COMBINED MANAGEMENT REPORT
GROUP PROFILE

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GROUP PROFILE

BUSINESS ACTIVITIES AND GROUP STRUCTURE

HUGO BOSS strives to strengthen and grow its position as one of the market leaders in the premium and luxury segment of the global apparel market. Headquartered in Metzingen, the Group generated with almost 12,500 employees a net income of EUR 2.4 billion in fiscal year 2013, making it one of the most profitable listed apparel manufacturers in the world.

Positioning in the premium and luxury segment of the apparel market

The HUGO BOSS Group is one of the market leaders in the premium and luxury segment of the global apparel market. The Group focuses on the development and marketing of premium fashion and accessories for men and women. With its brand world, HUGO BOSS caters for clearly defined target groups. The brands cover a comprehensive product range encompassing classic to modern apparel, elegant evening wear and sportswear, shoes, leather accessories as well as licensed fragrances, eyewear, watches, children's fashion, home textiles and mobile accessories. → **Brand World**

Targeted brand communication

HUGO BOSS leverages targeted marketing measures to raise the appeal of its brands. Apart from above-the-line marketing instruments such as print and out-of-home media, the relevant target groups are increasingly reached using digital channels. In light of the expansion of the Group's own retail business, the importance of point-of-sale marketing is also mounting. Sports sponsorship campaigns focus on premium sports such as Formula 1, golf or sailing that ideally convey brand values such as dynamism, perfection and precision. In its art sponsorship activities, the Group underscores the common ground that art and fashion share with respect to design, aesthetics and creativity. The Company emphasizes these attributes further with high-profile fashion events in the world's fashion capitals that raise the desirability and acceptance of the Group's brands among key target groups, while adding emotional appeal to the HUGO BOSS brand world.

Global sourcing and distribution activities

A part of the overall HUGO BOSS product assortment is produced in-house. In addition, products are manufactured by independent suppliers that are mainly located in Eastern Europe and Asia. The Company sells its collections in 127 countries around the globe. The Group's sales regions are Europe (60 % of sales), the Americas (24 % of sales) and Asia/Pacific (14 % of sales). In addition, 2 % of sales are generated from royalties. → **Sourcing and Production** → **Development of the Business Segments**

Growing importance of Group's own retail business

Today, HUGO BOSS customers can buy products at approximately 7,100 points of sale. Some 6,100 are operated by wholesale partners, that is department stores and, often, family-run specialist stores as well as franchise partners. Department store partners sell HUGO BOSS products either in shop-in-shops or in a multi-brand setting. Franchise partners operate freestanding HUGO BOSS stores. Sales with franchise partners are also reported in the wholesale segment. While the share of the wholesale business is decreasing, making up 44 % of total sales in fiscal year 2013, the importance of the Group's own retail business is growing dynamically. This includes freestanding stores in prime retail locations, shop-in-shops operated by the Group in multi-brand environments and factory outlets. At the same time, online sales are also gaining in importance. At present, the Group operates online stores in Germany, Great Britain, France, Spain, Italy, the Netherlands, Belgium, Austria, Switzerland, the United States and China. The number of points of sale owned by the Group saw a net increase of 170 to 1,010 in the past year. In total, the Group generated 54 % of its sales from its own retail business in fiscal year 2013. → **Group Strategy; Group Sales and Results of Operations**

02|01 HUGO BOSS DISTRIBUTION CHANNELS

Group's own retail business	Wholesale
Freestanding stores: Freestanding stores operated by the Group in prime locations	**Shop-in-shops:** Shops operated by wholesale partners
Shop-in-shops: Shops operated by the Group on retail space of partners	**Multi-brand points of sale:** Category business sales areas without HUGO BOSS branding
Factory outlets: Sale of prior season's merchandise in specialist stores in high-traffic peripheral zones	**Franchise business:** Freestanding stores operated by partners
E-commerce: HUGO BOSS online stores in a number of different countries around the globe	

Legal structure of the Group reflects dual management and control structure

The HUGO BOSS Group is managed by the parent company HUGO BOSS AG, based in Metzingen, Germany, where all of the Group management functions are bundled. As a German stock corporation, HUGO BOSS AG has a dual management and control structure. The Managing Board is responsible for the Group's strategy and its management. The Supervisory Board advises the Managing Board and oversees its management activities. Apart from HUGO BOSS AG, the Group comprises 54 consolidated subsidiaries that are responsible for local business activities. Of these, 34 are organized as distribution companies. With few exceptions, HUGO BOSS AG has complete control over all subsidiaries. All subsidiaries are operated as independent profit centers and are responsible for their results of operations.

Regional alignment of organizational structure

The HUGO BOSS Group has aligned its structure regionally and bundled its local business activities into three regional organizational units: Europe including the Middle East and Africa; the Americas; and Asia/Pacific. These three regions together with the Royalties business make up the Group's four operating segments. Responsibility for the central functions is allocated to the individual members of the Managing Board, and bundled at the Group's headquarters.

02|02 HUGO BOSS GROUP STRUCTURE

MANAGING BOARD	
CENTRAL FUNCTIONS	**OPERATIVE SEGMENTS**
Sourcing, production and logistics	EUROPE incl. Middle East and Africa
Finance and controlling	
IT	AMERICAS
Communication	
Own retail	
Brand and creative management	ASIA/PACIFIC
Human resources	
Legal and compliance	ROYALTIES
Sales	

