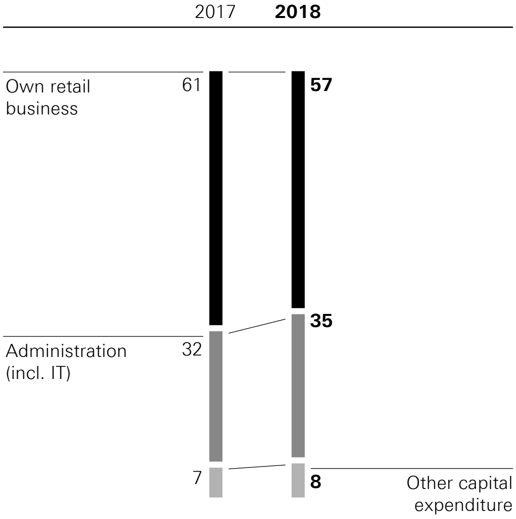
Net financial liabilities

Net financial liabilities are the total of all financial liabilities due to banks less cash and cash equivalents. Liabilities from finance and operating leases are not included in the calculation of this indicator. Net financial liabilities increased only marginally, to EUR 22 million, by the end of fiscal year 2018 (December 31, 2017: EUR 7 million). At EUR 169 million, financial liabilities due to banks were above the prior-year level (December 31, 2017: EUR 122 million).

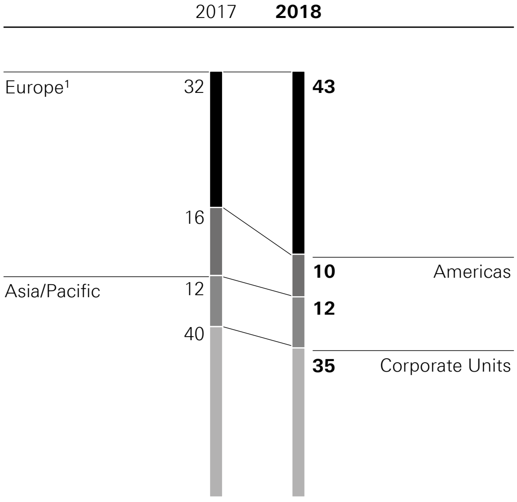
Capital expenditure

In the past fiscal year, HUGO BOSS invested EUR 155 million in **property, plant and equipment and intangible assets** (2017: EUR 128 million). The investment volume was thus substantially higher than in the prior year. The main reason for this were investments in the modernization of the Group's own retail network and its IT infrastructure.

Capital expenditure by functional area (in %)



Capital expenditure by region (in %)



[1] Including Middle East and Africa.

With an investment of EUR 89 million, the Group's own retail network was once again the focus of investment activities (2017: EUR 77 million). Of this, EUR 45 million was spent on the **renovation and modernization** of own retail stores (2017: EUR 33 million), representing a 36% increase compared to the prior year. Focus in this regard was on the intensified conversion of existing BOSS stores to the new store concept. As in the prior year, EUR 44 million was invested in selective **openings** of own retail stores. (2017: EUR 44 million). A material amount of this was spent on investment on new construction of the outlet in Metzingen, which is scheduled to open at the end of 2019.

Capital expenditure on **administration** amounted to EUR 54 million in the past fiscal year (2017: EUR 41 million). This mainly includes investments of EUR 36 million in the **IT infrastructure** (2017: EUR 31 million). In addition to the continuous further development of the ERP system, there was further investment in 2018 specifically in connection with the cross-channel integration and the digitization of the Group's own retail activities. The modernization of administrative facilities, which was also a part of the Group's "New Ways of Working" project, contributed to the increase in capital expenditure on administration. → **Employees**

Other capital expenditure on the production, logistics and distribution structure and on research and development in 2018 amounted to EUR 12 million (2017: EUR 10 million). This mainly includes replacement investments in the respective functional areas. The reason for the increase in 2018 was the renovation of a showroom in Switzerland.

The **accumulated amortization and depreciation** on property, plant and equipment and intangible assets including own capitalized cost came to EUR 963 million (2017: EUR 987 million). Existing **obligations from investment projects** totaled EUR 9 million as at December 31, 2018 (December 31, 2017: EUR 11 million). → **Notes to the Consolidated Financial Statements, Note 9**

HUGO BOSS AG

- **HUGO BOSS AG is the parent company of the HUGO BOSS Group**
- **Service relationships to subsidiaries characterize its operational development**
- **Statements regarding risks, opportunities and forecasts for the HUGO BOSS Group also apply to HUGO BOSS AG**

HUGO BOSS AG is the **parent company of the HUGO BOSS Group**. The annual financial statements of HUGO BOSS AG are prepared in accordance with the rules set down in the HGB [“Handelsgesetzbuch”: German Commercial Code]. The results of HUGO BOSS AG are influenced by 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 the holding function of HUGO BOSS AG. The business development of HUGO BOSS AG is subject for the most part to the same **risks and opportunities** as those applicable to the HUGO BOSS Group. Due to its links with the Group’s companies and its importance within the Group, the **expectations** for HUGO BOSS AG are for the most part reflected in the Group’s forecast. Therefore, the statements made in the Group´s outlook report and its 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)

	2018	**In % of sales**	2017	In % of sales	Change in %
Sales	**1,306**	**100.0**	**1,262**	**100.0**	**4**
Cost of sales	(853)	(65.3)	(797)	(63.1)	(7)
Gross profit	**453**	**34.7**	**465**	**36.9**	**(3)**
Distribution expenses	(312)	(23.9)	(300)	(23.8)	(4)
General administrative expenses	(126)	(9.6)	(113)	(8.9)	(12)
Other operating income	91	6.9	78	6.1	17
Other operating expenses	(69)	(5.3)	(64)	(5.1)	(7)
Operating profit	**37**	**2.8**	**66**	**5.2**	**(43)**
Income from investments in affiliated companies	217	16.6	215	17.0	1
Net interest income/expenses	(8)	(0.6)	(7)	(0.5)	(24)
Taxes on income and other taxes	(50)	(3.8)	(37)	(2.9)	(35)
Net income	**196**	**15.0**	**237**	**18.8**	**(17)**
Transfer to (–)/from (+) other revenue reserves	(10)	(0.7)	(54)	(4.3)	82
Accumulated income previous year	4	0.3	4	0.3	2
Unappropriated income	**190**	**14.6**	**187**	**14.8**	**2**

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

Sales by region (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %
Europe	1,028	79	1,004	79	2
Americas	181	14	171	14	6
Asia/Pacific	97	7	87	7	11
Total	**1,306**	**100**	**1,262**	**100**	**3**

Higher **sales with subsidiaries** in all regions led to an increase in sales in the past fiscal year. **Sales with third parties** in Europe declined by 3% to EUR 492 million in the past fiscal year (2017: EUR 510 million).

Sales by brand (in EUR million)

	2018	**In % of sales**	2017	In % of sales	Change in %
BOSS	993	76	953	75	4
HUGO	219	17	221	18	(1)
Other services	94	7	88	7	7
Total	**1,306**	**100**	**1,262**	**100**	**3**

Higher sales of the **BOSS** brand were more than able to offset a slight decline in **HUGO** sales. The decline in HUGO sales is due to strategic changes of the distribution network.

Gross profit was below the prior year level. The decline in **gross profit margin** is attributed largely to investments in product quality.

The increase in **distribution expenses** is largely due to higher marketing expenses and slightly higher logistics expenses and licensing fees. The increase in **general administrative expenses** compared to the prior year is mainly related to investments in the digital transformation of the business model. The increase in **other operating income** was largely due to higher revenues from passing on costs and services to affiliated companies. The increase in **other operating expenses** is a result of passing on higher intercompany costs to HUGO BOSS AG. The items primarily include research and development costs as well as bad debt write-offs and foreign currency effects.

The **income from investments in affiliated companies** was slightly above the prior-year level. The income from affiliates at EUR 113 million (2017: EUR 92 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, and the dividend payments of HUGO BOSS Textile Industry Ltd. Income from profit transfer agreements with subsidiaries was EUR 104 million (2017: EUR 122 million) and resulted from a profit transfer from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In fiscal year 2018, this company received dividend income from HUGO BOSS Holding Netherlands B.V.

The **tax rate** increased to 20% (2017: 14%). This mainly reflects expenses from income taxes relating to other periods of EUR 17 million (2017: EUR 3 million), mainly relating to the recognition of a provision for risks arising from 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 by 3% compared to the prior year, to EUR 889 million (December 31, 2017: EUR 860 million). This was due to investments in the IT infrastructure in connection with the continuous further development of the ERP system and the cross-channel integration and digitalization of the Group's own retail activities. Also, investments in the Metzingen location, particularly for new construction of the outlet close to the Company's headquarters, accounted for the increase in investments.

Trade net working capital (in EUR million)

	2018	2017	Change in %
Inventories	200	189	6
Trade receivables	26	26	1
Trade payables	119	102	17
Trade net working capital	**107**	**113**	**(5)**

The increase in **inventory** was largely a result of a higher level of finished goods, which aims at temporarily supporting sales momentum in the Group's own retail business. HUGO BOSS AG is a supplier for the Group's global distribution companies. **Trade receivables** remained stable compared to the prior year. **Trade payables** recorded a volume-driven increase year-on-year. The latter resulted in **trade net working capital** at year-end being lower than in the prior year.

Receivables from affiliated companies recorded a 27% decrease in fiscal year 2018, to EUR 41 million (December 31, 2017: EUR 56 million). This was largely due to the transfer of an internal financing loan to HUGO BOSS International B.V. and postponements of intercompany debt conversions. The **liabilities due to affiliated companies** decreased by 11% respectively and came to EUR 301 million at year-end (December 31, 2017: EUR 337 million). **Provisions** increased by 20%, to EUR 116 million (December 31, 2017: EUR 96 million). The increase is related to the recognition of a provision for risks arising from the tax field audit for the years 2012 to 2015, including subsequent effects.

Cash and cash equivalents as the sum of cash on hand and bank balances increased slightly to EUR 3 million as at December 31, 2018 (December 31, 2017: EUR 2 million). Cash inflow from operating activities was up on the prior-year level. Material cash outflows arose in connection with the Company's investment activities and from the **dividend payment** for fiscal year 2017, which was, at EUR 183 million, slightly higher than in the prior year (2017 for fiscal year 2016: EUR 179 million).

OUTLOOK

- **General economic outlook marked by continuing uncertainties**
- **Currency-adjusted Group sales in 2019 expected to grow at a mid-single-digit percentage rate**
- **Operating profit (EBIT) in 2019 expected to grow at a high single-digit percentage rate, significantly faster than sales**

Subsequent events

Between the end of fiscal year 2018 and the release of this report for publication on February 20, 2019, there were no 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 and financial position.

Outlook

The following report presents the **forecasts 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 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 Report on Risks and Opportunities, actual developments may differ significantly from these forecasts, 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 operations and financial development. The Group's forecasts regarding the Company's expected development are therefore based on certain assumptions about developments in the global economy and in the industry. These assumptions are outlined in the following sections. The Group continuously monitors the development of these conditions over the course of the year so that it can respond to possible changes as quickly and comprehensively as possible. ➔ **Group Management**

Outlook for the Global Economy

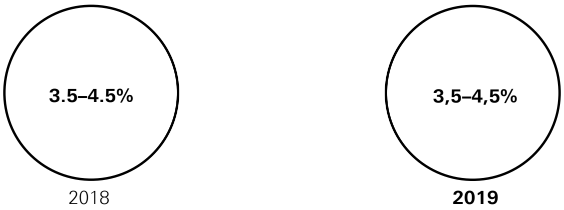
The IMF expects further weakening of the growth rate in the **global economy** to 3.5% in 2019 (2018: 3.7%). As reasons, the IMF cites the ongoing uncertainties related to the American-Chinese trade conflict, the punitive tariffs imposed in connection with this, the low growth prospects in many countries in the Eurozone, and the deteriorated sentiment in international financial markets. For industrialized countries as well as emerging markets, the IMF is expecting slightly lower growth rates for 2019 overall compared to the prior year. However, country-specific growth rates should differ considerably from one another. Further escalation of global trade conflicts, a possible "no-deal" Brexit and a steeper-than-expected decline in economic growth in China are seen as significant risks to the global economic trend in 2019.

According to IMF estimates, growth in the **Eurozone** is expected to be 1.6% in 2019, representing a further slowdown compared to the prior year (2018: 1.8%). This development will be driven by Germany's lower growth prospects due to weaker private consumption and lower industrial production, as well as the further weakening of the Italian economy where the debt conflict with the European Union is putting a strain on domestic demand. The IMF's growth forecast of 1.5% for the British economy is fraught with uncertainties and is based on the assumption that there will be an orderly Brexit and that the announced fiscal policy measures will be implemented (2018: 1.4%). Economic growth in the

United States is expected to decrease to 2.5% (2018: 2.9%). The fading positive impact of the tax reform and the gradual rise of interest rates are expected to contribute to this decline. For Latin America, by contrast, the IMF anticipates further economic recovery. The dynamic economic growth in **China** is expected to weaken further, according to the IWF. It is expected that, despite stimulant measures by the Chinese government, the trade conflict with the U.S. as well as necessary regulatory reforms will limit the growth potential of the Chinese economy in 2019 to 6.2% (2018: 6.6%). The Japanese economy is predicted to grow slightly again this year, stimulated by monetary and fiscal policy measures.

Industry Outlook

Estimates of industry growth[1] (in %)



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

In a joint study, The Business of Fashion and the consulting firm McKinsey & Company anticipate that the **global apparel industry** will see growth of 3.5% to 4.5% in 2019, thus slightly weaker than in 2018 (2018: 4% to 5%). A growth rate of 3.5% to 4.5% is likewise anticipated for the **upper premium segment of the apparel industry**, which is the best standard of comparison for the industry relevant to HUGO BOSS, so that similarly robust growth as in the prior year is expected (2018: 3.5% to 4.5%). These estimates are based on the expectation of continuing high demand in the Asian emerging markets, while industry growth in Europe and North America will likely see a slight decline in 2019. Overall, apparel sales are expected to grow more slowly again in the coming year compared to sales of shoes and accessories. → **General Economic Situation and Industry Development**

In the **Casual and Athleisurewear segment** of the global apparel market, which has already grown significantly in the past few years, The Business of Fashion and McKinsey & Company expect above-average growth again in 2019. Strong demand particularly among younger consumers is expected to contribute to this development. However, it is assumed that the trend towards a more sporty, casual apparel style has already peaked in certain developed markets. Generally speaking, the industry outlook is characterized by considerable differences between individual companies.

In **Europe**, the industry is expected to grow more slowly in 2019 than in the prior year. Industry growth is expected to be at a low to mid-single-digit percentage rate. It is assumed that particularly the generally expected cooling-off of the overall economy will have a negative impact on consumer demand. Solid sales among tourists, however, should again contribute significantly to industry growth in 2019. After strong growth following the recent depreciation of the British pound, industry growth in Great Britain is nonetheless expected to be somewhat lower than in prior years. In addition, industry risks will emerge from the planned exit of Great Britain from the European Union. It is also anticipated that industry sales in Germany will once again grow at a below-average rate in 2019. → **Risk Report, Material External Risks**

In the **Americas** too, industry growth is expected to weaken slightly in 2019 following the strong growth of the prior year. Although it is predicted that consumer confidence in the United States will remain strong, industry experts continue to see uncertainties regarding the possible impact of trade conflicts and, moreover, the continued discount and consolidation pressure on the part of market participants. Overall, industry sales in the region in 2019 are expected to rise at a low to mid-single-digit percentage rate.

In **Asia**, according to the estimates of The Business of Fashion and McKinsey & Company, industry growth in 2019 is expected to continue at a mid-single-digit percentage rate overall, similar to the prior year, due to contiuous high demand in China and other emerging markets in the region. Growth will again be driven by younger and increasingly fashion-conscious consumer groups, that are strongly influenced by social media. In addition, further anticipated growth of the middle class in the emerging markets is expected to contribute to the development. In Hong Kong and Macau, industry sales in the coming year should see weaker growth than in Mainland China. For the developed markets in the region, like Japan or South Korea, only relatively low industry growth is to be expected again in 2019. Meanwhile, there is a significant industry risk of a stronger than expected cooling-off of the Chinese economy. → **Risk Report, Material External Risks**

Outlook for the HUGO BOSS Group

HUGO BOSS has decided not to take into account the **impact of IFRS 16** in its outlook for fiscal year 2019. This should allow for better comparability of the results of fiscal year 2018 with the outlook for fiscal year 2019. The Group assumes, according to current knowledge, that the first-time application of IFRS 16 in fiscal year 2019 will cause an increase in operating profit (EBIT) by an amount in the low double-digit millions of euros. At the same time, the Group's net income is expected to be reduced by an amount in the single-digit millions of euros. For free cash flow, an increase in the low triple-digit millions of euros is expected based on the first-time adoption of IFRS 16. A full description of the expected impact of IFRS 16 can be found in the Notes to the Consolidated Financial Statements. → **Notes to the Consolidated Financial Statements, Accounting Principles**

In the context of the general economic and industry-related conditions, HUGO BOSS expects **Group sales** in 2019 to increase at a mid-single-digit percentage rate on a currency-adjusted basis. Consequently, the Company's growth is expected to be stronger than that of the global economy and the relevant market segment.

