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

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]