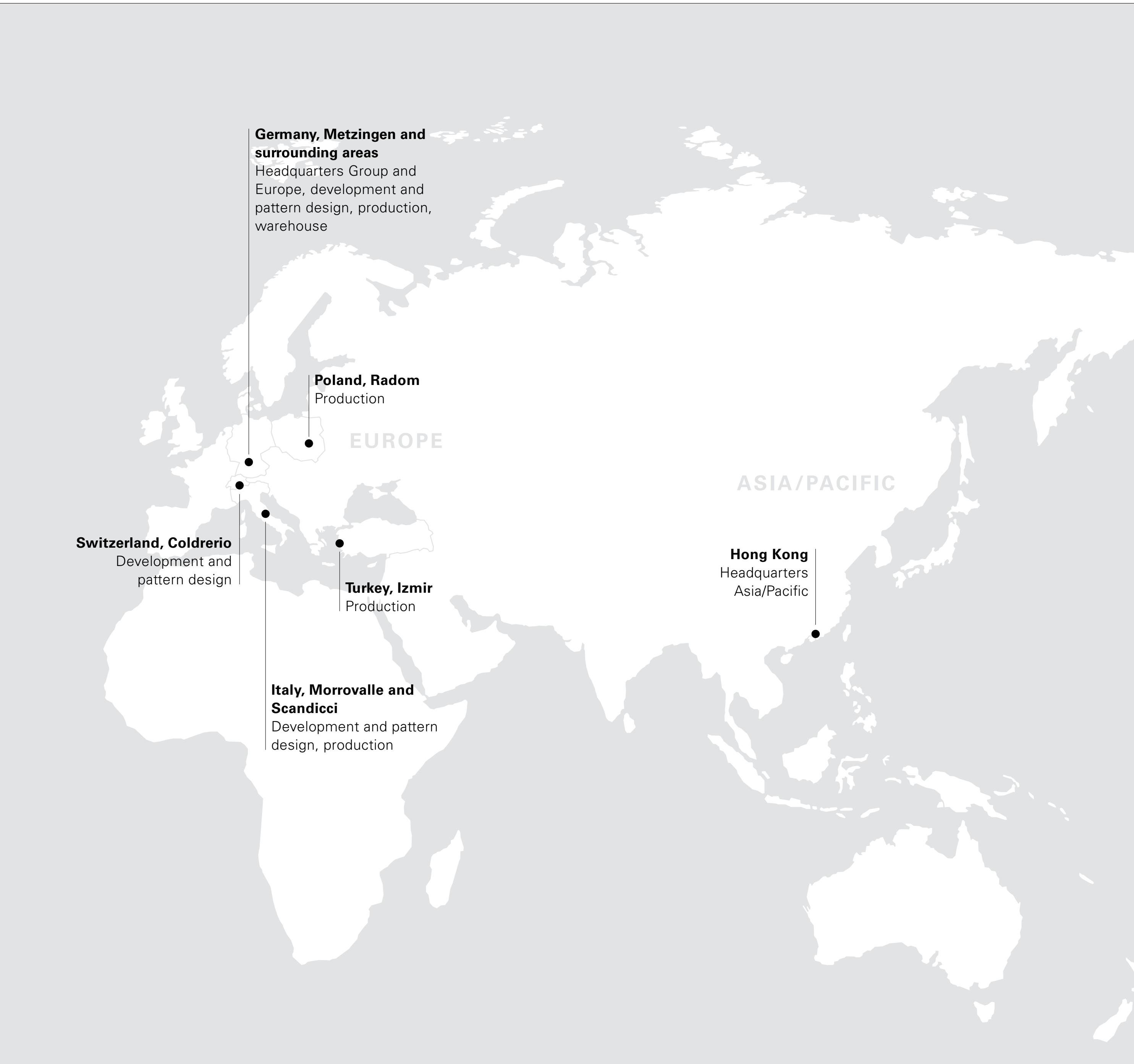
Regional organizational units implement the Group's strategy

In close consultation with the Managing Board, the three regional organizational units, under the leadership of their respective regional directors, secure implementation of the Group's strategy in each market environment. The directors are charged with securing cooperation with those responsible at country-level within their respective regions, particularly as regards the regional adaptation of the distribution strategy in the wholesale and retail business as well as the development of sales and earnings. This regional emphasis of distribution structures brings the Group closer to customers, improves responsiveness to market trends and eases adaptation to market characteristics. Moreover, it enables the fast exchange of knowledge through the close integration of local companies.

02|03 KEY LOCATIONS/GLOBAL MARKET PRESENCE

AMERICAS

Points of sale	**~ 1,550**
Own retail stores	**200**
Showrooms	**2**



EUROPE (including Middle East and Africa)

Points of sale	**~ 5,100**
Own retail stores	**576**
Showrooms	**17**

ASIA/PACIFIC

Points of sale	**~ 450**
Own retail stores	**234**
Showrooms	**2**

GROUP MANAGEMENT

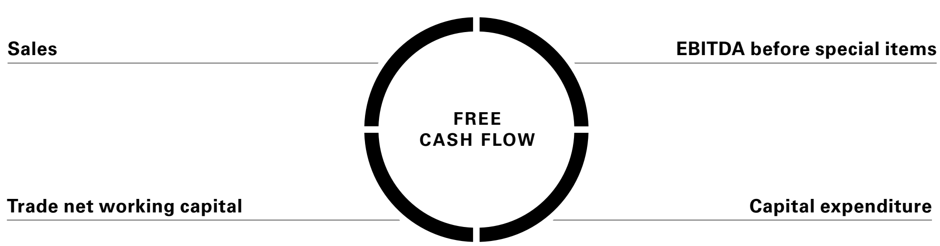
Management at HUGO BOSS aims to sustainably increase the enterprise value. The Company's internal management system helps the Managing Board and leadership at the level of individual business units align all business processes to this objective.

GROUP MANAGEMENT ALIGNED TO PROFITABLE GROWTH

The HUGO BOSS Group is helmed by the Managing Board, which sets the Group's strategic direction in particular. Operative implementation of the Group strategy takes place in close cooperation with the regional and brand directors as well as the heads of the central functions. The organizational and management structure clearly allocates areas of authority and responsibility and defines lines of communication, thereby aligning all corporate resources towards sustainably increasing the enterprise value.

KEY PERFORMANCE INDICATORS

02|04 KEY PERFORMANCE INDICATORS OF THE HUGO BOSS GROUP



Focus on increasing free cash flow

To increase the enterprise value, the Group focuses on maximizing free cash flow. Maintaining positive free cash flow in the long term secures the Group's financial independence and its solvency at all times. Increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation) before special items constitute the main levers for improving free cash flow. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow.

02|05 DEFINITION FREE CASH FLOW

	Cash flow from operating activities
+	Cash flow from investing activities
=	**FREE CASH FLOW**

The Group's most important performance indicators are sales and EBITDA before special items

As a growth-oriented company, HUGO BOSS attaches particular importance to profitably increasing its sales. All activities to raise sales are gauged by their potential to generate a increase in EBITDA and the EBITDA margin (ratio of earnings to sales) before special items in the long term. EBITDA was chosen as the most important performance indicator as it is a key driver of free cash flow. Productivity increases in the Group's own retail business are seen as the main lever for increasing the EBITDA margin. In addition, the company enhances the efficiency of its sourcing and production activities and optimizes its operating expenses to ensure that they do not outpace sales growth.

Management of the Group companies is directly responsible for obtaining profitable business growth. Consequently, part of the total remuneration of management of the independent distribution companies is variable and tied to the realization of targets for sales and EBITDA before special items as well as other indicators of relevance for cash flow.

Managing efficient use of capital through trade net working capital

Owing to the low-capital-intensive nature of the HUGO BOSS business model, trade net working capital is the most important performance indicator for managing efficient use of capital.

02|06 DEFINITION TRADE NET WORKING CAPITAL

	Inventories
+	Trade receivables
−	Trade payables
=	**TRADE NET WORKING CAPITAL**

Management of inventories as well as trade receivables and trade payables is charged to the central operating functions and distribution units. These three components are managed using the indicators days inventories outstanding, days sales outstanding and days payables outstanding, which are partially factored into the variable renumeration of management of the central functions and distribution units. Furthermore, the ratio of trade net working capital to sales is set as one of the Managing Board's targets and is reported as part of the planning process and monthly reporting.

Capex focuses on the Group's own retail business

The potential value added of proposed investment projects is assessed taking into account the relevant cost of capital. Expanding the Group's own retail business is currently the focus of the Group's investment activity. With this in mind, an approval process was established specifically for projects in this area. Apart from a qualitative analysis of potential locations, this also includes an analysis of each project's present value.