In 2019, all regions are expected to contribute towards sales growth. The Group assumes that sales in **Europe** will increase by a percentage rate in the low to mid-single-digits adjusted for currency effects. For Great Britain, meanwhile, slightly lower-than-average growth is now expected after the strong growth achieved in the past. It is also anticipated that sales in Germany will grow slightly more slowly than the region's average, on account of the still challenging market environment. Based on the assumption of further increases in the U.S. business, currency-adjusted sales in the **Americas** should also increase at a low to mid-single-digit percentage rate in 2019. In **Asia**, currency-adjusted sales are forecast to grow by mid to high single-digit percentage rates, particularly due to significant growth in the Chinese market. It is expected that the **Licenses** segment will return to growth in 2019. The outlook for growth in the mid-single-digit percentage range is based in particular on the expectation of growth in the fragrance segment.

For the **Group's own retail business**, sales in 2019 are expected to grow at a mid to high single-digit percentage rate on a currency-adjusted basis. The forecast is based on the assumption that comp store sales will grow at a mid-single-digit percentage rate. The **online business** will contribute disproportionately to the growth of the Group's own retail business again in 2019. In addition to sales increases made through hugoboss.com, it is expected that the intensification of partnerships with multibrand platforms under the concession model will make a noticeable contribution to growth in the online segment. → **Group Strategy, Further Refinement of the Distribution Strategy**

The size of self-managed HUGO BOSS **retail space** is forecasted to remain broadly unchanged in 2019. The Group will use expiring lease agreements to reduce the size of, relocate, or, if necessary, close its own retail stores that are not meeting productivity and profitability requirements. Along with an optimization of the store portfolio, accelerated renovation of existing BOSS stores, expansion of omnichannel services and continuous improvement in product ranges and services are expected to provide for an increase in **retail sales productivity**. New BOSS Store openings will relate to the Asia/Pacific region in particular. The Group also plans selective openings of further HUGO stores in selected metropolises. The number of the Group's own retail stores is therefore expected to increase slightly in 2019.

The Group sees potential for growth with strategic partners in the **wholesale business** again in 2019, by aligning its product range more closely to the needs of its partners, taking steps to upgrade its brand presentation at the point of sale, and expanding online cooperations. However, the Group anticipates that in 2019 wholesale sales overall will be slightly below the prior year's level. This development mainly reflects the ongoing challenging industry environment in many European markets, the discount and consolidation pressure from market participants forecast particularly in the United States, and the intensification of partnerships as part of the concession model in the online segment attributable to the Group's own retail business. → **Group Strategy, Further Refinement of the Distribution Strategy**

HUGO BOSS aims to increase the **Group's gross profit margin** in 2019 by up to 50 basis points compared to the prior year. Above all, the growing share of sales from the Group's own retail business should have a positive impact on the gross profit margin. The gross profit margin generated through this distribution channel is higher than in the wholesale channel. The improved management of discounts that the Group is aiming for in its own retail business should also have a positive impact on the gross profit margin.

For fiscal 2019, the Group expects a moderate increase in **operating expenses**. Continued strict cost management and the first positive effects of the efficiency program launched in November 2018 as part of the Business Plan 2022 will partly offset further investments in the digital transformation of the business model, from which HUGO BOSS hopes to derive significant sales momentum and an acceleration of operational processes. → **Group Strategy, Business Plan 2022**

HUGO BOSS assumes it will be able to increase **operating profit (EBIT)** in 2019 at a high single-digit percentage rate. Above all, the predicted increase in gross profit is expected to contribute to this. The **Group's net income** should also increase at a high single-digit percentage rate compared to the prior year.

HUGO BOSS is committed to strictly managing **trade net working capital** in 2019. In view of its focus on inventory management, the Group expects to be able to keep inventories broadly stable despite the anticipated sales increases for 2019. As a result, HUGO BOSS projects a reduction of average trade net working capital as a percentage of sales by 50 to 100 basis points.

Capital expenditure is expected to increase to a level between EUR 170 million and EUR 190 million in 2019. Investment activity will focus on the Group's own retail business and its IT infrastructure. Alongside the accelerated conversion of existing BOSS stores to the new store concept, in 2019 the Group is also investing in relocating the outlet at the headquarters in Metzingen and opening further HUGO stores in selected metropolises. In addition, HUGO BOSS will further strengthen its IT infrastructure with a view to improvements, above all, in the areas of e-commerce, digital brand communication and customer relationship management. Investments will be financed by operating cash flows in 2019 as well.

In 2019, the Group expects **free cash flow** of between EUR 210 million and EUR 260 million. The targeted increase compared to the prior year particularly reflects the higher operating profit as well as the projection of a significantly reduced cash outflow from changes in trade net working capital. The Group expects **financial leverage** at the end of the year to be more or less at the prior year's level. Due to its strong internal financing capability and the favorable terms of its syndicated loan, which has been extended until 2022, the Group does not plan any significant financing activities in 2019. → **Financial Position**

HUGO BOSS pursues a **profit-based dividend policy** that allows the shareholders to participate appropriately in the Group's earnings development. Between 60% and 80% of net income is to be distributed to shareholders on a regular basis. The Managing Board and the Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 16, 2019, a **dividend of EUR 2.70** per share for the fiscal year 2018 (2017: EUR 2.65). The proposal is equivalent to a payout ratio of 79% of the Group's net income attributable to the equity holders of the parent company in 2018 (2017: 79%). The proposed dividend takes into account the positive development of the Group's net income in particular. Assuming that the shareholders approve the proposal, the dividend will be paid out on May 21, 2019. Based on the number of shares outstanding at year-end, the **amount distributed will come to EUR 186 million** (2017: EUR 183 million).

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

In November 2018, HUGO BOSS presented its mid-term targets by 2022 as part of an Investor Day. An overview of the **Business Plan 2022** can be found in the section Group Strategy. → **Group Strategy, Business Plan 2022**

Target achievement and outlook

	Targets 2018[1]	**Result 2018**	Outlook 2019[2]
Group sales[3]	Increase at a low to mid-single-digit percentage rate	+4%	Increase at a mid-single-digit percentage rate
Sales by region[3]			
Europe	Increase at a low to mid-single-digit percentage rate	+4%	Increase at a low to mid-single-digit percentage rate
Americas	Increase at a low single-digit percentage rate	+4%	Increase at a low to mid-single-digit percentage rate
Asia/Pacific	Increase at a mid- to high single-digit percentage rate	+7%	Increase at a mid- to high single-digit percentage rate
Sales by distribution channel[3]			
Group's own retail business	Increase at a mid-single-digit percentage rate	+4%	Increase at a mid- to high single-digit percentage rate
Wholesale	Increase at a low single-digit percentage rate	+5%	Slightly below the prior year's level
Licenses	Increase at a mid-single-digit percentage rate	(4)%	Increase at a mid-single-digit percentage rate
Gross profit margin	Largely stable	Decrease by 90 basis points to 65.2%	Increase of up to 50 basis points
Operating result (EBIT)	–	Increase of 2% to EUR 347 million	Increase at a high single-digit percentage rate
EBITDA before special items	Development within a range of (2)% to +2%	With EUR 489 million stable to prior year	–
Group's net income	Increase at a low to mid-single-digit percentage rate	Increase by 2% to EUR 236 million	Increase at a high single-digit percentage rate
Trade net working capital as a percentage of sales	Increase of up to one percentage point	Increase of 110 basis points to 19.7%	Decrease of 50 to 100 basis points
Capital expenditure	EUR 170 million to EUR 190 million	EUR 155 million	EUR 170 million to EUR 190 million
Total retail space	More or less stable compared to the prior year	(1)%	More or less stable compared to the prior year
Free cash flow	EUR 150 million to EUR 200 million	Decrease by 42% to EUR 170 million	EUR 210 million to EUR 260 million
Financial leverage	More or less stable compared to the prior year	Stable at 0.0	More or less stable compared to the prior year

[1] Initial outlook as published on March 8, 2018. The outlook was updated in the course of the year. Further information can be found in the section "Comparison of Actual and Forecast Business Performance."

[2] Not considering the anticipated impact of IFRS 16. A full description of the expected impact of IFRS 16 can be found in the Notes to the Consolidated Financial Statements.

[3] 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 financial and strategic 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. Reporting of risks and opportunities in the summarized management report always refers to a one-year period.

Risk report

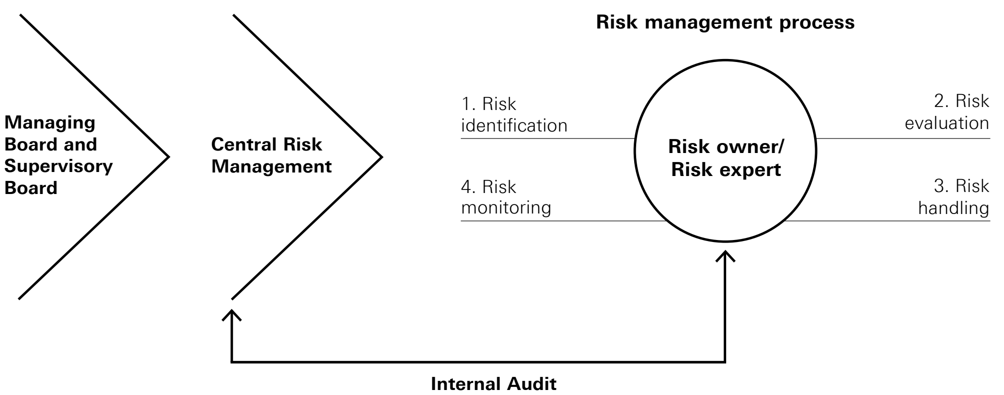
The success of HUGO BOSS is based on the systematic use of opportunities within the framework of the Group’s corporate strategy. The Group is exposed to a variety of risks. The Company’s **risk management system** includes all measures in a systematic and transparent approach towards risk. It aims to 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 divisions and Group companies. There, the relevant defined risk experts and those responsible for risks (“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 Group auditor. The risk management system is also reviewed regularly by the internal audit department to ensure its proper functioning and appropriateness.

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

Main features of the HUGO BOSS risk management system



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

Risk identification

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

Risk evaluation

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

Risk overview - riskmap (aggregated risks)

Loss amount/exposure	unlikely	possible	likely	very likely
high	**Collection and industry**	**Taxes, suppliers and sourcing markets, sales and distribution**		
significant	**Environment and health, personnel**	**Politics and society, quality, logistics governance and compliance**	**Overall economy, currencies**	
moderate	**IT**	**Investments, brand and corporate image**		
low	**Additional 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 two valuation criteria of likelihood of occurrence and loss amount together form the criteria which make up the **risk matrix**. This creates transparency regarding the current risk situation in the Company and so supports Management in prioritizing risk. Any net risk as an actual risk potential is defined as the gross risk reduced by the impact of measures taken to mitigate the risk identified.

Risk handling

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

Risk monitoring and reporting

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

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. Significant 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	↗	16%
Strategic risks	→	9%
Financial risks	↗	20%
Operative risks	→	50%
Organizational risks	↗	5%

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 2018 shows that 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 2018 has changed, mainly due to developments in external circumstances and the adaptation and 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 2019. This refers to those risks that have been evaluated in the risk management process as having a higher than "low" potential impact. In general, it is possible that 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 an efficient 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.

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

Material external risks

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

Macroeconomic risks

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 to achieve a **balanced distribution of sales** between the most important regions. 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 react to them quickly by re-aligning its business activities. Internal **early indicators** are also analyzed regularly, which makes it possible to forecast the impact of potential macroeconomic risks. → **Group Management**

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

An increasing uncertainty regarding the global economic outlook should be noted for fiscal year 2019. A further escalation of the Chinese-American trade war is considered to be a significant risk. In the worst case, a global trade war could have a noticeably negative effect on economic momentum worldwide. The flagging growth of the Chinese economy as a significant factor for global economic momentum constitutes a further risk. Consequently, a **slight weakening in global economic growth** is expected for 2019 overall. It is expected that the upper premium segment in the apparel industry, which represents the best benchmark for HUGO BOSS, will experience a growth rate in the area of a currency-adjusted 3.5% to 4.5% in fiscal year 2019. 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 tension, military conflicts, changes of government or terrorist attacks can have a negative impact on consumer behavior.

The Group does not expect **uncertainties** regarding **worldwide** political and social developments to decrease in 2019. For example, the continuing geopolitical tensions in the Middle East, the ongoing danger of terrorist attacks and political uncertainties in the European Union, particularly with regard to the fiscal stability of Italy and the anti-European developments in individual member states, also represent significant risks for the premium and luxury goods industry in the coming year, and for the Group's business development too.

There are also risks as a result of the ongoing uncertainty surrounding **Brexit**. Overall, management considers the Brexit-related risks to be likely. The financial impacts associated with it are estimated to be moderate in scope. In particular, a "no-deal" Brexit could affect the confidence of companies and consumers in the economic outlook for the country, resulting in a reduced willingness to invest above all in Great Britain, but also in the other countries in the European Union, as well as repercussions in the global financial markets. A significant decline in consumer confidence in particular and an accompanying decline in customer demand could also have a negative impact on the business of HUGO BOSS. Particularly in the event of a "no-deal" Brexit, the Company also faces risks related to short-term merchandise bottlenecks in Great Britain, a possible delay in the arrival of seasonal products in particular, and the associated risk of lost sales opportunities and short-term increases in inventories in Great Britain. It also 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. The Group has initiated a cross-departmental working group that is closely monitoring the exit process by reference to central risk management, evaluating the possible impact on the Group and coordinating all local and worldwide measures. For instance, precautions were taken to reduce the risk of short-term merchandise bottlenecks in Great Britain in the event of a potential "no-deal" Brexit. In doing so, the Company is seeking primarily to prevent a delay in the arrival of seasonal products in particular, as well as the associated risk of lost sales opportunities. The Company generally also includes price adjustments among the possible responses to any decline in demand due to economic factors or to a potential rise in costs related to a levy of import duties.

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

The Group's global distribution in more than 120 countries provides a **natural hedge** against adverse developments in individual countries or regions. Unexpected developments in important sales markets can have a significant financial impact. The Management 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 environmental and natural disasters or pandemics as well as the consequences of climate change. Risks as a result of climate change, such as increasing **water scarcity**, are classed as unlikely for fiscal year 2019, and are associated with low possible loss. In future, however, this risk might become more significant for HUGO BOSS, meaning that the impact is expected to be moderate in the medium term. In the long term there is a risk that an increasing scarcity of water either locally or regionally will have negative consequences on the cultivation of cotton, and so may lead to a reduced availability of cotton fibers and higher material costs as a result.

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

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

In the past few years there has been a discernible 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 trend. The Group will even further strengthen its collections in this area in future and 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 influence on the economic success of HUGO BOSS. For example, an inadequate quality of the products or services on offer in the Group's own retail business, an uncontrolled price and discount policy, the use of distribution channels that are damaging to the brand, unattractive marketing campaigns or non-compliance with laws or social standards could have a negative impact on the brands' image.

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

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

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

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

Material financial risks

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

Currency risks

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

In the **operating business**, currency risks primarily arise due to the fact that products are sourced 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, Australia, Switzerland, Japan, Turkey, Hong Kong and China as well as the purchasing activities of sourcing units in foreign currencies such as the US 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 in the Group currency, the euro **(translation risk)**. The translation risk is monitored on an ongoing basis, however the Group does not hedge it because the 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 ensure strict separation of the functions of trading, handling and control for all financial market transactions and also form the basis for the selection and scope of hedges. The primary target 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 22**

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 impact of the translation risk on the Group's net income and equity. This is determined based on the balance sheet currency exposure as of December 31, 2018. 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 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 3.5 million (2017: EUR 6.6 million). Hedging costs for concluding forward exchange transactions are not included. The largest foreign currency positions come from accounting exposure against the Swiss franc, Japanese yen and 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 0.7 million higher or lower in the reporting year (2017: EUR 0.9 million).

The Management also expects significant changes in the exchange rates which are relevant to HUGO BOSS to be likely in fiscal year 2019. Based on the results of the VaR analysis, the impact of the **transaction risk** on the Group's net income is considered to be low. 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 in prior fiscal years for known tax risks. The amount provided for is based on various assumptions, for example the interpretation of respective legal requirements, the latest court rulings and the opinion of the authorities, which is used as a basis for measuring the loss amount and its likelihood of occurrence.

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 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. Overall, the Group is expecting further tax risks with a high financial impact. → **Notes to the Consolidated Financial Statements, Note 6**

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 significant 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 disruptions 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 9% in fiscal year 2018, and the largest single external production site made up about 5% of the total sourcing volume (2017: 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 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 gross profit margin and ultimately 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 forecast quality and to keep making the goods management more flexible across channels and markets. In view of the large volumes involved, the risk is considered likely. The associated financial 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 should also ensure the quality standards at HUGO BOSS. Nevertheless, the Group considers a certain amount of product returns for quality reasons to be possible. However, the impact on the development of earnings is considered as significant despite the recognition of appropriate provisions for returned goods and the regular review of the amounts recognized. ➔ **Sourcing and Production**

Logistics risks

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

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. Despite the measures implemented, the likelihood of occurrence of logistics risks is considered to be possible. The associated financial impact can potentially 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 the sales risks mainly refer to a possible dependency on individual wholesale partners as well as bad debts.