02|07 DEVELOPMENT OF KEY PERFORMANCE INDICATORS (in EUR million)

	2013	2012	Change in %
Sales	2,432.1	2,345.9	4
EBITDA before special items	564.7	528.1	7
Trade net working capital	431.8	408.5	6
Capital expenditure	185.3	165.8	12
Free cash flow	230.0	220.6	4

Three core elements of the Group's internal management system

The Group's planning, management and monitoring activities focus on optimizing the central performance indicators described above. The core elements of the Group's internal management system are:

- Group planning,
- Group-wide, IT-enabled financial reporting and
- Investment controlling

Regular update of Group planning

Group planning takes the form of rolling planning over a three-year horizon. It is prepared each year as part of the Group-wide budget process taking into account the current business situation.

Based on the Managing Board's central targets, the distribution companies prepare complete earnings and investment budgets for their respective sales markets or business units. A similar planning model is used for trade net working capital. Taking this as a basis, the development and sourcing units derive medium-term capacity requirements planning. The planning by the business units is centrally tested for plausibility and aggregated into overall corporate planning.

Annual planning is updated at regular intervals to factor in the actual development of business and the existing opportunities and risks in order to allow a forecast of the consolidated earnings that can be expected in the current year. Based on the expected development of cash flow, the Group's Treasury department prepares a monthly liquidity forecast. This permits early recognition of financial risks and the adoption of measures concerning financing and investment requirements. In addition, liquidity planning differentiated by currency is used, among other things, as a basis for currency hedging. → **Report on Risks and Opportunities, Financial Risks**

Group-wide reporting focuses on analysis of early indicators

The Managing Board and management of Group companies are informed about the development of business operations through standardized, IT-enabled reports of varying granularity. This reporting system is supplemented by ad hoc analyses as necessary. Actual data compiled by the Group-wide reporting system are compared against budget data each month. Deviations from target are explained and planned countermeasures presented. Developments with a material impact on the Group's earnings have to be immediately reported to the Managing Board. In addition, particular attention is paid to the analysis of early indicators deemed suitable for obtaining an indication of the future development of business. In this context, order intake, the performance of the replenishment business and retail comp store sales are analyzed at least on a weekly basis. In addition, benchmarking against relevant competitors is performed at regular intervals.

Investment controlling secures Group's profitability targets

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

GROUP STRATEGY

HUGO BOSS has set itself ambitious sales and earnings targets. In order to reach its targets, the Group draws on its core competence – the development and marketing of high-quality apparel, as well as shoes and accessories in the premium and luxury segment. Building on this, the Group's strategy aims to maximize brand attractiveness and to strengthen parts of the product range that have had a less profiled presence so far, to increase retail competence and to further expand the Group's own retail business, to capture global growth opportunities as well as to improve critical operational processes.

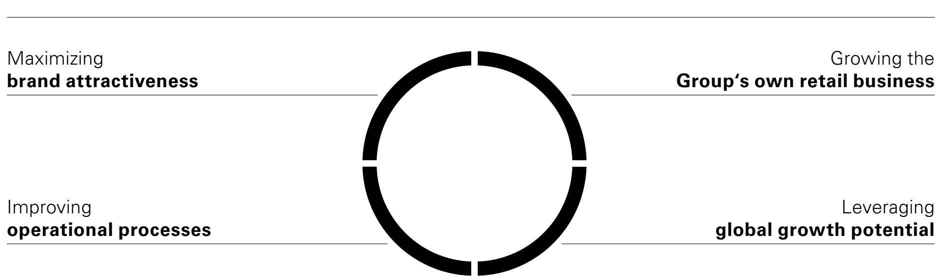
Clear sales and earnings targets defined

The successful development of business in the past years underscores the strength of the HUGO BOSS business model. This serves as the foundation for reaching the ambitious growth targets. Drawing on organic growth, the Group strives to generate sales of EUR 3 billion in 2015. The operating margin is targeted to continually increase and to reach 25% in the medium-term. The planned increase in earnings, together with the strict management of trade net working capital as well as disciplined investment activity will form the basis for targeted maximization of free cash flow and, in turn, increasing enterprise value.

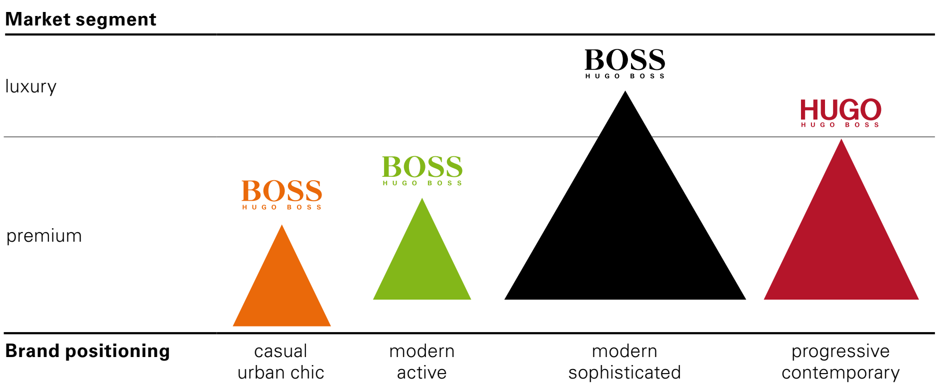
Growth strategy based on four pillars

In order to sustainably increase sales and earnings, HUGO BOSS has identified four key growth areas for which strategic initiatives have been defined. The aim is to maximize brand attractiveness and to strengthen parts of the product range that have had a less profiled presence so far with appropriate product initiatives and a compelling brand communication. A strict customer-centric approach supports productivity gains in the Group's own retail business, the expansion of which is being driven forward. Furthermore, the Group sees substantial growth potential worldwide that should lead to a more balanced regional sales structure in the long term. Finally, operational processes are to be strengthened further.

02|08 MEDIUM-TERM GROWTH STRATEGY



02|09 HUGO BOSS BRAND POSITIONING



MAXIMIZING BRAND ATTRACTIVENESS

Powerful brands are the foundation for business success

The competence obtained over decades in the segment for high-quality womenswear and menswear, shoes and leather accessories shapes the product offering of HUGO BOSS. All products stand out through the use of premium materials, excellent workmanship and outstanding design. The Company reaches out to consumers with the brands BOSS and HUGO. The BOSS core brand is flanked by the brand lines BOSS Green and BOSS Orange. This setup allows HUGO BOSS to address the diverse attitudes and needs of different target groups. At the same time, this approach ensures a clear brand presence that the end consumer can easily understand.

Focus on the BOSS core brand

HUGO BOSS sees significant growth potential across its entire brand and product portfolio. The BOSS core brand will remain by far the largest single brand in the future. It stands above all for sophisticated, elegant ready-to-wear that appeals to fashionably minded men and women. Like BOSS Orange and BOSS Green, BOSS also offers a high-quality sportswear range. While BOSS stands for sophisticated, elegant sportswear and exacting standards in quality, design, fit and finish, BOSS Orange tends to appeal to younger customers that prefer an individual and unconventional clothing style. BOSS Green makes its mark with active sportswear that fuses fashion with sport and technology with style.

Expanding market positioning in the luxury segment

The Company sees great growth opportunities in the expansion of its luxury offering, which complements the strong positioning it has obtained over the years in the premium segment. With this in mind, HUGO BOSS has simplified its brand presentation by combining the BOSS Black and BOSS Selection brands under the BOSS core brand. This integration was implemented for the first time in the 2013 fall collection. The resulting impetus to the market position of BOSS, particularly in the luxury segment through the extension of the Made to Measure range of suits and shirts, for instance, accents the Company's competence in high-quality tailoring and has a direct positive impact on the perception of the premium offering.

HUGO is the fashion spearhead of HUGO BOSS

With its progressive style and avant-garde design, the HUGO brand boasts a strong market position among keenly fashion-conscious consumers. HUGO clearly stands out from the competition with its minimalist designs and puristic looks. Apart from its commercial importance, HUGO plays a key role as the fashion spearhead that sharpens perception of HUGO BOSS overall. The Group sees substantial growth potential, particularly in markets such as the United States and Asia, where the market penetration of HUGO is still relatively low.

Womenwear as a key future growth driver

The Group aims to further improve its market positioning in womenswear. The appointment of Jason Wu, one the world's biggest design talents in the high-end womens fashion arena, as Artistic Director BOSS Woman is the single most important measure to this end. His creativity and global profile coupled with the signature modern and feminine design, a perfect fit and an attractive value for money proposition heighten the appeal of BOSS womenswear and make the brand interesting for a significantly larger customer group. The Group supports the market success of the womenswear collection by expanding the sales area in its own retail stores, particularly flagship stores, while strengthening communication activities. A major highlight is the exclusive BOSS womenswear show at New York Fashion Week.

Expansion of brand communication

HUGO BOSS is expanding its communication activities to reinforce the perception of its brands. This is consistent with the Group's efforts to sharpen its focus on end consumers as part of the expansion of its own retail business. The aim is to uniformly disseminate the brand message across all communication channels in a bid to strengthen perception of the brand, activate existing consumers and attract new customer groups to HUGO BOSS. Special emphasis is being placed on the greater use of print campaigns to support the womenswear line, the expansion of point-of-sale marketing in connection with the larger flagship store portfolio and the broadening of the Group's online media activities. Targeted fashion shows aim to further increase the visibility of the brands among end consumers.

HUGO BOSS

BRAND WORLD

BOSS
HUGO BOSS

The BOSS core brand epitomizes authentic, understated luxury. The men's collection offers modern, refined business- and eveningwear along with sophisticated casual looks and premium sportswear for after work. The unique fits, high-quality materials and exquisite styles help to bring out a man's personality – and give him the confidence that he is perfectly dressed for every occasion. Shoes and accessories round out the range, supplemented by watches, eyewear and fragrances produced under license.

The women's collection of the BOSS core brand stands for feminine styles with a strong focus on precision workmanship, fine fabrics and detailing. The rich array of modern businesswear, exclusive leisurewear and glamorous evening apparel fuses fashionable silhouettes with excellent design and timeless elegance. Coordinated shoes and accessories complete the looks, which are enhanced by licensed watches, eyewear and fragrances.

BOSS
HUGO BOSS

BOSS Kidswear offers a premium range of quality leisure- and sportswear featuring smart details, along with dressy outfits for more formal occasions. The versatile collections for newborns, children and young adults are produced under license and complemented by matched accessories.

BOSS
HUGO BOSS

BOSS Green is the active sportswear line from HUGO BOSS that transcends the boundary between modern leisure outfits and performance golf apparel. Linking fashion, lifestyle and function, the collection delivers distinctive, dynamic looks in impactful colors.


BOSS

BOSS
HUGO BOSS

As the urban casualwear collection from HUGO BOSS, BOSS Orange sends an easy-going message. The laid-back lifestyle fashions appeal to men and women who set stock in individuality and cultivate mobility and spontaneity as parts of their personal mindset. Shoes and accessories join licensed watches, eyewear and fragrances to perfect the uncomplicated, modern look.

HUGO is the fashion spearhead within the HUGO BOSS brand world. Offering contemporary design trends for both business and leisure, the brand stands for progressive looks and an edgy, urban attitude. The women's and men's collections consistently set self-confident, stylish accents; shoes, accessories and licensed fragrances round out the ranges.

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GROWING THE GROUP'S OWN RETAIL BUSINESS

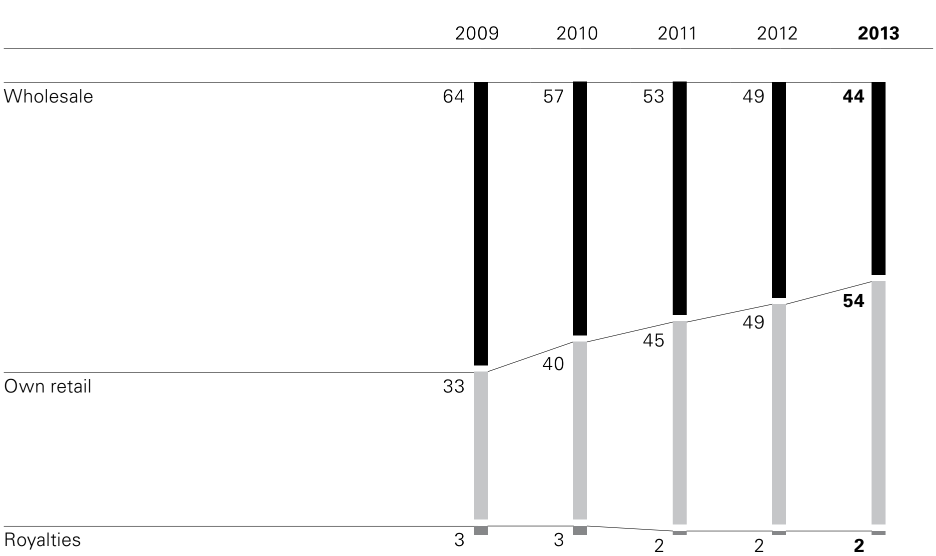
Business model aligned towards own retail business

Over the past few years, HUGO BOSS has comprehensively realigned its business model with the requirements of the Group's own retail business. The Group is thus responding to growing consumer demand for mono-brand sales formats and this sales channel's attractive profitability profile. In light of new openings, productivity gains and takeovers, the Group anticipates that the share of sales contributed by its own retail business will climb to at least 60% by 2015 (2013: 54 %). A significantly higher share is expected in the long term.

Wholesale remains an important distribution channel

Based on its customer relationships in the premium and luxury apparel segment, which it has forged over decades, and its brand attractiveness, the Group is confident it can also offer its wholesale partners a convincing product offering, best-in-class service and a high level of supply reliability, and increase its market share in the process. However, the growth potential of the wholesale business is limited by the moderate growth reported by many business partners, a slow expansion of sales floor space, growing competition from mono-brand and online sales formats together with the market exit of many small owner-run stores, particularly in Western Europe and North America. As a consequence, the Group expects the share to total Group sales of this distribution channel to decline.