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

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 net realizable value principle, **impairments** on inventories are recognized accordingly and are monitored on a monthly basis. As part of the process, system-based analyses of movement rate, range of coverage and net realizable value are applied in a uniform manner across the Group. Sufficient write-downs were recognized as of the reporting date from the Management's perspective. → **Notes to the Consolidated Financial Statements, Note 12**

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

In its wholesale business, 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 function regularly checks compliance with the Group guidelines. As of the reporting date, there was no concentration of default risks caused by significant overdue payments by individual customers, so the possible 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, **cyber attacks** 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 function regularly monitors the security and reliability of the IT systems as well as the effectiveness of the control mechanisms which have been implemented.

HUGO BOSS assumes that global cyber attacks will continue to increase in future, and consequently classes it as an **"emerging risk"**. The Group implemented a Security Information and Event Management (SIEM) System in fiscal year 2018. This approach to security management makes it possible to take a comprehensive view of the Group's IT security going forward. The planned construction of a security operation center should further enhance the responsiveness of the Group to potential cyber attacks in this regard. Furthermore, HUGO BOSS also works with external service providers to avert risks. Due to the measures carried out, management currently considers the occurrence of IT risks to be unlikely. The financial impact is assessed as moderate.

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, shortages of specialists and excessive employee turnover. HUGO BOSS combats this risk with a forward-looking HR policy, comprehensive development and training measures, the continuous development of its performance-based remuneration system and a variety of measures to support a healthy work-life balance. HUGO BOSS considers itself to be well positioned in the increasing international competition for skilled workers and so classes this risk as unlikely, however at the same time, it would have 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 aims to counter this risk with a system that complies with data protection laws as well as robust security and data privacy controls. All employees are educated on data protection matters through activity-related training courses and the obligation to adhere to the Code of Conduct. 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, there has been more of a focus on data protection, and on the implementation of and compliance with the new changes in the law. → **Combined Non-Financial Statement, Data Protection**

Management classifies risks in the context of governance and compliance as possible and considers the potential financial risk to be significant.

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 show all business transactions in the accounting records. This should ensure the **reliability of the financial reporting** and the **compliance of all accounting-related activities with the laws and guidelines**. All assets and liabilities should be recorded accurately with regard to recognition, disclosure and valuation, which should enable a reliable statement to be made on the Group's net assets, financial position and results of operations. As well as adherence to legal regulations and the Company's internal guidelines, the use of efficient IT systems, a clear definition of responsibilities, 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 paramount importance. The use of a uniform, SAP-based ERP system across the Group makes sure of a **high control quality**.

The aim of the **Group-wide SAP security policy** is to prevent unauthorized access to data and to ensure the integrity, availability and authenticity of data of relevance to financial reporting at all times. It also contains requirements for controls designed to ensure a properly functioning central finance department. System-enabled controls and workflow-based processes that impose the dual-control principle, a suitable separation of functions, and internal approval procedures supplement the IT security of the accounting-related processes. This includes invoice verification and approval, 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 produce IFRS-based separate 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 central finance department is responsible for the maintenance of all the master data for the chart of accounts applicable throughout the Group as well as the continuous review of all reporting formats with respect to their compliance with the latest applicable international financial reporting requirements. Additionally, the finance department ensures that all business transactions in the HUGO BOSS Group are shown in a uniform way when compiling the Group's consolidated financial statements.

The central finance department is also responsible for developing uniform **guidelines and instructions** for accounting and tax-related processes and for keeping these 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 the 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** and the **implementation of management controls** with regard to the accounting process. Reports also have to be submitted regarding the appropriateness of controls for ensuring data integrity and data access protection as well as in the event of fraud or serious infringements of the internal control system.

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

Training and development of employees

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 that the Company grows profitably. In the HUGO BOSS Group, opportunities are defined as possible positive deviations from planned targets or the Company's 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 regions, individual markets and central functions. In this context, opportunities are always considered in conjunction with any associated risks. They are only pursued when they outweigh the associated risk and when the risk is assessed to be manageable and its potential impact limited.

Short-term opportunities, in the sense of potential, positive deviations from the planned operating profit in the current fiscal year are discussed with management of regional markets at regular intervals. Appropriate measures to exploit such opportunities are initiated as required. The **long-term management of opportunities** is directly linked to corporate planning. Opportunities identified and evaluated in terms of their contribution to the enterprise value are analyzed in detail 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 **key 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 the impact on consumer confidence and customers' buying behavior. An improvement in the consumption climate might have a positive influence on purchasing fashionable clothing and accessories. Furthermore, **social trends** that enhance the value of high-quality apparel further than previously could also support the sales of HUGO BOSS on the whole, 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 law may for example improve the Company's sales situation and the reduction of customs charges may improve 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
In many emerging markets, especially in China, economic researchers are expecting **continued growth within the middle classes**. This would bring about an increase in the number of people demanding products in the upper premium segment as a result of their purchasing power. The Group is working systematically to capture the identified growth potential with market entry and market penetration strategies tailored to specific countries through collaboration with business partners and independent subsidiaries. In addition to this, it is systematically strengthening its distribution activities in markets with high growth potential and low brand penetration.

In recent years, **interest in fashionable clothing has grown considerably, particularly among younger men**. More and more men are paying increasing attention to maintaining a fashionable appearance as a means of expressing their personality or standing out from the crowd. Clothing is also increasingly considered an important determinant of how an individual's competence in the workplace is perceived by others. Accordingly, market observers are expecting the share of men's fashion in the apparel market as a whole to increase in the future. HUGO BOSS seeks to make the opportunities inherent in this development work for them through a strong focus on market communication activities.

In recent years, the **casualwear and athleisure segments** in the global apparel market have developed faster than classic tailoring. This development underlines the trend towards a relaxed clothing style and many consumers' need to dress in a sporty style without compromising on value or quality. Independent studies, such as the current market outlook of The Business of Fashion and McKinsey & Company, also expect above-average growth rates for the 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 also accentuate this part of its collection in future and stress the allocation of more space in its own stores to its casualwear and athleisurewear offering. ➔ **Group Strategy**

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 with the HUGO brand, which focuses on the contemporary fashion segment. ➔ **Group Strategy**

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

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

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

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.

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

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

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

HUGO BOSS looks back on a successful 2018. The Group has achieved its **targets set for fiscal year 2018**. At the same time, it has made considerable progress in the implementation of its strategic priorities. Besides the successful realignment of the BOSS and HUGO brands, which became visible to customers for the first time with the launch of the Spring/Summer 2018 collection, the Group also successfully further developed its distribution strategy in 2018, especially in the online business. Moreover, HUGO BOSS has perceptibly driven forward the digitization of its business model. The consistent implementation of its strategic priorities and continued strict cost management had a positive impact on the Group's course of business. → **Group Strategy**

With a currency-adjusted increase of 4%, **Group sales** were within the original forecast range. In addition to the accelerating sales momentum in the Group's own retail business, growth in the wholesale business also contributed to this development. **EBITDA before special items** remained stable in the fiscal year and was thus in line with the target set at the beginning of the year. Positive effects from the increase in sales and the strict cost management were offset by a decrease in the gross profit margin as well as investments in the digital transformation of the business model. At EUR 170 million, **free cash flow** was within the original forecast range. In light of its healthy balance sheet structure and its strong cash flow development that is expected to continue in the future, the Group continues to be in an exceedingly solid economic situation. → **Earnings Development**, → **Financial Position**

HUGO BOSS is convinced that it will achieve sustainable profitable growth in 2019 and beyond. The current year will therefore focus entirely on implementing the **Business Plan 2022**. In this connection, HUGO BOSS will personalize its products even more and accelerate important business processes. In doing so, the Group increases brand desirability and sets an important milestone in the achievement of its mid-term targets. The Group aims at growing sales in the next four years by an average of 5% to 7% on a currency-adjusted basis, thereby outgrowing the relevant market segment. In addition, the operating margin (EBIT margin) is forecasted to increase to 15%. For **2019**, HUGO BOSS expects to increase currency-adjusted Group sales at a mid-single-digit percentage rate. At the same time, operating profit (EBIT) is expected to grow at a high single-digit rate, and thus significantly faster than sales. → **Group Strategy, Business Plan 2022**, → **Outlook**

Metzingen, February 20, 2019

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Yves Müller
Ingo Wilts

CHAPTER 3 / 112 – 135

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 2018, 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 2018** was issued. It is reproduced on page 120 f. 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 employees not only make the highest possible demands of the quality of the Group's products but also take 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 requirements, 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 department** reports directly to the Chief Executive Officer 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, it 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 embodied 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 issues concerning legal conduct from their line managers or the Compliance Officer. 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 data can be found on the Company's website.

Capital market communication

The trust of shareholders and investors is strengthened by means of open and transparent communication. HUGO BOSS reports regularly 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. In addition to the annual press conference at which the consolidated financial statements and the annual report are presented, telephone conferences are held for financial analysts and institutional investors to mark the publication of the annual and quarterly results. The Group's strategy and relevant developments are discussed in detail at an annual Investor Day. In addition to special information events at which the Company presents itself to private investors, the Annual Shareholders' Meeting offers an opportunity to obtain information about the Group's performance comprehensively and effectively, either in person or online. All main corporate information and all publications are available from 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 2018. 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 207. 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 27**

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 four members at the end of 2018.

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, decisions on the collections, and management of the sales network. In addition, it is responsible for preparing the annual, consolidated and interim financial statements and for establishing and monitoring the risk management system.

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 Board as a whole should have members with knowledge of branding, supply chain issues 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 Board, the targets for filling the Managing Board were met or exceeded throughout the reporting period.

For the **ratio of women on the Managing Board**, the Supervisory Board of HUGO BOSS AG set a target on September 23, 2015 of at least one woman on the Managing Board by June 30, 2017 pursuant to Sec. 111 (5) AktG ["Aktiengesetz": German Stock Corporation Act]. Since there were no changes in the composition of the Managing Board during the reporting period, this target was not achieved during the reporting period for the reasons already stated in the annual report for fiscal year 2017. The Supervisory Board is still pursuing 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 Group and specifically that women must be adequately represented. The Managing Board is committed to this objective. It already monitors the diversity of the workforce and will continue to do so in future. 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 at December 31, 2018, the share of women at the first management level amounted to 26% and was thus only slightly below the target figure set for 2021. Compared to the prior year, the Company therefore recorded a slight increase in the share of women at the first management level (December 31, 2017: 24%). The target at the second management level was clearly exceeded as at December 31, 2018, with a share of women of 46% (December 31, 2017: 45%). → **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 No. 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 2018, 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 2018. None of the current members of the Supervisory Board have previously held a Managing Board position within the Group. There were also no advisory or other service agreements in place between members of the Supervisory Board and the Group in the reporting year. In 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 No. 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, 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 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, 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 shareholder representatives on the Supervisory Board, with a majority of the votes cast in both cases. Its sole purpose is to perform the duties referred to in Sec. 27 (3) and Sec. 31 (3) Sentence 1 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 Group 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 this connection. 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. Martin Matischiok has signed the auditors' report since December 31, 2012 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 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 No. 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 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 2017, 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 2017, 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 must be understood in a sense that it also requires an explicit cap for variable compensation components, HUGO BOSS AG deviates from the recommendation, as it does not comply with this formality. However, materially also a cap for the variable compensation components exists because it can be calculated by deducting the fixed compensation component from the cap of the total compensation.

- Deviating from the recommendation in section 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. A regular limit of length of membership which is specified in advance is therefore not appropriate.

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

- Deviating from the recommendation in section 5.4.6 sentence 5 GCGC, the compensation of the members of the Supervisory Board is neither reported individually in the notes nor in the management report. Also, payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services, are not listed on an individual basis. The compensation paid to the members of the Supervisory Board is demonstrated in total in the notes. In the view of HUGO BOSS AG, individual reporting of compensation does not provide information relevant to the capital market.

Metzingen, December 2018"

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 (DCGK)**

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, EBITDA before special items 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 37%, while the average share of compensation from the STI and from the LTI come to 24% and 39% 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	Short-term performance-related compensation	Long-term performance-related compensation	Non-monetary and fringe benefits
~37%	~24%	~39%	
Annual fixed salary	Based on sales (30%), EBITDA before special items (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)
- EBITDA before special items (Group net income before interest, taxes, depreciation and amortization and special items applying the exchange rates utilized in the budget)
- 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 EBITDA before special items is included in the STI's target achievement with a weighting of 40%.

As part of the future orientation toward EBIT, the Managing Board compensation system will also be converted in fiscal year 2019 from EBITDA before special items to EBIT. The new model will be presented to the Supervisory Board for approval in fiscal year 2019. 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 2018 STI, a total amount of EUR 1,915 thousand would be paid out (Mark Langer EUR 650 thousand, Bernd Hake EUR 442 thousand, Yves Müller EUR 404 thousand and Ingo Wilts EUR 419 thousand).

The degree of target achievement for the individual target components for fiscal year 2018 is summarized in the table below.

Target achievement for STI target components

Target component	Target weighting	Target achievement for 2018
Sales	30%	128%
EBITDA before special items	40%	98%
Trade Net Working Capital in proportion to Sales	30%	88%
Total	**100%**	**104%**

For fiscal year 2018, the average degree of target achievement is 104% and thus above the minimum target of 75%. The annual bonus is thus paid out in the amount of EUR 1,991 thousand (Mark Langer EUR 676 thousand, Bernd Hake EUR 459 thousand, Yves Müller EUR 420 thousand and Ingo Wilts EUR 436 thousand).

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

Under the LTI program, the members of the Managing Board receive a defined number ("initial grant") of virtual shares ("tranches") at the beginning of the plan or at the start of their activity. The initial grant is based on an amount ("LTI budget") defined in the respective service agreement or by an additional agreement. The LTI budget should roughly correspond to the fixed annual salary. The initial grant is calculated by dividing the LTI budget by the share price for the last three months preceding the 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 and the 2018 to 2020 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, and the resulting "Employee Trust Index" is compared with the German top 100 companies. The sustainability performance is determined by the Company's improvement in the Dow Jones Sustainability Assessment, in which the sustainability performance of listed companies is assessed by an index provider. The composition of the Dow Jones Sustainability Index (DJSI) is defined based on this assessment. The targets for the RTSR and ROCE performance criteria each account for one third of the LTI program, while the targets for employee satisfaction and sustainability each account for one sixth.

Specific target, minimum and maximum values are defined for each target component and are used to calculate the entitlement to payment. The targets are 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 683 thousand for Bernd Hake, EUR 654 thousand for Yves Müller and EUR 638 thousand for Ingo Wilts.

Share-based compensation component for the fiscal year 2018

	Mark Langer Chairman of the Managing Board	**Bernd Hake** Member of the Managing Board	**Yves Müller** Member of the Managing Board (since Dec. 1, 2017)	**Ingo Wilts** Member of the Managing Board	**Total**
Fair values for the performance share plan (LTI 2018–2020) when granted (in EUR thousand)	757	575	550	536	**2,418**
Number of virtual shares on the grant date (LTI 2018–2020)	12,467	9,466	9,062	8,831	**39,826**
Total cost of share-based compensation (in EUR thousand)	252	178	105	165	**700**
Provision					**1,799**

Share-based compensation component for the fiscal year 2017

	Mark Langer Chairman of the Managing Board	**Bernd Hake** Member of the Managing Board	**Yves Müller** Member of the Managing Board (since Dec. 1, 2017)	**Ingo Wilts** Member of the Managing Board	**Total**
Fair values for the performance share plan when granted (in EUR thousand)	876	576	49	553	**2,054**
Number of virtual shares on the grant date	16,207	10,655	742	10,242	**37,846**
Total cost of share-based compensation (in EUR thousand)	415	265	1	223	**904**
Provision					**1,099**

Multiple-year bonus

Mark Langer was the only member of the Managing Board in the prior year to have a multiple-year bonus for the years 2015-2017; this was the earlier long-term variable compensation according to the compensation system in effect until the end of fiscal year 2015.

For the multiple-year bonus for fiscal year 2015, a degree of target achievement of 3.45% for EBITDA before special items and 4.18% for sales was recorded for the three-year period 2015 to 2017. This results in a payment of EUR 46 thousand, which is determined based on the cumulative target achievement of 7.63% and included in the total compensation for fiscal year 2017. This amount was paid out in fiscal year 2018. For fiscal year 2018, there were no claims to a multiple-year bonus according to the former multiple-year bonus regulation. All claims are related to the current compensation system in effect since January 1, 2016.