02|10 SALES BY DISTRIBUTION CHANNEL (in %)



Improved business processes further enhance retail competence

Over the past few years, HUGO BOSS has trimmed and increased the flexibility of critical business processes to enable it to respond faster to market developments and the changing needs of its customers. Drawing on the experience gained in the interim, the measures taken and, in turn, the Company's retail competences are being optimized further. Initiatives to emphasize the spring and fall collections as part of the four-collection cycle cater specifically to the needs of the American and Asian markets. Earlier deliveries also help improve the availability of new collections at the start of the season and, in turn, the full-price sell-through rate. In addition, brand and creative management are to receive support in the development of the next collection through better analyses of the results of the reference season. Finally, follow-up measures were taken to couple up production and sourcing activities more closely to actual demand.

Close integration of online and offline channels

With the expansion of its online retail activities, HUGO BOSS is responding to the increasing acceptance of this sales channel and is taking the opportunity to reach out to new buyer strata. Apart from opening new stores in markets that had not been tapped online so far, the focus is on optimizing existing stores as regards user-friendliness, product range and presentation as well as services. Moreover, greater attention is being paid to the increased integration of online activities, both as regards digital brand communication as well as the combination of bricks-and-mortar and mobile retail, to offer consumers a seamless, integrated brand and shopping experience. This allows the Group to continually improve its ability to fulfill the expectations of consumers with a preference for multi-channel solutions.

Cross-channel customer relationship management

In a closely related move, the Group has strengthened its efforts in customer relationship management across all retail channels. HUGO BOSS increasingly engages with its existing and new customers in more personal ways through mailings and email newsletters about relevant and interesting information and special offers in order to provide them an attractive brand experience. For instance, consumers have the option of registering in HUGO BOSS' own stores and receive invitations to exclusive events for the unveiling of collections or special store events.

Expanding and optimizing the store network

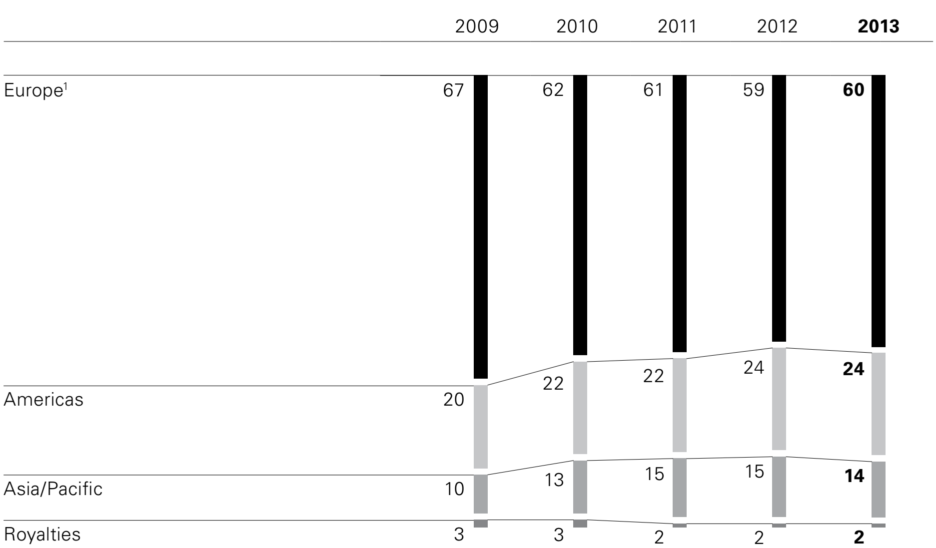
The Group sees good opportunities for increasing its global market penetration through the opening of about 50 new stores and shop-in-shops each year. In addition to opening new stores, the Group considers the takeover of stores operated by franchise partners, depending on the attractiveness and growth prospects of each market in question. Independent management of shop-in-shops previously run by wholesale partners is another means of enhancing the attractiveness of the brand presentation and tapping additional sales and earnings potential. The Group sees levers for significantly increasing the sales productivity of the stores it takes over, through autonomous selection of the assortment, by using the Group's own sales personnel with special training and by taking charge of replenishment. In addition, the Group invests in the renovation of existing stores to increase the consistency of global brand image and store productivity.

LEVERAGING GLOBAL GROWTH POTENTIAL

Global brand awareness offers growth opportunities

HUGO BOSS is very well known around the world thanks to the appeal of its brands and its early entry into international markets, particularly through franchise partners. The Company sees substantial opportunities for commercially exploiting this brand perception in the coming years more thoroughly than in the past and for gaining a firmer footing in markets in which the Group's presence is still relatively weak, particularly fast growing markets. To this end, the Group will expand its own retail business in particular. It is therefore expected that the share of sales generated outside Europe will steadily increase in the next few years.

02|11 SALES BY REGION (in %)



[1] Including Middle East and Africa.

Expansion of the Group's own retail business is key for continued growth in Europe

However, Europe will remain the Group's largest sales market. In addition, the Group is supplementing its established presence at wholesale partners by growing its network of own stores. It is thereby strengthening the homogeneity and value of the global brand image and is raising the appeal both for local consumers and the growing number of non-European customers who visit the region as tourists. Motivated by these considerations and in response to the challenging business situation faced by many of its business partners, HUGO BOSS has also increasingly begun to directly operate wholesale spaces itself. This has allowed the Group to generate growth that outstrips the average sector growth in many markets. Apart from expanding its market positioning in traditional mainstay markets like Germany, Great Britain, France and the Benelux countries, the Company feels that there are attractive growth opportunities in Eastern Europe, especially in Russia. Building on the direct market entry in fiscal year 2013, the Company will to a larger extent control its distribution in this market itself in future.

Strong brand perception forms foundation for success in the Americas

HUGO BOSS enjoys a sturdy market positioning in the Americas. It is primarily anchored in a favorable perception shaped by associations with the European lifestyle. Apart from modern design, HUGO BOSS is attributed a high degree of reliability with respect to fit and quality as well as an attractive value proposition. HUGO BOSS wants to increasingly take advantage of these strengths, also as regards parts of its portfolio that have had a less profiled presence until now, such as the HUGO brand or the womenswear line. The latter should benefit in particular from the huge reputation that the new Artistic Director, Jason Wu, has in the region. In the wholesale business, the Group is concentrating on partnering with retailers in prime market segments. Optimization of brand presentation, both in the category business but also increasingly in shop-in-shop formats, partly also under the Group's control, serve as key growth levers in this context. In the retail business, the focus is on selected new openings, particularly in Latin America, as well as in enhancing the shopping experience.

HUGO BOSS wants to leverage growth opportunities in Asia

As the middle class steadily grows and premium and luxury goods become more affordable due to the accompanying increase in purchasing power, HUGO BOSS is seeing substantial sales potential opening up in Asia, and particularly in China. Consequently, the Company is investing in the quality of its retail presence and brand perception. The exclusivity of the brand presence is being augmented by opening flagship stores in cosmopolitan cities like Shanghai and Hong Kong, but also by renovating existing stores. Expansion of training activities together with the implementation of structured IT-enabled customer relationship management also serve to improve the shopping experience. Brand communication is being built up with a focus on multi-channel measures that link up events such as the fashion show held in Shanghai in 2013 with social media and digital marketing initiatives. The Group also sees substantial growth opportunities in the expansion of its offering of premium business-wear for men, as its share in sales in Asia is significantly lower than in other regions. There are also further pools of potential in the segments of luxury sportswear, womenswear and the HUGO brand, which reaches out to a fast growing number of fashion-conscious young people who want to stand out from the crowd with a personal look.