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, the 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		**Yves Müller** Member of the Managing Board (since Dec 1, 2017)	
	2018	2017	**2018**	2017	**2018**	2017
Service cost under IFRS	572	584	240	240	260	260
Pension provision under IFRS	3,814	3,935	0	0	0	0

	Ingo Wilts Member of the Managing Board		**Sum**	
	2018	2017	**2018**	2017
Service cost under IFRS	280	260	**1,352**	**1.344**
Pension provision under IFRS	0	0	**3,814**	**3.935**

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 2018 under GAS 17

Total compensation (in EUR thousand)

	Mark Langer Chairman of the Managing Board		**Bernd Hake** Member of the Managing Board		**Yves Müller** Member of the Managing Board (since Dec 1, 2017)	
	2018	2017	**2018**	2017	**2018**	2017
Basic compensation	850	850	642	550	650	54
Fringe benefits	29	30	15	12	22	3
Total	**879**	**880**	**657**	**562**	**672**	**57**
Special compensation	**0**	**200**	**0**	**140**	**0**	**0**
STI	**676**	**720**	**459**	**443**	**420**	**37**
Multiple-year variable compensation	**757**	**922**	**575**	**576**	**550**	**49**
Thereof LTI 2018–2020	757	0	575	0	550	0
Thereof LTI 2017–2019	0	876	0	576	0	49
Thereof multiple-year bonus 2015–2017	0	46	0	0	0	0
Total compensation	**2,312**	**2,722**	**1,691**	**1,721**	**1,642**	**143**

	Ingo Wilts Member of the Managing Board		**Total compensation**	
	2018	2017	**2018**	2017
Basic compensation	669	650	2,811	2,104
Fringe benefits	13	78	79	123
Total	**682**	**728**	**2,890**	**2,227**
Special compensation	**0**	**0**	**0**	**340**
STI	**436**	**464**	**1,991**	**1,664**
Multiple-year variable compensation	**536**	**553**	**2,418**	**2,100**
Thereof LTI 2018–2020	536	0	2,418	0
Thereof LTI 2017–2019	0	553	0	2,054
Thereof multiple-year bonus 2015–2017	0	0	0	46
Total compensation	**1,654**	**1,745**	**7,299**	**6,331**

Benefits granted for fiscal year 2018 under GCGC

Benefits granted (in EUR thousand)

	Mark Langer Chairman of the Managing Board				Bernd Hake Member of the Managing Board			
	2018	**2018 (Min)**	**2018 (Max)**	2017	**2018**	**2018 (Min)**	**2018 (Max)**	2017
Fixed compensation	850	850	850	850	642	642	642	550
Fringe benefits	29	29	29	30	15	15	15	12
Total	**879**	**879**	**879**	**880**	**657**	**657**	**657**	**562**
Special compensation	**0**	**0**	**0**	**200**	**0**	**0**	**0**	**140**
STI	**676**	**0**	**975**	**720**	**459**	**0**	**663**	**443**
Multiple-year variable compensation	**757**	**0**	**2,250**	**922**	**575**	**0**	**1,708**	**576**
Thereof LTI 2018–2020	757	0	2,250	0	575	0	1,708	0
Thereof LTI 2017–2019	0	0	0	876	0	0	0	576
Thereof multiple-year bonus 2015–2017	0	0	0	46	0	0	0	0
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**2,312**	**879**	**4,104**	**2,722**	**1,691**	**657**	**3,028**	**1,721**
Pension expenses	572	572	572	584	240	240	240	240
Total compensation	**2,884**	**1,451**	**4,676**	**3,306**	**1,931**	**897**	**3,268**	**1,961**

	Yves Müller Member of the Managing Board (since Dec. 1, 2017)				Ingo Wilts Member of the Managing Board			
	2018	**2018 (Min)**	**2018 (Max)**	2017	**2018**	**2018 (Min)**	**2018 (Max)**	2017
Fixed compensation	650	650	650	54	669	669	669	650
Fringe benefits	22	22	22	3	13	13	13	78
Total	**672**	**672**	**672**	**57**	**682**	**682**	**682**	**728**
Special compensation	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
STI	**420**	**0**	**606**	**37**	**436**	**0**	**628**	**464**
Multiple-year variable compensation	**550**	**0**	**1,635**	**49**	**536**	**0**	**1,594**	**553**
Thereof LTI 2018–2020	550	0	1,635	0	536	0	1,594	0
Thereof LTI 2017–2019	0	0	0	49	0	0	0	553
Thereof multiple-year bonus 2015–2017	0	0	0	0	0	0	0	0
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,642**	**672**	**2,913**	**143**	**1,654**	**682**	**2,904**	**1,745**
Pension expenses	260	260	260	260	280	280	280	260
Total compensation	**1,902**	**932**	**3,173**	**403**	**1,934**	**962**	**3,184**	**2,005**

Benefits received for fiscal year 2018 under GCGC

Benefits received (in EUR thousand)

	Mark Langer Chairman of the Managing Board		Bernd Hake Member of the Managing Board		Yves Müller Member of the Managing Board (since Dec 1, 2017)	
	2018	2017	**2018**	2017	**2018**	2017
Fixed compensation	850	850	642	550	650	54
Fringe benefits	29	30	15	12	22	3
Total	**879**	**880**	**657**	**562**	**672**	**57**
Special compensation	**0**	**200**	**0**	**140**	**0**	**0**
STI	**676**	**720**	**459**	**443**	**420**	**37**
Multiple-year variable compensation	**0**	**46**	**0**	**0**	**0**	**0**
Thereof LTI 2018–2020	0	0	0	0	0	0
Thereof LTI 2017–2019	0	0	0	0	0	0
Thereof LTI 2016–2018	0	0	0	0	0	0
Thereof multiple-year bonus 2015–2017	0	46	0	0	0	0
Other	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,555**	**1,846**	**1,116**	**1,145**	**1,092**	**94**
Pension expenses	572	584	240	240	260	260
Total compensation	**2,127**	**2,430**	**1,356**	**1,385**	**1,352**	**354**

	Ingo Wilts Member of the Managing Board		Sum in Total	
	2018	2017	**2018**	2017
Fixed compensation	669	650	2,811	2,104
Fringe benefits	13	78	79	123
Total	**682**	**728**	**2,890**	**2,227**
Special compensation	**0**	**0**	**0**	**340**
STI	**436**	**464**	**1,991**	**1,664**
Multiple-year variable compensation	**0**	**0**	**0**	**46**
Thereof LTI 2018–2020	0	0	0	0
Thereof LTI 2017–2019	0	0	0	0
Thereof LTI 2016–2018	0	0	0	0
Thereof multiple-year bonus 2015–2017	0	0	0	46
Other	**0**	**0**	**0**	**0**
Total	**1,118**	**1,192**	**4,881**	**4,277**
Pension expenses	280	260	1,352	1,344
Total compensation	**1,398**	**1,452**	**6,233**	**5,621**

Other compensation components

As of December 31, 2018, no advance payments were made to the Managing Board.

Total compensation of former members of the Managing Board

In fiscal year 2018, no members left the Managing Board, meaning that no bonus or severance payments were made to former members of the Managing Board.

Compensation of the Supervisory Board

The compensation of the members of the Supervisory Board set by the Annual Shareholders' Meeting is governed by Art. 12 of the Articles of Association of HUGO BOSS AG. 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 1,417 thousand for its activities in 2017. For 2018, the total compensation is expected to come to EUR 1,464 thousand. This includes a variable portion of EUR 709 thousand (2017: EUR 738 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 113 to 121 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** can be found online 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 12, 2019, by issuing up to 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (authorized capital). In general, shareholders have a subscription right. However, the Managing Board is authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of shareholders up to a maximum of 20% of the share capital (a) to avoid fractional amounts, (b) in the case of a capital increase in exchange for contributions in kind, and (c) in the event that the issue price of the new shares in cash-based capital increases is not significantly below the quoted price of the existing quoted shares at the time the issue price is finally determined, which time should be as close as possible to the time at which the shares are placed; whereby in case (c) the shares issued, including any own shares sold under exclusion of subscription rights pursuant to Sec. 186 (3) Clause 4 AktG may not exceed 10% of the share capital either at the time this authorization becomes effective or at the time when it is exercised.

Pursuant to the resolution of the Annual Shareholders' Meeting of May 12, 2015, the Managing Board is authorized on or before May 11, 2020, to acquire own shares of the Company up to a total share of no more than 10% of the share capital outstanding as of May 12, 2015, or, if this value is lower, the share capital outstanding at the time 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, 2018

Consolidated income statement (in EUR thousand)

	Notes	**2018**	2017
Sales	(1)	**2,795,963**	**2,732,573**
Cost of sales	(1)	(972,241)	(924,278)
Gross profit		**1,823,722**	**1,808,295**
In % of sales		65.2	66.2
Selling and distribution expenses	(2)	(1,173,523)	(1,195,453)
Administration expenses	(3)	(290,457)	(280,275)
Other operating income and expenses	(4)	(12,933)	8,487
Operating result (EBIT)		**346,809**	**341,054**
Net interest income/expenses		**(3,213)**	**(2,703)**
Other interest and similar income		2,019	1,608
Interest and similar expenses		(5,232)	(4,311)
Other financial items		**(6,926)**	**(7,059)**
Financial result	(5)	**(10,139)**	**(9,762)**
Earnings before taxes		**336,670**	**331,292**
Income taxes	(6)	(100,470)	(100,091)
Net income		**236,200**	**231,201**
Attributable to:			
Equity holders of the parent company		236,152	231,147
Non-controlling interests		48	54
Earnings per share (EUR)[1]	(7)	**3.42**	**3.35**
Dividend per share (EUR)[2]	(16)	**2.70**	**2.65**

[1] Basic and diluted earnings per share.
[2] 2018: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of the HUGO BOSS Group for the period from January 1 to December 31, 2018

Consolidated statement of comprehensive income (in EUR thousand)

	2018	2017
Net income	**236,200**	**231,201**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	4,256	3,415
Items to be reclassified subsequently to profit or loss		
Currency differences	8,010	(27,612)
Gains/losses from cash flow hedges	407	897
Other comprehensive income, net of tax	**12,673**	**(23,300)**
Total comprehensive income	**248,873**	**207,901**
Attributable to:		
Equity holders of the parent company	248,825	207,847
Non-controlling interests	48	54
Total comprehensive income	**248,873**	**207,901**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of the HUGO BOSS Group as of December 31, 2018

Consolidated statement of financial position (in EUR thousand)

Assets	Notes	**2018**	2017
Intangible assets	(9)	184,896	182,940
Property, plant and equipment	(9)	389,441	365,661
Deferred tax assets	(6)	90,116	94,420
Non-current financial assets	(11), (22)	19,020	18,301
Other non-current assets	(11)	2,880	1,158
Non-current assets		**686,353**	**662,480**
Inventories	(12)	617,947	536,843
Trade receivables	(13)	214,137	207,626
Current tax receivables	(6)	38,682	49,337
Current financial assets	(11), (22)	31,998	38,834
Other current assets	(11)	122,723	109,227
Cash and cash equivalents	(14)	146,717	115,700
Current assets		**1,172,204**	**1,057,567**
Total		**1,858,557**	**1,720,047**

Equity and liabilities			
Subscribed capital	(15)	70,400	70,400
Own shares	(15)	(42,363)	(42,363)
Capital reserve		399	399
Retained earnings		926,137	868,612
Accumulated other comprehensive income		26,424	18,007
Equity attributable to equity holders of the parent company		**980,997**	**915,055**
Non-controlling interests		(302)	(350)
Group equity		**980,695**	**914,705**
Non-current provisions	(17), (18), (19)	69,029	69,796
Non-current financial liabilities	(20), (22)	82,775	62,966
Deferred tax liabilities	(6)	12,632	10,634
Other non-current liabilities	(21)	60,670	55,132
Non-current liabilities		**225,106**	**198,528**
Current provisions	(17)	97,671	107,468
Current financial liabilities	(20), (22)	93,361	68,827
Income tax payables	(6)	43,526	32,263
Trade payables		295,106	285,778
Other current liabilities	(21)	123,092	112,478
Current liabilities		**652,756**	**606,814**
Total		**1,858,557**	**1,720,047**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of the HUGO BOSS Group for the period from January 1 to December 31, 2018

Consolidated statement of changes in equity (in EUR thousand)

				Retained earnings		Accumulated other comprehensive income		Group equity		
	Subscribed capital	Own shares	Capital reserve	Legal reserve	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, 2017	**70,400**	**(42,363)**	**399**	**6,641**	**806,648**	**46,836**	**(2,058)**	**886,503**	**1,048**	**887,551**
Net income					231,147			231,147	54	231,201
Other income					3,415	(27,612)	897	(23,300)		(23,300)
Comprehensive income					**234,562**	**(27,612)**	**897**	**207,847**	**54**	**207,901**
Dividend payment					(179,442)			(179,442)		(179,442)
Changes in basis of consolidation					203	(56)		147	(1,452)	(1,305)
December 31, 2017	**70,400**	**(42,363)**	**399**	**6,641**	**861,971**	**19,168**	**(1,161)**	**915,055**	**(350)**	**914,705**
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**

CONSOLIDATED STATEMENT OF CASH FLOWS

of the HUGO BOSS Group for the period from January 1 to December 31, 2018

Consolidated statement of cash flows (in EUR thousand)

	Notes	**2018**	2017
	(25)		
Net income		236,200	231,201
Depreciation/amortization	(8)	129,680	158,824
Unrealized net foreign exchange gain/loss		3,277	21,549
Other non-cash transactions		(76)	(1,207)
Income tax expense/refund	(6)	100,470	100,091
Interest income and expenses	(5)	3,213	2,703
Change in inventories		(72,306)	2,886
Change in receivables and other assets		(12,957)	(12,752)
Change in trade payables and other liabilities		22,346	38,813
Result from disposal of non-current assets		(144)	(906)
Change in provisions for pensions	(19)	(9,450)	(8,019)
Change in other provisions		(6,685)	(35,231)
Income taxes paid		(71,577)	(77,388)
Cash flow from operations		**321,991**	**420,564**
Interest paid	(5)	(2,200)	(2,113)
Interest received	(5)	2,012	1,605
Cash flow from operating activities		**321,803**	**420,056**
Investments in property, plant and equipment	(9)	(122,267)	(91,001)
Investments in intangible assets	(9)	(30,710)	(28,019)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired		(849)	(7,262)
Effects from disposal of subsidiaries		0	(1,069)
Cash receipts from sales of property, plant and equipment and intangible assets		1,893	847
Cash flow from investing activities		**(151,933)**	**(126,504)**
Dividends paid to equity holders of the parent company	(16)	(182,893)	(179,442)
Dividends paid to non-controlling interests		0	0
Change in current financial liabilities	(22)	23,163	(5,796)
Cash receipts from non-current financial liabilities	(22)	24,403	0
Repayment of non-current financial liabilities	(22)	(3,426)	(68,853)
Cash outflows for the purchase of additional interests in subsidiaries without change of control		0	0
Cash flow from financing activities		**(138,753)**	**(254,091)**
Changes in basis of consolidation		0	(1,589)
Exchange-rate related changes in cash and cash equivalents		(100)	(5,662)
Change in cash and cash equivalents		**31,017**	**32,210**
Cash and cash equivalents at the beginning of the period		115,700	83,490
Cash and cash equivalents at the end of the period	(14)	**146,717**	**115,700**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2018

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, 2018, 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, 2019.

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 2018 does not have any material effects on the presentation of the Group's results of operations, net assets and financial position.

The following significant new accounting standards were compulsory and applicable as of the fiscal year 2018.

First-time application of IFRS 9: Financial instruments
In July 2014, the IASB published the final version of the IFRS 9 "Financial instruments". This standard was adopted by the EU in November 2016 and includes revised guidance on the classification and measurement of financial assets, including guidance on the impairment of financial instruments, and thus replaces IAS 39.

The requirements of IFRS 9 for the classification and measurement of financial instruments were applied in full for the first time with effect from January 1, 2018. The option of continuing to present comparative information in accordance with IAS 39 was exercised. The requirements for hedge accounting will be applied prospectively for fiscal year 2018. The impact of the new standard results in the following:

- The Group will in future classify its financial instruments in the categories FVTPL (fair value through profit or loss), FVOCI (fair value through other comprehensive income) and AC (amortized cost).

- The transition from IAS 39 to IFRS 9 resulted in no valuation differences within the financial instruments.

- HUGO BOSS uses the simplified approach under IFRS 9 to calculate the expected credit loss (ECL) for trade receivables, utilizing both external market data and internal information. Positions are grouped together based on country-specific portfolios and evaluated using an industry-specific average probability of default.

- HUGO BOSS has retrospectively reviewed the calculation of provisions for trade receivables according to the new criteria. The analysis revealed that the current method of calculating value adjustments already implies the forward-looking default risks required by the new expected loss model under IFRS 9. The Group therefore makes a transfer to a separate balance sheet item for the ECL as of the reporting dates as part of its impairment losses. The logic behind this reclassification meant that the transition from IAS 39 to IFRS 9 did not have any effects relevant to the recognition of retained earnings.

- The new impairment model might lead to higher volatility in the income statement in future fiscal years, as the creation of risk provisions through the inclusion of external market data depends on economic conditions.

- Within the scope of its hedging activities, the HUGO BOSS Group integrates the hedging instruments in their entirety (including forward components and foreign currency basis spread) into a hedging transaction shown on the balance sheet within the meaning of IFRS 9. The cost of hedging is therefore not disclosed separately.