IMPROVING OPERATIONAL PROCESSES

Operational strength is the foundation of commercial success

The fundamental principle observed by the Group is to keep control over all business-critical processes. Robust operational processes allow the Company to develop, source, produce and deliver high-quality products in large numbers efficiently, fast and on an industrial scale. This affords HUGO BOSS the opportunity to gain a competitive edge by swift reaction to market changes, an advantageous value-for-money proposition and high supply reliability. The Group still focuses on optimizing operational processes in line with the requirements of its own retail operations.

Vertically integrated organizational structure secures design and product excellence

HUGO BOSS has closely integrated the product design and development process with industrial manufacturing and sourcing. The organizational structure is aligned to the categories clothing, sportswear, womenswear as well as shoes and accessories in order to maximize the respective product competencies. Intensive cooperation of all those responsible for product development increases product quality, accelerates development times and captures synergy effects in development and sourcing.

Own production activities secure critical know-how

HUGO BOSS still produces a substantial share of its classical clothing range in-house. By using its own production facilities, the Company can secure critical know-how, while enabling development activities to be closely geared to subsequent industrial manufacturing. In addition, the insights won from maintaining its own production activities can be drawn upon to profitably manage an external supplier network that guarantees reliably high product quality on the basis of partnerships that have grown over many years of collaboration. → **Sourcing and Production**

High performance IT-structure affords key competitive advantage

A high-performance SAP-based IT infrastructure uniformly deployed worldwide effectively supports the operational processes of all functions and creates the transparency needed for making entrepreneurial decisions. In particular, this provides direct control over the development of the Group's own retail business, enabling quick response times with respect to the distribution of goods and discount management. The Group is currently working on implementing an IT solution that provides a fully integrated view of stock flows in its own retail business thus enabling planning that is directly driven by end consumer demand. Another focal point is the IT-side integration of production, transportation and distribution processes in order to capture efficiency and speed benefits. → **Sourcing and Production**

Logistics infrastructure is aligned to requirements of the Group's own retail business

A powerful logistics infrastructure ensures timely and accurate delivery to sales partners and the Group's own points of sale. In the past few years, the Group has redoubled its efforts to optimize its logistics processes with respect to the requirements of its own retail business in line with the transformation of its business model. The single most important measure in this context is the construction of a new flat-packed goods distribution center near the Group's headquarters. Once it goes into operation in the first half of 2014, it will speed up the merchandise supply process and significantly improve the efficiency of critical handling processes compared to the past.

EMPLOYEES

The work of the almost 12,500 people employed by the HUGO BOSS Group worldwide is the basis of the Company's success. The skills of the employees and their passion for fashion find their expression in unmistakable products. The central aim of personnel work in the HUGO BOSS Group is fostering the team spirit and motivation of employees in an international environment, while creating a culture of openness and creativity that allows each and every individual to realize their full potential. HUGO BOSS' corporate values of quality, passion, respect, cooperation and innovation provide the cornerstones.

Corporate values shape culture of collaboration

Over the last two years, a mission statement was drafted for the HUGO BOSS Group as part of the international project COMMIT involving employees from different departments and hierarchy levels from which concrete initiatives were derived. The mission statement "HUGO BOSS inspires people towards success" is founded on the corporate values of quality, passion, respect, cooperation and innovation – values that shape employees' daily work with each other and that reflect the corporate culture. Human resources (HR) management at HUGO BOSS is geared towards breathing life into the values underpinning the mission statement, so that every single employee can make a contribution to the achievement of the Company's goals in the long term with their skills, commitment and their individual personality. In order to anchor these values in daily interaction, they were further refined in the course of a number of activities and workshops held last year and incorporated into the personal objectives of each employee. → **Sustainability**

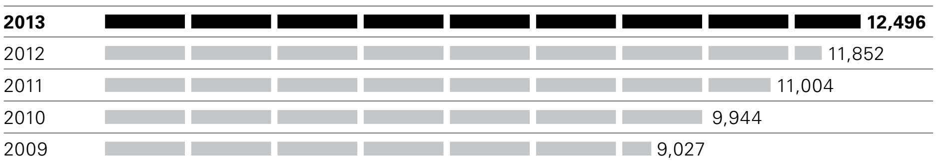
Personnel strategy supports the Company's growth

The aim of personnel work at HUGO BOSS is to attract the right people to the Company, retain them long-term and systematically support their development so that they can reach their full potential. Offering inspiring and challenging tasks helps ensure that each individual contributes as best they can, thereby fostering the long-term success of the Company. Again in the past year, the focus of HR management was on aligning human resources with the strategic orientation of the Group towards its own retail business. In view of the increasing international nature of operations, special attention was also paid to following up on the efforts already initiated in the past few years to design standardized and transparent processes for personnel recruitment and development across the Group. Another emphasis of personnel work was on leveraging a holistic employer branding campaign to strengthen the market positioning of HUGO BOSS as an attractive employer.

Workforce expansion in 2013

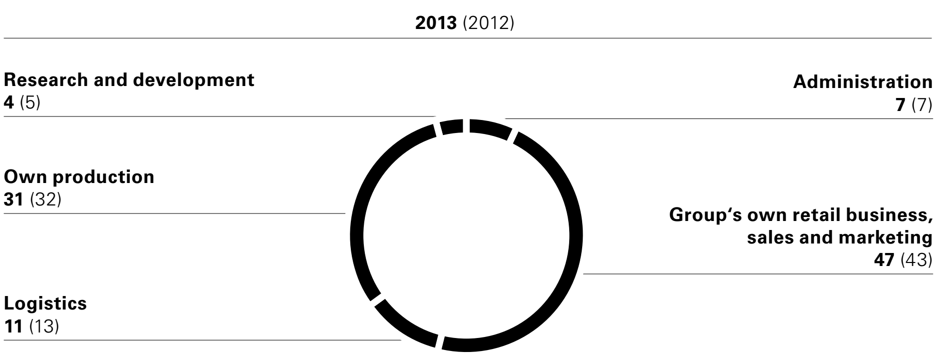
The number of employees in the HUGO BOSS Group increased further in 2013. At the end of fiscal year 2013, HUGO BOSS had 12,496 employees. This is an increase of 644 or 5 % compared to the prior year (2012: 11,852 employees).

02|12 NUMBER OF EMPLOYEES AS OF DECEMBER 31



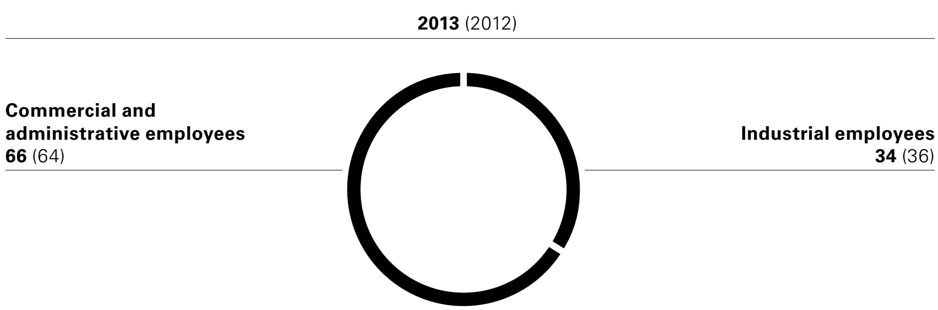
The rise is attributable to the positive development of business and the associated increase in demand for staff, particularly in the Group's own retail business. In the Group's own retail business alone, the workforce grew last year by 15% from 4,139 to 4,759 employees. The majority of new employees in this segment were hired in Europe and the Americas, where the expansion of the Group's own retail business was driven forward, partly through the takeover of shop-in-shop units from wholesale partners. → **Group Strategy**

02|13 EMPLOYEES BY FUNCTIONAL AREA AS OF DECEMBER 31 (in %)



As a consequence, the share of employees in commercial positions increased further. At year-end 2013, 8,262 employees or 66% of the workforce (2012: 7,549) were assigned to commercial and administrative positions and 4,234 employees or 34% of the total workforce (2012: 4,303) to industrial activities. → **Notes to the Consolidated Financial Statements, note 10**

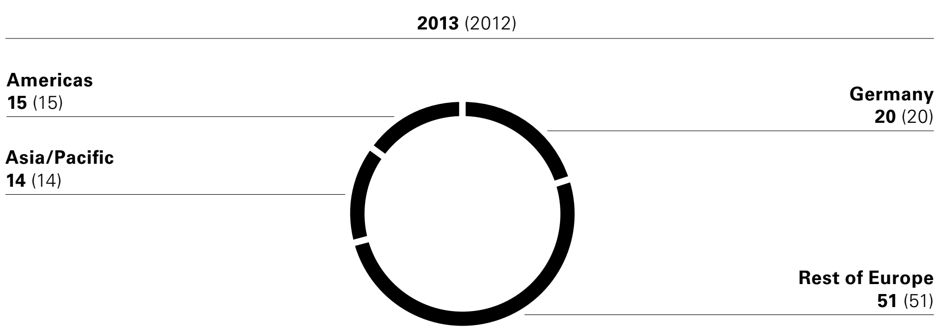
02|14 INDUSTRIAL, COMMERCIAL AND ADMINISTRATIVE EMPLOYEES AS OF DEC. 31 (in %)



HUGO BOSS puts emphasis on internationality

Internationality, openness and diversity shape the corporate culture at HUGO BOSS. This is reflected in the regional distribution of the workforce. 80% of the Group's people work outside Germany (2012: 80%).

02|15 EMPLOYEES BY REGION AS OF DECEMBER 31 (in %)



Continued high participation of women in management

The share of women in the HUGO BOSS Group as a whole stands at 60% (2012: 60%). In management, meaning across all management levels, 46% of all positions were held by women at the end of December 2013 (2012: 46%). As a result, the Company complies with the recommendation of the German Corporate Governance Code according to which the Managing Board has to try to ensure appropriate representation of women in management positions. → **Corporate Governance Report**

02|16 EMPLOYEE STATISTICS (in %)

	2013	2012
Proportion of men in total workforce	40	40
Proportion of women in total workforce	60	60
Proportion of men in management	54	54
Proportion of women in management	46	46
Average age in years	34	34

Professional education is a priority of the Company

HUGO BOSS invests in the vocational training of young people in order to secure its need for professionals. The Company offers a broad spectrum of industrial/technical and commercial apprenticeships as well as combined degree and vocational training courses in collaboration with Baden-Württemberg Cooperative State University (DHBW). During the apprenticeship term, HUGO BOSS considers it very important that general and specialized training and development opportunities are provided, such as in the form of the international assignment of Cooperative State University students to a subsidiary abroad.

Number of apprentices on the rise

In 2013, the number of apprentices and Cooperative State University students passed the 100 mark for the first time (2013:101; 2012: 90). In 2013, 24 apprentices and Cooperative State University students successfully completed their apprenticeship or degree. At the same time, 36 new apprentices and students began their course.

HUGO BOSS reaches out to its talents early on

HUGO BOSS positions itself in the market as an attractive employer for young people. In order to identify and attract talents early, the Company cooperates closely with colleges in Germany and abroad. HUGO BOSS stays in touch with high school and college students through numerous company presentations and workshops, tours at the headquarters in Metzingen, through presentations by employees of various departments at colleges and by organizing competitions for young talents. For instance, the Group maintains very close ties with Reutlingen University and regularly awards project assignments to students with high potential. And since 1986, the Company has been awarding the “HUGO BOSS Fashion Award” to young talented fashion students in cooperation with Staatliche Modeschule Stuttgart. Apart from a cash prize, the winner is offered an internship at HUGO BOSS.

The Company often uses the contacts it establishes with these initiatives to recruit young talents. In 2013, the Company also made initial contact to young talents at ten job fairs.

Internship as a career start

More than 330 interns in total were given the opportunity to gain practical experience in most of the departments of HUGO BOSS in 2013. During their internship, interns can network with each other at events organized especially for them where they can get insights into other departments of the Company. Selected interns can follow up their internship by writing their thesis in the Company. In 2013, HUGO BOSS mentored almost 30 final-year papers. A targeted support program enables ties to outstanding interns to be maintained after they leave HUGO BOSS and to foster their development so that they can be later rehired as qualified employees.

Increasing employer attractiveness

The success of personnel marketing activities and intern mentoring in the past year is reflected, amongst other things, in a further improvement in the Company’s position in various rankings of Germany’s most popular employers. In addition, HUGO BOSS again received the TOP Internship award in 2013. One of the initiatives that guarantee the high quality standard of the internship program is the organization of regular workshops for designated intern mentors from the various departments.

Supporting work-life balance through family support policies, nutrition and sport

Since 2008, the Company has been a member of the "Erfolgsfaktor Familie" network, a nationwide network of companies committed to the provision of family-oriented HR policies, and offers a flexible family support model. This aims to ease the return to work after parental and maternity leave. Employees at the Group's headquarters in Metzingen have places reserved at two child daycare centers and the option of obtaining financial support for alternative childcare arrangements. A total of 178 employees benefited from the family support program in 2013.

As a responsible employer, HUGO BOSS is particularly concerned about the health of its employees. To sensitize employees to topics such as healthy nutrition, exercise or reducing stress, and to support practical initiatives, an annual health day is held at the headquarters in Metzingen with various presentations, workshops and exhibition stands.

Food at work is another area in which HUGO BOSS makes a fundamental contribution to health as an employer. The campus restaurant offers a balanced nutrition concept with menus that change daily and a large selection of fresh fruit and salads. Employees can also seek the advice of a nutrition coach.

In addition, all employees at the Group's headquarters can work out at the Company's own fitness studio and take part in subsidized courses. The football field and the beach volleyball court are also very popular with employees in Metzingen. In 2013, almost 1,000 runners took part in the 10th HUGO BOSS Run in Metzingen.

Personal development enhances organization's performance

With its systematic personnel training and development activities underpinned by a transparent competence model, the Group targets continuous improvement of its employees' expertise and skills. This not only raises the organization's performance overall, but also the motivation and confidence of every single employee.