First-time application of IFRS 15: Revenue from contracts with customers
The IFRS 15 “Revenue from contracts with customers” published by the IASB in May 2014 was adopted by the EU in September 2016 and becomes effective for the first time for fiscal years beginning on or after January 1, 2018. The guidance and definitions contained in IFRS 15 will replace the content of both IAS 11 and IAS 18 and the related interpretations in future. The new standard does not make any distinction between different types of contracts and services, instead defining uniform criteria to determine when a performance obligation is to be recognized at a point in time or over time. IFRS 15 prescribes a standardized five-step model for recognizing revenue, which must in principle be applied to all contracts with customers. The IFRS 15 classification notes only one significant circumstance that must be accounted for differently under IFRS than it has been previously. This concerns subsidies by wholesale customers to retailers for the purchase of typical HUGO BOSS fixtures and furnishings. These grants were previously reported as “Selling and Marketing” expenses. For periods after the application of IFRS 15, the grants are reclassified as sales and recognized as a reduction to revenue. The impact on revenue falls in the single-digit million euro range, and is deemed to be insignificant. No further modifications have been made. The Group has chosen the modified transitional approach for the application of IFRS 15.

The following significant new accounting standard was not yet compulsory for fiscal year 2018. The Group expects the following effects to arise from the application of the new accounting standard.

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 guidance for recognition by the lessor still makes a distinction between finance leases and operating leases and therefore does not differ materially from the accounting guidance provided in IAS 17. For the lessee, however, no distinction will be made between finance and operating leases in the future. Most of the contracts which were previously categorized as operating leases must be recognized in the balance sheet effective January 1, 2019. In accordance with IFRS 16, the lessee discloses a leasing liability of the value of the future leasing payments in the balance sheet as well as a corresponding so-called right-of-use asset. The leasing payments consist of the total of all leasing payments less incentive payments

for the conclusion of the contract. If these are index-based, the indexing will be taken into account at the time it is exercised. Lease extension options are to be included if their exercise is sufficiently certain. Contractually agreed compensation payments for early termination of the contract by the lessee must also be included if early termination of the contract is contemplated. 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 amount of 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 evaluation. Right of use is amortized as per schedule. Extensive prospective qualitative and quantitative information will be provided in the appendix.

Key Assumptions

The determination of the conversion effect is 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 maturity-appropriate and country-specific borrowing rates derived from the cost of capital used for the impairment tests. In addition to the basic lease term, the Group includes extension options in the determination of the term of the contract if the extension is included in the detailed budget approved by the Board for the following year or has already been approved separately by the Board. The fixed lease payments also include fixed minimum agreed amounts for contracts, which have predominantly variable rent.

Exercise of Options

Various options are provided for the lessee. This includes an option to create a portfolio of contracts with the same or similar characteristics, which HUGO BOSS AG does not exercise. HUGO BOSS AG will exercise 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). Consequently, 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 rights of use to be applied.

Impacts and Implementation Status

The Group has largely concluded lease agreements for the rental of retail outlets, office space and warehousing space. As a result, the impact of IFRS 16 has already begun to be determined in the 2017 financial year. These results were once again verified by a further impact analysis in fiscal year 2018. A worldwide contract database for real estate contracts, which is maintained by an external real estate service provider, was implemented as part of the introduction of IFRS 16. The external service provider abstracts the rental and leasing contracts in the database as instructed by HUGO BOSS. Impact analysis of rights of use, leasing liability, depreciation and amortization, EBIT effect and cash flow effect are based on the extracted lease contract data.

The Group expects a significant increase in total assets at the time of initial application in the amount of EUR 1.0 to 1.2 billion due to the increase in fixed assets as a result of the rights of use being capitalized (including options to extend if the extension is sufficiently certain). This amount essentially corresponds to the discounted amount currently included in the notes to the consolidated financial statements under No. 24 future minimum lease payments disclosed in accordance with IAS 17. In the income statement, additional depreciation related to the capitalized rights of use and additional interest expense related to the recognized lease liability from discounted operating leases will be recognized instead of the previous lease expenses. Based on current information, the Group expects the operating result (EBIT) to increase by a low double-digit million euro amount in financial year 2019 due to the first-time application of IFRS 16. At the same time, net income should decrease by a single-digit million euro amount. Free cash flow is expected to increase in the low three-digit million euro range due to the first-time application of IFRS 16. As part of the conversion to the new leasing standard, there will also be the reversal of previously deferred liabilities from rental obligations (so-called "straight-lining"). This results in a high double-digit million euro amount, which will be offset against retained earnings in the context of the conversion as of January 1, 2019.

Transitional Provisions

IFRS 16 enters in force for the reporting year beginning on or after January 1, 2019. HUGO BOSS will implement IFRS 16 rules on January 1, 2019. The Group will utilize the modified transitional approach for the application of IFRS 16. The figures for the previous year will not be adjusted in consideration of the applicable transitional provisions for the modified approach.

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, 2018. The main Group companies included in the consolidated financial statements are as follows:

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

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

In the reporting period from January 1 to December 31, 2018, the number of consolidated companies in comparison to the consolidated financial statements as of December 31, 2017 increased from 59 to 61. With effect from January 1, 2018, both HUGO BOSS Estonia OÜ and HUGO BOSS Latvia SIA were included in the consolidated financial statements as wholly owned subsidiaries. Also, the Company HB Florida, Inc. was established in the US state of Florida in the fourth quarter 2018. Due to materiality reasons, this company was not included in the scope of consolidation for 2018.

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

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

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

Concerning the consolidation of structured entities, HUGO BOSS performs judgements insofar as leasing property companies are included in the scope of consolidation, if HUGO BOSS has the power of control over the companies' relevant activities and has therefore the ability to affect the amount of their variable returns. In its assessment of the two first-mentioned companies, HUGO BOSS assumes that the power of control over the relevant activities exists in those cases in which the purchase rights over the shares of the property companies represent a favourable purchase option in relation to their future market value. Significant influencing factors that are dependent on the measure are the externally observable developments of the property values, the achievable gross rental income of the properties, as well as the underlying projected real estate interest. HUGO BOSS assesses these factors at the end of each fiscal year. As of December 31, 2018, 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 =	**2018**	2017	**2018**	2017
Australia	AUD	1.5858	1.5486	1.6220	1.5346
China	CNY	7.8465	7.8071	7.8750	7.8044
Great Britain	GBP	0.8975	0.8825	0.8945	0.8872
Hong Kong	HKD	8.9011	9.2497	8.9675	9.3720
Japan	JPY	127.8542	133.6619	125.8500	135.0100
Switzerland	CHF	1.1294	1.1696	1.1269	1.1702
Turkey	TRY	6.0303	4.5545	6.0422	4.5155
U.S.A.	USD	1.1380	1.1839	1.1450	1.1993

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.

Due to the implementation of IFRS 15, shop fit contributions to retailers are recognized in the income statement as sales allowances, and are no longer designated sales and marketing expenses.

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

Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

FVTPL Financial assets and liabilities valued at Fair Value Through Profit or Loss. Under IAS 39 mainly recognized in the "FAHfT" and "FLHfT" categories.

AC Financial assets and liabilities that continue to be valued at Amortized Cost through the effective interest method. Under IAS 39 mainly recognized in the "LaR" and "FLAC" categories.

FVOCI Assets and liabilities valued at Fair Value through Other Comprehensive Income. Under IAS 39 mainly recognized in the "AfS" category.

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 onerous contracts

Provisions for onerous contracts are recognized when the unavoidable costs of meeting a contractual obligation exceed the expected economic benefits embodied in the contract. Risks for onerous contracts from rental agreements can generally arise in loss-making retail stores. For the recognition of a provision for onerous contracts, the lower of the value in use for continued operations or the costs of a potential closure of the retail business is used.

Provisions for pensions

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

Restructuring provisions

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

Share-based compensation programs

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

Contingent liabilities and contingent assets

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

Exercise of judgment and estimates when applying accounting policies

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

Business combinations/acquisitions of other business units

Takeovers in fiscal year 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.

Takeovers in fiscal year 2017

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

The following overview shows the preliminary allocation of the purchase price to the acquired net assets in fiscal year 2017 as well as the resulting goodwill:

(in EUR thousand)	2017
Purchase consideration transferred	
Agreed purchase price	7,262
Contingent purchase price payment (not paid yet)	0
Total purchase price	**7,262**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	678
Property, plant and equipment	85
Inventories	382
Total assets	**1,145**
Total liabilities	**0**
Goodwill	**6,117**

Control over the assets 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.

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

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

Notes to the Consolidated Income Statement

1 | Sales and cost of sales

(in EUR thousand)

	2018	2017
Total sales	**2,795,963**	**2,732,573**
Sales of goods	2,719,780	2,653,518
Licenses	76,183	79,055
Total cost of goods	**972,241**	**924,278**
Cost of purchase	865,886	812,382
Thereof cost of materials	845,725	803,009
Cost of conversion	106,355	111,896

Subsidies for shop fit contributions to retailers of EUR 5,210 thousand (2017: EUR 6,470 thousand) were recognized as sales allowances for the first time in fiscal year 2018 due to the initial application of IFRS 15, and no longer as sales and marketing expenses.

The cost of materials included in the cost of sales include inbound freight and customs costs of EUR 123,175 thousand.

2 | Selling and marketing expenses

(in EUR thousand)

	2018	2017
Expenses for Group's own retail business, sales and marketing organization	912,409	928,334
Marketing expenses	174,340	184,958
Thereof expenses	189,276	196,300
Thereof income from allocation of marketing expense	(14,936)	(11,342)
Logistic expenses	86,774	82,161
Total	**1,173,523**	**1,195,453**
Thereof other taxes	3,488	3,768

The expenses for the Group’s own retail business and the sales and marketing organization mostly relate to personnel and lease expenses for wholesale and retail distribution. They also include sales-based commission, freight-out, customs costs, credit card charges and impairment losses to assets of retail stores. This item also includes impairment losses to trade receivables of EUR 2,089 thousand (2017: EUR 3,785 thousand).

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

3 | Administration expenses

(in EUR thousand)

	2018	2017
General administrative expenses	**227,029**	**217,460**
Research and development costs	**63,428**	**62,815**
Thereof personnel expenses	45,300	44,060
Thereof depreciation and amortization	1,905	2,098
Thereof special items	16,223	16,657
Total	**290,457**	**280,275**
Thereof taxes	4,584	4,543

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

Research and development costs in the HUGO BOSS Group primarily relate to the creation of collections.

Administration expenses include other income of EUR 13,326 thousand (2017: EUR 9,849 thousand). This includes, among other things, capitalized internally developed software and canteen income. Additionally, income was generated by the reversal of provisions by EUR 4,378 thousand (2017: EUR 5,909 thousand).

4 | Other operating expenses and income

Net expenses arising from other operating expenses and income amounted to EUR 12,933 thousand in the 2018 fiscal year (2017: net income of EUR 8,487 thousand).

Other operating expenses
An other operating expense of EUR 7,382 thousand specifically relates to reorganization measures in Germany.

Also, there was an expense of EUR 6,502 thousand to create a provision for liabilities related to the former production facility in Cleveland, Ohio, USA. A contingent liability recognized in previous years related to potential liability of HUGO BOSS Cleveland Inc. of USD 7.3 million was revalued as of the 2018 reporting date in view of the likelihood of occurrence. In 2015, HUGO BOSS Cleveland Inc. incurred subsidiary liability in relation to termination of participation in a multi-employer pension fund under the sale of its production facility in Cleveland, Ohio, and the ensuing transfer of production employees to the purchaser. It was contractually established that as the seller, HUGO BOSS Cleveland Inc. incurred obligations of an actuarially determined present value under the Employee Retirement Income Security Act (ERISA) if the purchaser terminates its participation in the pension plan before five years have expired and cannot pay for the replacement of the pension plan. In January 2019, the purchaser notified HUGO BOSS that it will close the Cleveland production site in March 2019. Participation in the multi-employer pension fund terminates as a result of the planned closing, creating a payment obligation equal to the actuarial present value of the vested pension entitlements less the present value of the fund assets. Due to the poor financial situation of the purchaser, HUGO BOSS assumes that subsidiary liability is likely, and consequently has created a provision in the amount of the most recent actuarial present value of USD 7.3 million, plus USD 0.1 million in legal fees (EUR 6,502 thousand).

Organizational changes in the regions and the early termination of a contract with a commercial agent in the Middle East resulted in expenses of EUR 7,167 thousand in the previous year.

Other operating income

Other operating income came to EUR 951 thousand in fiscal year 2018. This includes income of EUR 682 thousand related to a provision recognized in connection with the store closures in 2016 that were agreed upon, which was not used in full (2017: 14,530 thousand). Further income of EUR 269 thousand (2017: EUR 1,124 thousand) resulted primarily from the reduction of provisions in relation to organizational changes in the regions.

5|Financial result

(in EUR thousand)

	2018	2017
Interest and similar income	2,019	1,608
Interest and similar expenses	(5,232)	(4,311)
Net interest income/expenses	**(3,213)**	**(2,703)**
Exchange rate gains/losses from receivables and liabilities	(3,735)	(16,758)
Gains/losses from hedging transactions	(5,187)	9,974
Other financial expenses/income	1,996	(275)
Other financial items	**(6,926)**	**(7,059)**
Financial result	**(10,139)**	**(9,762)**

Interest income includes income from bank deposits amounting to EUR 494 thousand (2017: EUR 276 thousand) and other interest income of EUR 1,525 thousand (2017: EUR 1,332 thousand).

Interest expenses include expenses from financial liabilities amounting to EUR 2,217 thousand (2017: EUR 2,098 thousand) as well as other interest expenses of EUR 3,015 thousand (2017: EUR 2,213 thousand). In addition to loan interest, these items primarily include expenses for interest-rate swaps amounting to EUR 497 thousand (2017: EUR 538 thousand), net interest amount from pension provisions, interest expenses on non-financial liabilities (such as tax liabilities) and interest expenses from the measurement of other non-current provisions at present value amounting to EUR 3,015 thousand (2017: EUR 2,213 thousand).

The exchange rate gains and losses from receivables and liabilities comprise exchange rate gains of EUR 21,600 thousand (2017: EUR 22,538 thousand) as well as exchange rate losses of EUR 25,335 thousand (2017: EUR 39,296 thousand). The result from hedging transactions contains the effects from the fair value measurement and derecognition of foreign exchange forwards and swaps.

6 | Income taxes

(in EUR thousand)

	2018	2017
Current taxes	94,619	74,038
Deferred taxes	5,851	26,053
Total	**100,470**	**100,091**

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% (2017: 29.5%). The tax rates abroad range between 0% and 34%.

Current income taxes for fiscal year 2018 included non-current expenses of EUR 20,088 thousand (2017: EUR 693 thousand) and non-current income of EUR 4,028 thousand (2017: EUR 3,194 thousand) and deductible withholding tax of EUR 3,027 thousand (2017: EUR 805 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% (2017: 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% (2017: 15.8%) and a trade tax rate of 13.7% (2017: 13.7%).

(in EUR thousand)

	2018	2017
Earnings before taxes	**336,670**	**331,292**
Anticipated income tax	99,486	97,897
Tax effect of permanent items	5,136	6,744
Tax rate-related deviation	(20,296)	(11,524)
Thereof effects of changes in tax rates	261	14,946
Thereof adjustment of tax amount to diverging local tax rate	(20,557)	(26,470)
Tax refund/tax arrears	19,087	(1,695)
Deferred tax effects from prior years	(2,420)	(3,871)
Valuation allowance on deferred tax assets	(166)	11,820
Tax effects from distributable profit of subsidiaries	11	737
Other deviations	(368)	(17)
Income tax expenditure reported	**100,470**	**100,091**
Income tax burden	30%	30%

The income tax burden was reduced by tax-free income of EUR 1,152 thousand (2017: EUR 4,376 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 6,288 thousand (2017: EUR 11,120 thousand).

Other comprehensive income includes deferred tax expense amounting to EUR 1,057 thousand (2017: EUR 1,442 thousand). As in 2017, this amount in the fiscal year 2018 is calculated from the recognition of actuarial gains and losses from pension provisions in equity.

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

(in EUR thousand)

	2018		2017	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	15,810	(22,588)	17,252	(23,102)
Unused tax losses	7,188	0	6,023	0
Inventory measurement	30,701	(3,680)	37,245	(2,709)
Recognition and measurement of non-current assets	54,304	(16,314)	54,017	(16,104)
Receivables measurement	4,519	(159)	5,663	(126)
Market valuation of financial instruments	617	(1)	688	(1,093)
Retained earnings of subsidiaries	0	(4,976)	0	(4,887)
Other differences in recognition and measurement	14,566	(2,503)	12,654	(1,735)
Net amount	**127,705**	**(50,221)**	**133,542**	**(49,756)**
Netting	(37,589)	37,589	(39,122)	39,122
Total	**90,116**	**(12,632)**	**94,420**	**(10,634)**

Of the deferred tax assets, EUR 59,907 thousand (2017: EUR 58,262 thousand) are non-current, while EUR 44,037 thousand (2017: EUR 40,430 thousand) of the deferred tax liabilities are non-current. The full amount is reported as non-current in the statement of financial position.

Distributable profits at foreign subsidiaries are to be paid out in the coming years, partly to Germany. The tax expense attributable to the distribution amounting to EUR 1,393 thousand (2017: 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 3,583 thousand (2017: EUR 3,494 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 298,546 thousand (2017: EUR 218,772 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 30,416 thousand (2017: EUR 31,806 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)

	2018	2017
Expiry within		
1 year	3,123	7,629
2 years	5,858	5,461
3 years	669	8,167
4 years	3,824	4,096
5 years	384	4,138
After 5 years	11,761	13,775
unlimited carryforward	72,134	65,878
Total	**97,753**	**109,144**

As in prior fiscal years, a corresponding deferred tax asset of EUR 7,188 thousand was recognized on unused tax losses as of December 31, 2018 (2017: EUR 6,023 thousand were recognized). In the fiscal year 2018, no deferred taxes were recognized for losses carried forward of EUR 60,398 thousand (2017: EUR 76,169 thousand). Of this, EUR 1,019 thousand expires in 2019, EUR 282 thousand in 2020, EUR 334 thousand in 2021, EUR 252 thousand in 2022, EUR 79 thousand in 2023, EUR 10,514 thousand in over five years and 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, 2018.

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7 | Earnings per share

There were no shares outstanding that could have diluted earnings per share as of December 31, 2018, or December 31, 2017.

(in EUR thousand)

	2018	2017
Net income attributable to equity holders of the parent company	236,152	231,147
Average number of shares outstanding[1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR[2]	3.42	3.35

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

8 | Additional disclosures to the consolidated income statement

Personnel expenses

(in EUR thousand)

	2018	2017
Cost of sales	82,481	86,031
Selling and distribution expenses	370,605	355,381
Administration expenses	164,876	159,201
Other operating expenses/income	11,485	3,778
Total	**629,447**	**604,391**

The net expenses resulting from other operating expenses and income in the fiscal year 2018 were EUR 11,485 thousand (2017: EUR 3,778 thousand) and are attributable to reorganization measures as well as to the subsidiary liability for the sale of the production facility in Cleveland.

(in EUR thousand)

	2018	2017
Wages and salaries	534,492	514,758
Social security	89,268	84,932
Expenses and income for retirement and other employee benefits	5,687	4,701
Total	**629,447**	**604,391**

The average headcount for the year was as follows:

Employees

	2018	2017
Industrial employees	5,023	4,826
Commercial and administrative employees	11,792	11,144
Total	**16,815**	**15,970**

Ordinary depreciation

(in EUR thousand)

	2018	2017
Cost of sales	5,764	6,434
Selling and distribution expenses	79,865	92,425
Administration expenses	37,797	34,765
Total	**123,426**	**133,624**

Notes to the Consolidated Statement of Financial Position

9 | Intangible assets and property, plant and equipment

(in EUR thousand)

2018	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	**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**
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**
2017																	
Software, licenses and other rights	**224,268**	0	(2,956)	28,103	(2,054)	0	**247,361**	**129,364**	0	(1,780)	26,829	0	0	(2,041)	0	**152,372**	**94,989**
Brand rights	**14,992**	0	0	0	0	0	**14,992**	**0**	0	0	0	0	0	0	0	**0**	**14,992**
Key Money	**47,396**	0	(1,696)	691	(1,017)	0	**45,374**	**24,491**	0	(1,135)	1,950	3,932	0	(1,017)	0	**28,221**	**17,153**
Internally developed Software	**5,603**	0	0	0	0	0	**5,603**	**5,603**	0	0	0	0	0	0	0	**5,603**	**0**
Goodwill	**54,200**	0	(2,701)	6,117	(286)	0	**57,330**	**1,552**	0	(28)	0	286	0	(286)	0	**1,524**	**55,806**
Intangible Assets	**346,459**	**0**	**(7,353)**	**34,911**	**(3,357)**	**0**	**370,660**	**161,010**	**0**	**(2,943)**	**28,779**	**4,218**	0	**(3,344)**	**0**	**187,720**	**182,940**
Lands and buildings	**231,804**	0	(20,921)	5,710	(408)	59	**216,244**	**117,710**	0	(16,705)	11,769	0	0	(407)	0	**112,367**	**103,877**
Technical equipment and machinery	**80,925**	(5)	(501)	2,707	(2,399)	33	**80,760**	**61,815**	0	(491)	4,948	0	0	(2,396)	16	**63,892**	**16,868**
Other equipment, operating and office equipment	**843,298**	(984)	(30,769)	74,553	(36,372)	1,922	**851,648**	**569,398**	(67)	(20,376)	88,128	20,982	0	(34,721)	(15)	**623,329**	**228,319**
Construction in progress	**9,177**	(33)	(768)	10,324	(86)	(2,014)	**16,600**	**3**	0	0	0	0	0	0	0	**3**	**16,597**
Property, plant and equipment	**1,165,204**	**(1,022)**	**(52,959)**	**93,294**	**(39,265)**	**0**	**1,165,252**	**748,926**	**(67)**	**(37,572)**	**104,845**	**20,982**	0	**(37,524)**	**1**	**799,591**	**365,661**
Total	**1,511,663**	**(1,022)**	**(60,312)**	**128,205**	**(42,622)**	**0**	**1,535,912**	**909,936**	**(67)**	**(40,515)**	**133,624**	**25,200**	0	**(40,868)**	**1**	**987,311**	**548,601**

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 86,440 thousand (2017: EUR 82,545 thousand) were capitalized in connection with the ERP system, of which EUR 72,052 thousand (2017: EUR 66,055 thousand) had already been amortized as of the reporting date. The remaining amortization period reduced to 2.1 years (2017: 2.3 years). Apart from the aforementioned software, other software licenses totaling EUR 73,812 thousand (2017: EUR 68,994 thousand) are included, whose remaining amortization period is 3.6 years (2017: 4.0 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 (2017: EUR 14,992 thousand), which are primarily attributable to the brand rights acquired for the use of the brand names BOSS, HUGO and HUGO BOSS in the United States, are classified as assets with infinite useful lives. The infinite useful life stems from the estimate of an indefinite use of the registered brand name.

Key money

Key money totaling EUR 17,687 thousand (2017: EUR 17,153 thousand) was recognized as of the reporting date. Of that amount, EUR 6,719 thousand (2017: EUR 5,629 thousand) pertains to key money with an infinite useful life and EUR 10,968 thousand (2017: EUR 11,524 thousand) to key money with a finite useful life. As of December 31, 2018, 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 7.5 years (2017: 6.4 years) and mainly refers to the Group's own retail stores in Switzerland, Italy, and Great Britain. 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 27,177 thousand (2017: EUR 31,056 thousand).

Impairment losses amounting to EUR 9,359 thousand and reversals of impairment losses amounting to EUR 2,511 thousand, net impairment amounting to EUR 6,848 thousand (2017: EUR 20,982 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 8,591 thousand (2017: EUR 10,619 thousand). Of this amount, EUR 7,241 thousand (2017: EUR 10,042 thousand) is attributable to property, plant and equipment and EUR 1,350 thousand to intangible assets (2017: EUR 577 thousand). The obligations as of December 31, 2018, are due for settlement within one year.

10|Impairment testing in the HUGO BOSS Group

An impairment test must be carried out for all assets within the scope of application of IAS 36, insofar that there is any evidence of impairment ("triggering events") as of the reporting date. Regardless of the existence of any triggering events, the following non-current assets were tested for impairment in the course of annual impairment testing on the reporting date of December 31, 2018:

- 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 3.7% and 20.8% (2017: between 3.1% and 11.2%). This was based on a risk-free interest rate with an equivalent term of +0.1% (2017: +0.1%) and a market risk mark-up of 6% (2017: 6%). Alternatively, the recoverable amount of the DOS is determined with the assistance of external reports which calculate the fair value less the costs to sell at level 3 of the fair value hierarchy in accordance with IFRS 13. Depending on the underlying legal framework and the available information, the fair value, particularly for key money with a finite useful life, is determined by reference to previous and comparable transactions using a multiplication process or as the present value of the differences in rents between the current lease and current market rents; in this case, the valuation period is determined on the basis of the lease.

Reversals of past depreciation and amortization were also analyzed from the study of the reversal for 2018 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 two 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 2018 at EUR 4,430 thousand (2017: EUR 0) for 12 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 6,184 thousand (2017: EUR 24,711 thousand), which were recognized through profit or loss under "Selling and distribution expenses". The impairments pertain in particular to retail locations in the Americas and Europe.

Based on the calculation of the fair value by external assessors, for the DOS with allocated key money with an infinite useful life impairment losses of EUR 70 thousand were allocated in the fiscal year 2018 (2017: EUR 203 thousand).

Goodwill and intangible assets with infinite useful life
The assessment of impairment is based on detailed planning of results of operations, of the statement of financial position and of investments for the next three years for all units of the Group, which is prepared annually in the Company-wide budget planning process and approved by the Supervisory Board, taking account of the current business situation. For periods beyond the budget's planning horizon, a long-term growth rate is set to project future cash flows in the detailed planning period of two additional years. The long-term growth rates used for this purpose are consistent with external sources of information. Investment and trade net working capital planning is based on budget planning data and is extrapolated on the basis of historical experience. The cost of capital for the HUGO BOSS Group, determined using an after-tax WACC model that discounts all forecast cash flows in the local currency, factors in both general market and country-specific risk mark-ups (sovereign risk mark-up) as well as a currency risk mark-up (inflation risk mark-up). The after-tax cost of capital rate used as of December 31, 2018, is based on a risk-free interest rate of 1.0% (2017: 1.25%) and a market risk mark-up of 6.0% (2017: 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**
2018				
DOS within the sales unit France	0	6,719	5.4%	3.3%
Sales unit Macau	6,212	0	5.6%	3.1%
Sales unit Australia	7,851	0	7.0%	3.0%
Sales unit South Korea	7,389	0	6.5%	3.5%
Sales unit China	8,041	0	7.8%	3.5%
Sales unit U.S.A.	245	13,615	7.1%	3.0%
Sales unit Italy	0	1,377	7.1%	2.2%
Sales unit Dubai	5,811	0	8.4%	3.0%
Other sales units	20,736	0		
Total	**56,285**	**21,711**	**5.4–8.4%**	**2.2–3.5%**
2017				
DOS within the sales unit France	0	5,629	5.1%	3.2%
Sales unit Macau	5,930	0	5.2%	3.1%
Sales unit Australia	8,298	0	6.6%	3.5%
Sales unit South Korea	7,379	0	6.0%	3.6%
Sales unit China	8,121	0	6.3%	3.5%
Sales unit U.S.A.	234	13,615	6.2%	2.7%
Sales unit Italy	0	1,377	6.1%	2.2%
Sales unit Dubai	5,540	0	6.7%	3.5%
Other sales units	20,305	0		
Total	**55,807**	**20,621**	**5.1–6.7%**	**2.2–3.6%**

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

For all goodwill there were impairment losses of EUR 0 thousand in the fiscal year 2018 (2017: EUR 286 thousand).

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 2018 and 2017.

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, 2018, 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 exception 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 150 thousand.

If the annual growth rate were reduced by 12.4%, 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)

	2018			2017		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	49,281	31,998	17,283	56,322	38,834	17,488
Tax refund claims and prepayments	23,709	23,697	12	14,069	14,057	12
Other assets	101,906	99,026	2,880	96,328	95,170	1,158
Other financial assets	1,737	0	1,737	813	0	813
Total	**176,633**	**154,721**	**21,912**	**167,532**	**148,061**	**19,471**

Financial assets include positive market values of currency hedges amounting to EUR 560 thousand (2017: EUR 949 thousand) as well as rent deposits for the Group's own retail stores of EUR 10,728 thousand (2017: EUR 9,393 thousand). Financial assets also include receivables from credit card companies amounting to EUR 26,641 thousand (2017: EUR 31,549 thousand).

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

Other assets contain refund claims from returns in the amount of EUR 20,973 thousand (2017: EUR 22,765 thousand), bonus receivables from supplier arrangements and prepayments for service agreements and leases. In fiscal year 2018, as in prior year, no impairments were recognized on other assets.

Also included in other financial assets are interests in entities under joint control accounted for using the equity method. The carrying amount of shares in the property companies whose activities consist of the leasing of buildings and associated properties remains unchanged at EUR 35 thousand. The maximum default risk is equal to this capital contribution. Moreover, as of December 31, 2018 the carrying amount of the shares of HUGO BOSS AL FUTTAIM UAE TRADING L.L.C. stood at EUR 1,702 thousand (2017: EUR 773 thousand).

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)

	2018[1]	2017
Non-current assets	97,777	104,745
Current assets	9,321	10,731
Liabilities	115,637	125,945
Sales	41,943	28,811
Depreciation and amortisation	(8,761)	(9,197)
Other interest and similar income	5	1
Interest and similar expenses	(3,802)	(3,948)
Net profit (loss)	1,782	(1,154)

[1] The financial information is based on the statements under local law and on the provisional, unaudited annual financial statement as of December 31, 2018.

12 | Inventories

(in EUR thousand)

	2018	2017
Finished goods and merchandise	564,956	480,824
Raw materials and supplies	47,376	50,534
Work in progress	5,615	5,485
Total	**617,947**	**536,843**

The carrying amount of inventories recognized at net realizable value amount to EUR 80,114 thousand (2017: EUR 68,222 thousand). In the fiscal year 2018, impairment losses of EUR 12,890 thousand (2017: EUR 11,028 thousand) were recognized particularly on finished goods and raw material. This was counterbalanced by reversals of impairment losses of EUR 14,871 thousand (2017: EUR 17,034 thousand), following the sale of finished goods and raw materials on which impairment losses had previously been recognized. Impairment losses on inventories and the reversal of impairment losses previously charged resulted in net income of EUR 1,981 thousand (2017: net income of EUR 6,006 thousand). This is included in the cost of sales.

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

13 | Trade receivables

(in EUR thousand)

	2018	2017
Trade receivables, gross	225,792	221,523
Accumulated allowance	(11,655)	(13,897)
Trade receivables, net	**214,137**	**207,626**

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

(in EUR thousand)

	2018	2017
Trade receivables, net	**214,137**	**207,626**
Thereof neither overdue nor impaired	**184,685**	**153,464**
Thereof overdue, but not impaired	**25,566**	**48,676**
≤ 30 days	17,959	20,084
31 to 60 days	4,154	24,721
61 to 90 days	3,453	3,871
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	**3,886**	**5,486**

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)

	2018	2017
Allowances for doubtful accounts as of January 1	**13,897**	**14,926**
Additions	3,758	6,464
Use	(1,495)	(3,306)
Release	(4,341)	(3,765)
Currency differences	(164)	(422)
Allowances for doubtful accounts as of December 31	**11,655**	**13,897**

As of the reporting date, the first expected credit loss (ECL) to be recognized under IFRS 9 in fiscal year 2018 was created based on non-due receivables in the amount of EUR 163,929 thousand. As of December 31, this came to EUR 2,207 thousand (2017: EUR 0).

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, 2018, receivables written-off in the amount of EUR 1,705 thousand (2017: EUR 1,638 thousand) were still subject to recovery measures.

The maximum credit risk from trade receivables corresponding to their gross value is EUR 225,792 thousand (2017: EUR 221,523 thousand) as of the reporting date.

14 | Cash and cash equivalents

(in EUR thousand)

	2018	2017
Balances with banks and other cash items	135,511	102,165
Checks/ec cash	800	1,174
Cash in hand	10,406	12,361
Total	**146,717**	**115,700**

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, 2018. It is made up of 70,400,000 no-par value ordinary shares. The shares have an imputed nominal value of EUR 1 each.

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

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

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

No changes were made to the objectives, policies and methods as of December 31, 2018, and December 31, 2017.

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

(in EUR thousand)

	2018	2017
Liabilities due to banks	168,725	122,329
Cash and cash equivalents	(146,717)	(115,700)
Net financial liabilities	**22,008**	**6,629**
Operating profit	**489,423**	**491,391**
Total leverage	**0.0**	**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 (2017: 1,383,833). The overall percentage amounts to 2.0% of subscribed capital (2017: 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 190,080 thousand. The net retained profit of HUGO BOSS AG for 2018 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 186,344 thousand. This corresponds to EUR 2.70 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 3,736 thousand be carried forward to the new account.

In 2018, a dividend of EUR 182,893 thousand was paid out for shares outstanding for the fiscal year 2017 (in 2017 for 2016: EUR 179,442 thousand). This corresponds to EUR 2.65 per share for 2017 (2016: EUR 2.60 per share).

17 | Provisions

(in EUR thousand)

	2018	2017
Provisions for pensions	35,517	39,953
Other non-current provisions	33,512	29,843
Non-current provisions	**69,029**	**69,796**
Current provisions	**97,671**	**107,468**
Total	**166,700**	**177,264**

Other provisions of EUR 131,183 thousand (2017: EUR 137,311 thousand) comprise current provisions of EUR 97,671 thousand (2017: EUR 107,468 thousand) and other non-current provisions of EUR 33,512 thousand (2017: EUR 29,843 thousand). The risk-free interest rates used to discount other non-current provisions range between 0.5% and 4.5% (2017: between 1.0% and 4.5%) depending on the term and currency zone in question. In fiscal year 2018, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2018	Changes in currency and the consolidated group	Com-pounding	Addition	Use	Release	Balance on Dec. 31, 2018
Provisions for personnel expenses	60,290	112	94	46,517	(36,084)	(7,089)	63,840
Provisions for goods returned	30,797	72	0	23,237	(22,726)	(4,753)	26,627
Provisions for rebuild obligations	15,704	120	83	2,231	(393)	(477)	17,268
Costs of litigation, pending legal disputes	3,391	106	0	3,090	(1,893)	(1,251)	3,443
Miscellaneous provisions	27,129	(202)	0	15,050	(12,673)	(9,299)	20,005
Total	**137,311**	**208**	**177**	**90,125**	**(73,769)**	**(22,869)**	**131,183**

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. The item for the 2018 reporting date also includes a provision for liabilities in relation to the former production facility in Cleveland, Ohio, USA. → **Notes to the Consolidated Financial Statements, Note 4**

It is expected that EUR 16,386 thousand (2017: EUR 9,145 thousand) 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, 2018, there are three 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)

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, 2018 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	147,261	1 year
2017–2019	183,320	2 years
2018–2020	168,966	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

A detailed explanation of the individual target components can be found in the management report on page 124 et seq..

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

The final entitlement is paid out in cash no later than six weeks after the resolution has been passed by the Management of HUGO BOSS regarding the confirmation of the annual financial statement for the corresponding fiscal years 2019, 2020 and 2021 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 2018**	**Fair values per share option 2017**
2016–2018	between EUR 45.66 and EUR 51.89	between EUR 50.84 and EUR 65.65
2017–2019	between EUR 38.64 and EUR 49.90	between EUR 43.02 and EUR 63.13
2018–2020	between EUR 32.70 and EUR 47.99	–

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

	2018	2017
HUGO BOSS share price at reporting date in EUR	53.92	70.94
Expected dividend return in %	4.00	4.00
Expected volatility in %	30.00	30.00
Risk free interest rate in % (LTI Plan 2016)	(0.70)	(0.64)
Risk free interest rate in % (LTI Plan 2017)	(0.65)	(0.50)
Risk free interest rate in % (LTI Plan 2018)	(0.56)	–

The provisions recognized in this regard for all three plans were valued at a total of EUR 6,972 thousand as of December 31, 2018 (2017: EUR 5,346 thousand).

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 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.

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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**	
	2018	2017	**2018**	2017	**2018**	2017
Germany	100,849	97,458	86,129	81,896	14,720	15,562
Switzerland	44,322	43,624	33,099	28,985	11,223	14,639
Others[1]	9,574	9,752	0	0	9,574	9,752
Total	**154,745**	**150,834**	**119,228**	**110,881**	**35,517**	**39,953**

[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 2018, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2018	2017
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	150,834	156,451
Currency differences	196	(4,929)
Service cost	5,892	5,642
Interest expense	2,865	2,647
Payments from settlements	(48)	(9)
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	(4,086)	(5,397)
Actuarial gains/losses due to changes in demographic assumptions	(112)	0
Experience adjustments	(396)	(988)
Benefits paid	(3,479)	(4,702)
Contribution by participants of the plan	3,291	2,847
Past service cost	(212)	(728)
Other changes in benefit obligation	0	0
Present value of benefit obligation on December 31	**154,745**	**150,834**
Changes in plan assets		
Fair value of plan assets on January 1	110,881	109,957
Currency differences	1,118	(2,473)
Offsetting with plan assets	0	0
Expected return on plan assets	1,955	1,660
Expected return on plan assets (without interest income)	633	(1,471)
Benefits paid	(2,347)	(3,271)
Contribution by the employer	3,697	3,632
Contribution by participants of the plan	3,291	2,847
Asset ceiling pursuant to IAS 19.58	0	0
Other changes in benefit obligation	0	0
Fair value of plan assets on December 31	**119,228**	**110,881**
Funding status of the benefits funded by plan assets	**35,517**	**39,953**

As of December 31, 2018 EUR 98,642 thousand (2017: EUR 95,189 thousand) of the present value of the defined benefit obligations was funded through employer's pension liability insurance and EUR 44,322 thousand (2017: EUR 43,624 thousand) through foundation assets, while the remaining EUR 11,781 thousand (2017: EUR 12,021 thousand) was unfunded.

Actuarial assumptions underlying the calculation of the present value of the pension obligations as of December 31, 2018

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	2018	2017
Discount rate		
Germany	2.20%	2.10%
Switzerland	1.10%	0.70%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	2.00%	3.00%

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 (2017: 2005 G mortality tables of Prof. Dr. Kalaus Heubeck). The BVG 2010 mortality tables are used to measure the obligations of Swiss companies.

Sensitivity analysis of key actuarial assumptions

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

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

A change in the key actuarial parameters according to the scenarios presented below has the effects presented in the table below on the present value of the pension obligations as of December 31, 2018.

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	**2018**	2017
Discount rate		
December 31,		
Increase of 75 basis points	(16,037)	(16,844)
Decline of 75 basis points	19,666	20,766
Future pension increases		
December 31,		
Increase of 25 basis points	4,590	4,826
Decline of 25 basis points	(3,247)	(3,267)
Future salary increases		
December 31,		
Increase of 50 basis points	1,213	1,415
Decline of 50 basis points	(1,168)	(1,364)
Life expectancy		
December 31,		
Increase of 10 percent	4,452	4,212
Decline of 10 percent	(4,444)	(4,224)

Breakdown of the pension expenses in the period

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

(in EUR thousand)

	2018	2017
Current service costs	5,892	5,642
Past service costs	(212)	(728)
Net interest costs	910	987
Recognized pension expenses in the comprehensive statement of income	**6,590**	**5,901**
Expense from plan assets (without interest effects)	(633)	1,471
Recognized actuarial (gains)/losses	(4,594)	(6,385)
Asset ceiling (without interest effects of asset ceiling)	0	0
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**(5,227)**	**(4,914)**

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 3,841 thousand (2018: EUR 3,671 thousand).

Duration

The duration of the benefit-based plans of the HUGO BOSS Group on December 31 is 18 years for Germany (2017: 18 years) and 19 years for Switzerland (2017: 15 years).

Defined contribution plans

Employer contributions to contribution-based plans totaled EUR 19,292 thousand in the past fiscal year (2017: EUR 18,474 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)

	2018	**With remaining term up to 1 year**	2017	With remaining term up to 1 year
Financial liabilities due to banks	168,725	90,609	122,328	67,603
Other financial liabilities	7,411	2,752	9,465	3,215
Total	**176,136**	**93,361**	**131,793**	**70,818**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 2,661 thousand (2017: EUR 3,672 thousand) and liabilities under finance leases of EUR 4,750 thousand (2017: EUR 5,793 thousand).

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

	2018		2017	
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	0.30%	90,609	0.28%	67,603
1 to 5 years	1.21%	72,394	1.29%	43,149
More than 5 years	3.35%	5,722	4.35%	11,576
Other financial liabilities				
Up to 1 year	2.69%	2,752	2.07%	3,215
1 to 5 years	4.27%	4,659	4.22%	6,059
More than 5 years	0.00%	0	5.73%	191

Interest-bearing financial liabilities have increased due to a higher utilization of the syndicated loan and the drawing of another loan. In comparison to the prior year, the share of non-interest-bearing financial liabilities has declined. As of the reporting date, they contain currency derivatives with negative market values.

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

(in EUR thousand)

2018			**Expected cash flows**		
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1 - 5 years**	**> 5 years**
Financial liabilities due to banks	168,725	173,677	103,243	64,520	5,914
Liabilities from finance leases	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**
2017					
Non-derivative financial liabilities					
Financial liabilities due to banks	122,328	127,945	78,899	36,812	12,234
Liabilities from finance leases	5,793	6,098	1,343	4,755	0
Derivative financial liabilities					
Undesignated derivatives	2,511	2,511	946	1,374	191
Derivatives subject to hedge accounting	1,161	1,161	1,161	0	0
Other financial liabilities	0	0	0	0	0
Total	**131,793**	**137,715**	**82,349**	**42,941**	**12,425**

21 | Other liabilities

(in EUR thousand)

	2018			2017		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	183,762	123,092	60,670	167,610	112,478	55,132
From accruals of rental obligations for the Group's own retail business	80,189	19,954	60,235	76,198	21,158	55,040
From taxes	48,557	48,557	0	43,708	43,708	0
From social security, accrued vacation, wages and salaries	28,875	28,875	0	25,761	25,761	0

22|Additional disclosures on financial instruments

Carrying amounts and fair values by category of financial instruments

(in EUR thousand)

			2018		2017	
Assets	**IAS 39 category**	**IFRS 9 category**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	LaR	AC	146,717	146,717	115,700	115,700
Trade receivables	LaR	AC	214,137	214,137	207,626	207,626
Other financial assets			49,281	49,281	56,322	56,322
Thereof:						
Undesignated derivatives	FAHfT	FVTPL	560	560	949	949
Derivatives subject to hedge accounting	Hedge Accounting	Hedge Accounting	0	0	0	0
Other financial assets	LaR	AC	48,721	48,721	55,373	55,373
Liabilities						
Financial liabilities due to banks	FLAC	AC	168,725	170,547	122,328	124,541
Trade payables	FLAC	AC	295,106	295,106	285,778	285,778
Other financial liabilities			7,411	7,411	9,465	9,465
Thereof:						
Undesignated derivatives	FLHfT	FVTPL	1,906	1,906	2,511	2,511
Derivatives subject to hedge accounting	Hedge Accounting	Hedge Accounting	755	755	1,161	1,161
Liabilities from finance leases	n. a.	n.a.	4,750	4,750	5,793	5,793
Other financial assets	FLAC	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, 2018, 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, 2018, 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 560 thousand and liabilities to EUR 2,661 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	2018	2017
Derivatives (FVTPL)	0	750	0	0	(5,549)	(4,799)	10,565
Financial Assets Measured at Amortised Cost (AC)	2,018	0	(6,721)	(2,089)	0	(6,792)	(17,082)
Financial Liabilities Measured at Amortised Cost (AC)	(2,217)	0	2,987	0	0	770	(3,952)

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	Currency translation effects	**Gross Value Dec 31**
2018				
Short-term liabilities arising from financing activities				
Financial liabilities due to banks	67,603	23,086	(80)	90,609
Liabilities from finance leases	1,235	77	6	1,318
Long-term liabilities arising from financing activities				
Financial liabilities due to banks	54,725	22,301	1,089	78,115
Liabilities from finance leases	4,558	(1,324)	199	3,433
Total	**128,121**	**44,140**	**1,214**	**173,475**
2017				
Short-term liabilities arising from financing activities				
Financial liabilities due to banks	73,191	(5,692)	104	67,603
Liabilities from finance leases	1,420	(104)	(81)	1,235
Long-term liabilities arising from financing activities				
Financial liabilities due to banks	123,483	(67,573)	(1,185)	54,725
Liabilities from finance leases	6,516	(1,280)	(678)	4,558
Total	**204,610**	**(74,649)**	**(1,840)**	**128,121**

In the fiscal years 2018 and 2017, there were no changes from the acquisition or sale of subsidiaries, fair value changes or other categories.

Offsetting of financial instruments

(in EUR thousand)

	Gross amounts recognized assets	Gross amounts offset liabilities	Net asset amounts disclosed in statement of fin. pos.	Liabilities not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
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**
2017						
Trade receivables	220,101	(12,475)	207,626	0	0	207,626
Other financial assets	56,322	0	56,322	(171)	0	56,151
Thereof derivatives	949	0	949	(171)	0	778
Total	**276,423**	**(12,475)**	**263,948**	**(171)**	**0**	**263,777**

(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
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**
2017						
Trade payables	296,595	(10,817)	285,778	0	0	285,778
Other financial liabilities	9,465	0	9,465	(171)	0	9,294
Thereof derivatives	3,672	0	3,672	(171)	0	3,501
Total	**306,060**	**(10,817)**	**295,243**	**(171)**	**0**	**295,072**

The liabilities of EUR 7,373 thousand (2017: EUR 12,475 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 9,081 thousand (2017: EUR 10,817 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)

	2018		2017	
	Nominal-values	Fair values	Nominal-values	Fair values
Assets				
Currency hedging contracts	122,839	560	133,997	949
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracts	(91,048)	(978)	(96,240)	(1,602)
Interest hedging contracts	(8,230)	(1,683)	(8,946)	(2,070)
Total	**23,561**	**(2,101)**	**28,811**	**(2,723)**

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 -1,346 thousand (2017: EUR -1,562 thousand) stems from financial assets and liabilities that were classified as held for trading.

The negative effects from the fair value measurement of currency hedges of EUR -755 thousand were recognized in other comprehensive income as of December 31, 2018 (2017: EUR -1,161 thousand). Of the amount recognized in other comprehensive income, losses of EUR -3,444 thousand on securities falling due were recycled into operating earnings in the fiscal year 2018 (2017: EUR -3,068 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 50% of expected exposures are subsequently hedged using forward exchange transactions based on this planning. These are traded on specific dates, divided into two 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:

	2019				
Maturity	**Jan.–Mar.**	**Apr.–Jun.**	**Jul.–Sept.**	**Oct.–Dec.**	**Total**
Nominal amount in TRY thousand	18,935	19,800	19,800	19,800	78,335
Average hedged rate	5.930	6.159	6.437	6.710	6.313

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, 2018:

(in EUR thousand)

Balance sheet item	**2018** Derivatives subject to hedge accounting	2017 Derivatives subject to hedge accounting
Carrying amount assets	0	0
Carrying amount liabilities	(755)	(1,161)
Change in fair value of hedges held as of the reporting date	(755)	(1,161)
Nominal volume	12,442	20,174

The hedging relationships shown above have the following impact on the income statement or other comprehensive income (OCI):

(in EUR thousand)

	2018	2017
Change in fair value of the underlying transaction	755	1,161
Cash flow hedge reserve from existing hedges	(755)	(1,161)
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	(3,444)	(3,068)

As of the reporting date, EUR 8,230 thousand (2017: EUR 8,946 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

Contingent liabilities arising from the provision of collateral for third-party liabilities are valued at EUR 8,547 thousand as of December 31, 2018 (2017: EUR 8,547 thousand) and relate to the consolidated structured entities BIL Leasing Verwaltungs-GmbH & Co. 869 KG, ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG and ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG.

A contingent liability was identified in previous years related to potential liability in relation to the former production facility in Cleveland, with a maximum value of USD 7.3 million. Re-evaluation of the likelihood of occurrence resulted in the accounting of a provision for other personnel expenses as of the 2018 reporting date. Detailed information on this item can be found in note 4, "Other operational expenses and income".

24|Other financial obligations

Operating leases

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

Rental expenses under operating leases of EUR 402,708 thousand were recognized in the fiscal year 2018 (2017: EUR 407,625 thousand). This includes contingent sales-based rental expenses of EUR 178,520 thousand (2017: EUR 181,669 thousand).

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

(in EUR thousand)

	2018	2017
Due within one year	277,869	260,131
Due between one and five years	709,739	702,192
Due after five years	381,725	426,921
Total	**1,369,333**	**1,389,244**

In the fiscal year 2018, the Group earned income of EUR 17 thousand from subleases (2017: EUR 658 thousand).

Finance leases

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

The assets had a net carrying amount of EUR 6,694 thousand as of December 31, 2018 (2017: EUR 7,069 thousand), which is reported within property, plant and equipment. This figure includes IT servers in the amount of EUR 488 thousand (2017: EUR 814 thousand) and a warehouse and the land on which it is located in the amount of EUR 6,205 thousand (2017: EUR 6,255 thousand). Interest expenses and depreciation for fiscal year 2018 came to EUR 704 thousand (2017: EUR 688 thousand).

(in EUR thousand)

2018	**Due 2019**	**Due 2020–2023**	**Due after 2023**	**Total**
Minimum lease payments	1,336	3,454	0	**4,790**
Estimated amount representing interest	18	22	0	**40**
Present value of minimum lease payments	**1,318**	**3,432**	**0**	**4,750**

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

25 | 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.

26 | Segment reporting

The Managing Board of HUGO BOSS AG manages the company by geographic areas. The HUGO BOSS national companies are responsible for the sale of all HUGO BOSS products that are not sold as licensed products by third parties in their respective sales territories. The managing directors of the national companies report to the regional directors in charge in each case, who in turn report to the Managing Board of HUGO BOSS AG. This organizational structure enables the direct implementation of Group objectives while taking into account specific market conditions.

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

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

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

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

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

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

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

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

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

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

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

(in EUR thousand)

	Europe[1]	Americas	Asia/Pacific	Licenses	Total operating segments
2018					
Sales	**1,735,810**	**573,967**	**410,003**	**76,183**	**2,795,963**
Segment profit	**539,146**	**98,898**	**99,189**	**63,575**	**800,808**
In % of sales	31.1	17.2	24.2	83.5	28.6
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)
2017					
Sales	**1,680,725**	**577,359**	**395,434**	**79,055**	**2,732,573**
Segment profit	**520,031**	**119,040**	**90,933**	**67,653**	**797,657**
In % of sales	30.9	20.6	23.0	85.6	29.2
Segment assets	232,389	157,008	74,020	23,977	487,394
Capital expenditure	40,108	19,970	16,094	0	76,172
Impairments	(14,285)	(7,600)	(3,603)	0	(25,488)
Thereof property, plant and equipment	(10,431)	(7,599)	(3,240)	0	(21,270)
Thereof intangible assets	(3,854)	(1)	(363)	0	(4,218)
Thereof write up	0	0	0	0	0
Depreciation/amortization	(49,932)	(23,067)	(20,950)	0	(93,949)

[1] Including Middle East/Africa.

Reconciliation

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

Sales

(in EUR thousand)

	2018	2017
Sales – operating segments	**2,795,963**	**2,732,573**
Corporate units	0	0
Consolidation	0	0
Total	**2,795,963**	**2,732,573**

Operating income

(in EUR thousand)

	2018	2017
EBITDA before special items – operating segments	800,808	797,657
EBITDA before special items – corporate units	(311,385)	(306,266)
EBITDA before special items HUGO BOSS Group	**489,423**	**491,391**
Special items expense/income – operating segments	(7,099)	12,029
Special items expense/income – corporate units	(5,835)	(3,542)
EBITDA HUGO BOSS Group	**476,489**	**499,878**
Depreciation/amortization – operating segments	(81,054)	(93,949)
Depreciation/amortization – corporate units	(42,372)	(39,675)
Impairments – operating segments	(6,254)	(25,488)
Impairments – corporate units	0	288
Operating income (EBIT) operating segments	**346,809**	**341,054**
Net interest income/expenses	(3,213)	(2,703)
Other financial items	(6,926)	(7,059)
Earnings before taxes HUGO BOSS Group	**336,670**	**331,292**

Segment assets

(in EUR thousand)

	2018	2017
Segment assets – operating segments	**545,958**	**487,394**
Corporate units	286,126	257,075
Consolidation	0	0
Current tax receivables	38,682	49,337
Current financial assets	31,998	38,834
Other current assets	122,723	109,227
Cash and cash equivalents	146,717	115,700
Non-current assets held for sale	0	0
Current assets HUGO BOSS Group	**1,172,204**	**1,057,567**
Non-current assets	686,353	662,480
Total assets HUGO BOSS Group	**1,858,557**	**1,720,047**

Capital expenditures

(in EUR thousand)

	2018	2017
Capital expenditure – operating segments	**84,275**	**76,172**
Corporate units	71,025	51,936
Consolidation	0	0
Total	**155,300**	**128,108**

Impairments

(in EUR thousand)

	2018	2017
Impairment – operating segments	**6,254**	**25,488**
Corporate units	0	(288)
Consolidation	0	0
Total	**6,254**	**25,200**

Depreciation/amortization

(in EUR thousand)

	2018	2017
Depreciation/amortization – operating segments	**81,054**	**93,949**
Corporate units	42,372	39,675
Consolidation	0	0
Total	**123,426**	**133,624**

Geographic information

(in EUR thousand)

	Third party sales		**Non-current assets**	
	2018	2017	**2018**	2017
Germany	429,379	447,905	237,825	212,080
Other European markets	1,382,614	1,311,873	208,434	204,180
U.S.A.	422,341	423,428	40,800	43,868
Other North, Central and South American markets	151,626	153,931	16,763	17,119
China	227,878	221,001	30,557	30,548
Other Asian markets	182,125	174,435	44,575	42,778
Total	**2,795,963**	**2,732,573**	**578,954**	**550,573**

27 | Related party disclosures

In the reporting period from January 1 to December 31, 2018, the following transactions requiring disclosure were conducted with related parties:

Non-consolidated subsidiaries
Transactions were engaged in with the non-consolidated subsidiary HB Florida, Inc. in fiscal year 2018, resulting in receivables in the amount of EUR 1,517 thousand as of the reporting date. There were no transactions with non-consolidated subsidiaries in the prior year.

Entities under joint control
Within the scope of existing real estate lease agreements, rents in the amount of EUR 11,905 thousand were paid to companies under joint control in the fiscal year 2018 (2017: EUR 11,696 thousand). There were no open receivables or liabilities relating to these business transactions as of December 31, 2018. The lease agreements also include purchase options for the respective property at expected market value. In addition, the agreement with Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG contains a renewal option to market conditions. The remaining term of the non-cancellable lease agreements is nine years at GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG and seven years at Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

A construction support services agreement is also in place between Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG and HUGO BOSS AG. Prior to the commencement of operations at the flat-packed goods distribution center, this encompassed the preparation, execution and supervision of construction projects, including preparation of building applications, validation of invoicing and the conclusion of agreements on behalf of and for the account of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. This amount was due for payment upon the distribution center going into operation. The construction services contract was extended after the distribution center went into operation to ensure that structural and technical modifications could be made in the period from 2015 until 2024. In the fiscal year 2018, HUGO BOSS AG received EUR 10 thousand in consideration of the further construction support services (2017: EUR 10 thousand).

In the fiscal year, 2018, 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 29,857 thousand (2017: EUR 18,457 thousand) and receivables amounting to EUR 316 thousand (2017: EUR 246 thousand).

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

Compensation for the Managing Board
The expense for short-term employee benefits totaled EUR 4,881 thousand in 2018 (2017: EUR 4,231 thousand). In 2018, a service cost of EUR 1,352 thousand was incurred for company pension plans (2017: EUR 1,344 thousand). For share-based compensation, the expense in 2018 was EUR 700 thousand (2017: EUR 904 thousand).

Total compensation of the members of the Managing Board within the meaning of Sec. 314 (1) No. 6 a) Clauses 1 to 4 HGB came to EUR 7,299 thousand in the fiscal year 2018 (2017: EUR 6,331 thousand). Of this amount, EUR 2,890 thousand was attributable to the basic compensation including fringe benefits

(2017: EUR 2,227 thousand). In the fiscal year 2018 there has not been granted a special remuneration (2017: EUR 340 thousand). An amount of EUR 1,991 thousand (2017: EUR 1,664 thousand) is accounted for by the Short Term Incentive (STI) agreed for the fiscal year 2018. The LTI for 2018-2020 relates to an amount of EUR 2,418 thousand, which results in 39,826 subscription rights in 2018. The STI for 2018 will be paid in the fiscal year 2018 within a week of the Supervisory Board approving the consolidated financial statements for 2018 for payment.

In 2018, former members of the Managing Board and their surviving dependents received total compensation of EUR 309 thousand (2017: EUR 297 thousand). In 2018 as well as in 2017 no compensation was paid due to termination of employment.

There are pension obligations of EUR 44,171 thousand for former members of the Managing Board and their surviving dependents (2017: EUR 47,779 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 35,473 thousand (2017: EUR 35,205 thousand).

Compensation of the Supervisory Board

The Supervisory Board received compensation for its activities in 2017 amounting to EUR 1,417 thousand. For fiscal year 2018, total compensation is expected to come to EUR 1,464 thousand. This figure includes a variable component of EUR 709 thousand (2017: EUR 738 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% (2017: 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.

28|Subsequent events

Regarding the potential liability of HUGO BOSS Cleveland Inc. in previous years in relation to the sale of a production facility in Cleveland, its closure by the purchaser became known in January 2019. Based on the poor financial situation of the purchaser, the subsidiary liability of HUGO BOSS Cleveland Inc. was viewed as likely by management. Significant impact on the income, assets and financial situation of the Company is expected, so a provision of EUR 6,502 thousand was created as of the 2018 reporting date. → **Notes to the Consolidated Financial Statements, Note 4**

29|German Corporate Governance Code

In December 2018, 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.

30 | Group auditor fees

(in EUR thousand)

	2018	2017
Audit services	1,740	1,715
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	510	474
Other assurance services	184	152
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	92	109
Tax advisory services	193	122
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	44	10
Other services	26	53
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	0	0
Total	**2,143**	**2,042**

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

Managing Board

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

Supervisory Board

Shareholder representatives

Michel Perraudin
(Hergiswil, Switzerland)

Management Consultant
Chairman of the Supervisory Board

Member since/until 2015/2020

Kirsten Kistermann-Christophe
(Oberursel, Germany)

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

Member since/until 2015/2020

Gaetano Marzotto
(Milan, Italy)

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

Member since/until 2010/2020

Luca Marzotto
(Venice, Italy)

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

Member since/until 2010/2020

Axel Salzmann
(Großhansdorf, Germany)

Chief Financial Officer Hensoldt Holding GmbH,
Taufkirchen, Germany

Member since/until 2015/2020

Hermann Waldemer
(Blitzingen, Switzerland)

Consultant

Member since/until 2015/2020

Employee representatives

Antonio Simina
(Metzingen, Germany)

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

Member since/until 1985/2020

Tanja Silvana Grzesch
(Sonnenbühl, Germany)

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

Member since/until 2015/2020

Anita Kessel
(Metzingen, Germany)

Administrative Employee HUGO BOSS AG,
Metzingen, Germany

Member since/until 2015/2020

Fridolin Klumpp
(Caslano, Switzerland)

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

Member since/until 2015/2020

Sinan Piskin
(Metzingen, Germany)

Administrative Employee HUGO BOSS AG,
Metzingen, Germany

Member since/until 2008/2020

Martin Sambeth
(Tiefenbronn, Germany)

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

Member since/until 2016/2020

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

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

Michel Perraudin	ODLO Sports Holding AG (Switzerland)[2]	Huenenberg, Switzerland
Fridolin Klumpp	HUGO BOSS Ticino AG (Switzerland)	Coldrerio, Switzerland
Gaetano Marzotto	Clouditalia Telecommunicazioni S.p.A.	Rome, Italy
	GA.MA. S.r.l.[2]	San Pietro In Casale, Italy
	J. Hirsch & Co. M&C S.R.L.[2]	Milan, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	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	Ca' Del Bosco S.p.A.[2]	Erbrusco, Italy
	Centervue S.p.A.[2]	Padua, Italy
	Forte Forte S.r.l.	Sarcedo, Italy
	Isotex Engineering S.r.l.	Trissino, Italy
	Lumar S.r.l.[2]	Livorno, Italy
	Multitecno S.r.l.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	SM Tenimenti Pile e Lamole e Vista-renni e San Disdagio S.r.l. Soc. Agricola[2]	Greve in Chianti, Italy
	Santex Rimar Group S.r.l.	Trissino, Italy
	Smit S.r.l.	Milan, Italy
	Solwa S.r.l.	Trissino, Italy
	Sperotto Rimar S.r.l.	Trissino, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Villanova Servizi S.r.l.[2]	Trichiana, Italy
	Zignago Holding S.p.A.[2]	Fossalta di Portogruaro, Italy
	Zignago Power S.r.l.[2]	Fossalta di Portogruaro, Italy
	Zignago Servizi S.r.l.[2]	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy

[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, 2019

HUGO BOSS AG

The Managing Board

Mark Langer
Bernd Hake
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, 2019

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
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 2018, the statement of comprehensive income for the fiscal year from 1 January to 31 December 2018, the consolidated statement of financial position as of 31 December 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2018, 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 2018. 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 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 ["Handelsgesetzbuch": German Commercial Code] 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 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018,

- 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 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

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

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

In light of the large share of capital expenditure on DOS in fixed assets as well as the varying development of regional and local sales markets, the valuation model applied, the calculation of indicators for the impairment testing of individual DOS (particularly the development of sales and profitability indicators), the calculation of the discount rate as well as the calculation of expected future cash inflows necessitate to a great extent estimates and assumptions particularly with regard to specific growth rates used to roll forward the budget of the Company. The impairment of the fixed assets assigned to the Group's 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, 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 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 obtained evidence substantiating the individual assumptions of the forecasts in individual cases.

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

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the impairment of the fixed assets assigned to the Group's DOS can be found on pages 151 and 169 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 therefore confronted with continuously changing customer demand. A rapidly changing market leads to increased inventory risks and uncertainty in the measurement of inventories.

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

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 for 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 arithmetically verified it on a test basis. We further assessed the write-down rates used by the Company based on past experience through analytical comparisons with the write-downs applied for each country in prior years. We discussed additional, manual write-downs with the Company's executive directors, obtained supporting evidence and performed further audit procedures in particular cases.

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 152 and 174.

3) Recognition and assessment of deferred taxes and uncertain tax positions

Reasons why the matter was determined to be a key audit matter:
The HUGO BOSS Group operates its business under various jurisdictions and the resulting complexity of the matters also have an effect on the Group. The recognition of deferred taxes and uncertain tax positions requires the executive directors to exercise considerable judgment and make estimates and assumptions, and was therefore a key audit matter. 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 measurement of uncertain tax positions mainly depends on the Company's assessment with respect to 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 taxes and uncertain tax positions. These internal tax experts supported us in the assessment of the underlying regulations.

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 derived from the business plan of the Company approved by the Managing Board and Supervisory Board. For this purpose, we discussed with the Company's executive directors the significant assumptions of the tax forecasts for the entities in the USA, Japan and Hong Kong, in particular on the future taxable earnings of the individual group entities, and verified 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.

In the course of our audit procedures relating to uncertain tax positions, we evaluated whether the executive directors' assessment of the implications of significant business transactions or events, which could result in uncertain tax positions or impact the assessment of existing uncertain tax positions, was in compliance with tax law. In particular, this includes determining transfer prices, tax implications arising from current tax audits as well as from cross-border transactions. We evaluated the executive directors' assessments with respect to the prospects of success of appeal and tax court proceedings by inquiring of the tax department and by considering current tax case law.

There were no reservations concerning the recognition and measurement of deferred taxes and uncertain tax positions.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the recognition and measurement of deferred taxes and uncertain tax positions can be found in the notes to the consolidated financial statements on pages 150 and 162 et seq..

4) Treatment of rental and lease agreements

Reasons why the matter was determined to be a key audit matter:
The Group uses rental and lease agreements to a considerable extent for the rental and leasing of directly operated stores, office and warehouse space as well as plots of land. Finance leases as well as future operating lease commitments are recognized in the consolidated financial statements. Moreover, the notes to the consolidated financial statements contain disclosures on the effects of the adoption of the new standard on lease accounting (IFRS 16) as of 1 January 2019.

Significant estimates and assessments with regard to the classification of existing rental and lease agreements as finance leases or operating leases in the consolidated financial statements mainly relate to the assessment of significant opportunities and risks with respect to leased and rented assets, in particular the estimation of the useful life and the advantage of contractually guaranteed purchase and prolongation options. Significant estimates and assessments with regard to the inclusion of leasing entities in the consolidated financial statements are the assessment of the ability to direct relevant activities, consisting of the utilization of the properties at the end of the lease term, and thus the variable returns, such as the assessment of economic advantage of contractually guaranteed purchase options through company shares.

With regard to the calculation of and disclosures on the effect of the adoption of the new IFRS standard on lease accounting, significant estimates and assessments are made in particular when evaluating options to extend the lease which have to be taken into account and the discount rate for the calculation of discounted future lease payments.

The treatment of the rental and lease agreements was a key audit matter due to the judgment exercised in their recognition and measurement.

Auditor's response:
With regard to rental and lease agreements, we verified on a spot check basis the classification of newly concluded agreements of the subsidiaries as finance leases or operating leases based on the criteria defined in IAS 17. We verified on a test basis the Company's assessment of the extent to which purchase options and prolongation options are to be considered advantageous in light of current market expectations. We examined the assessments made by the Company and their external experts. For leasing entities, we examined the Company's ability to direct relevant activities, in particular with regard to the influence over the disposal of the rented/leased assets. In cases where there are purchase options for shares in leasing entities, we verified the assessment of the advantage of these purchase rights in light of current market expectations made by the Company's executive directors with the support of external third parties engaged by the Company's executive directors. We verified the mathematical accuracy of the valuation model used.

To audit the calculation of the disclosures in the notes to the consolidated financial statements on the effect of the adoption of the new IFRS standard on leases as of 1 January 2019, we compared a statistical sample against the relevant data in the rental and lease agreements for the calculation of the values in use. 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. We verified the assessment made by the executive directors to include options to extend leases in light of internal planning and decisions.

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 treatment of rental and lease agreements can be found in the notes to the consolidated financial statements on pages 143 et seq., 147, 152 as well as 196 et seq.

Other information
The Supervisory Board is responsible for the report of the Supervisory Board. In other respects, the executive directors are responsible for other information. The other information comprises the disclosures contained in section 1, 3 and 5 of the annual report as well as the responsibility statement, the section "Non-financial statement" contained in the group non-financial statement of the group management report and the statement on corporate governance pursuant to 315d HGB published on the Company's website as part of the group management report and referenced in the management 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 3 May 2018. We were engaged by the Supervisory Board on 14 August 2018. We have been the group auditor of HUGO BOSS AG without interruption since fiscal year 2012.

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

German Public Auditor responsible for the engagement

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

Stuttgart, February 20, 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Matischiok	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 2018 to 31 December 2018 (hereafter combined non-financial statement).

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 2018 and February 2019, 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, analyzing and aggregating data in the relevant areas, e.g. occupational health and safety and product safety, 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 2018 to 31 December 2018 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 precluded.

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, 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Richter	Johne
Wirtschaftsprüferin	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]