With targeted measures, employees can improve their performance in the workplace and grow their expertise beyond the requirements of their current job profile. Apart from a large number of classroom training courses, more and more web-based training courses are being offered in different languages, particularly in the Group's own retail business, which allow standardized training of employees worldwide. More than 33,000 web-based training courses were successfully completed in the past fiscal year (2012: 16,000).

Apart from this, the personal development of individuals is supported on a case-by-case basis through transfers to other departments or functions both within the Group's headquarters and to subsidiaries abroad, by expanding the area of competence or through promotion to management positions. The career path of every manager is systematically supported with advice and by continuously fostering personal, methodological, specialist and leadership-related competencies.

Supplementing the leadership career path, the concept of the specialist career path was introduced in 2013. This gives high-performing and talented employees the opportunity to build up their expertise over the clearly defined development stages of a specialist career path. A training program designed for specialists was introduced to equip employees on this career path with the expertise and methodological skills they need.

In order to assess and clearly document the performance, competencies and development potential of each individual, all supervisors conduct annual feedback conversations with their employees. During the talks, tasks and personal objectives for the year ahead are set and training and development needs to meet these goals defined.

Employee remuneration based on transparent system

The HUGO BOSS Group's remuneration system is designed to ensure the fair and transparent compensation of employees and promote a culture of performance and dedication. Remuneration is set by reference to clearly documented job descriptions and assessments. Employees in Germany with collectively bargained wage agreements are remunerated based on the collective agreement of the Südwestdeutsche Bekleidungsindustrie (Southwest German Textile Industry). Personnel assigned to retail activities are remunerated based on the collective agreement for the German retail industry. Employees in retail and distribution receive a fixed salary and a variable component that is tied to quantitative targets. For instance, the remuneration of employees in the Group's own retail business is tied to the achievement of service standards and guidelines for its own retail business defined uniformly throughout the Group. In addition, reaching targets set for specific retail indicators creates shared incentives for the employees of individual stores. Employees who do not have collectively bargained wage agreements receive a basic salary plus a bonus, half of which is linked to Company targets and the achievement of qualitative and quantitative personal goals. In 2013, the Company objectives related to the development of sales, the operating profit, the operating margin, inventories and net financial liabilities. In the past fiscal year, the company pension offering was reorganized and significantly expanded. For instance, the Group now concludes for all employees who have been with the Company for more than six months an employer-funded direct insurance. Apart from the statutory subsidies, the employer-funded deferred compensation is supplemented by an additional employer subsidy. HUGO BOSS thus makes an important contribution to providing for its employees after retirement.

Apart from the contractually defined salary components, employee benefits include a traveling allowance and discounts on HUGO BOSS products. In addition, they can take advantage of the art and cultural offering in connection with sponsorship activities.

RESEARCH AND DEVELOPMENT

Season after season, HUGO BOSS has to prove itself on the apparel market and create collections that meet the exacting design and quality standards of customers. The research and development activities at the start of the value chain have a decisive influence on customers' perception of the Company's innovative strength and design competence. In addition, the use of innovative development and processing techniques can make an important contribution to increasing the efficiency of the complete product manufacturing process. Innovation therefore plays a central role in the Company's success and is firmly anchored in the Company's mission statement as one of its five values.

Research and development is a key element in the collection creation process

HUGO BOSS sees research and development (R&D) as an important element in the product development process as a means of transforming a creative idea into a marketable product. This process starts with the systematic identification of fashion trends, an analysis of market and sell-through data and the evaluation of consumer feedback in order to judge customer needs as best as possible. In the product development process in the narrow sense, innovation is primarily expressed in the use of new types of materials, fresh patterns as well as finishing techniques that enhance both quality and efficiency.

Innovation meets tradition at HUGO BOSS

As one of the leaders in the premium and luxury segment of the global apparel market, HUGO BOSS believes it is vital that it presents to customers modern, innovative products season after season to create purchase incentives time and again. At the same time, the customer expects HUGO BOSS to deliver products in every collection with the accustomed high product quality, perfect fit and unmistakable signature design. As a result, the focus of development at HUGO BOSS is both on exacting standards on quality, fit and consistent brand management as well as outstanding and innovative design.

Close interaction between creative department and technical development

Because the research and development process stands at the start of the value chain, it plays a decisive role in the collection's later success.

In the first step of the product development process, creative management defines the collection statement, plans the color, theme, shape and fabric concepts and sets the targeted price points. Insights from sell-through diagnostics of the reference season are factored into this process. In order to compile at an early stage information on current trends in colors and materials as well as new kinds of processing techniques, the design departments attend specialist trade shows several times a year. In their search for new ideas, the creative teams seek inspiration from a range of fields, including architecture, design and art, but also from new technologies and socioeconomic developments. For instance, the 2013 Womenswear

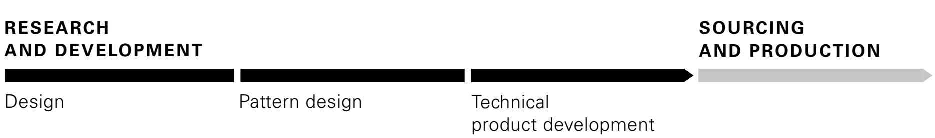
Fall Collection was inspired by the work of U.S. photographer Man Ray. Clear lines, playful prints and art deco details were used to fuse artistic luxury with the shapes of surrealism. In this first step in the product development process, the design teams draw to a limited extent on the expertise of external advisors such as trend scouts in order to identify fashion trends even earlier.

In a second step, the creative department hands over its sketches to the pattern design department where the feasibility of the creative ideas is initially reviewed from a tailoring perspective. The technical product development department then develops the models into prototypes. In close cooperation with suppliers, the materials used and innovative product techniques are developed further. The prototypes are then thoroughly tested, resulting, among other things, in the compilation of data on the physical attributes of the fabrics needed later at the series production stage.

The prototype creation stage is followed by sampling, the production of a sample collection for presentation and sale to international wholesale customers. This is followed by the production of the pieces ordered and their sale to end customers, either through the Group's own retail stores or the wholesale channel.

Throughout all stages, seamless collaboration of all those involved, including external suppliers and technology partners, is essential to ensure a high product quality and maximize the efficiency of the research and development process.

02|17 PRODUCT DEVELOPMENT PROCESS AT HUGO BOSS



Innovative virtualization technology simplifies the development process

To further simplify and accelerate technical product development, the Company increasingly uses virtualization technology, particularly for shirts, jersey, knitwear, blouses, dresses, suits and shoes. Virtual product development entails making digital 2D patterns of the designers' creative ideas and then converting these to 3D simulations of the finished product. With the help of these 3D prototypes it is possible to virtually visualize different color and material variations and the use of different crafting techniques. Virtual prototypes can be discussed with in-house employees involved in the process directly on the computer terminal and adjusted flexibly. This close cooperation between the development teams not only makes it possible to develop products quicker, but it also cuts costs due to the reduced need for physical prototypes. In some product categories, 3D technology can reduce the need for physical prototypes by as much as 20%.

The technology is to be rolled out to all product categories and is aimed to be also implemented in the early collaboration processes with the suppliers in the future. In addition, the aim is to also deploy the broad range of possibilities afforded by virtualization upstream in the creative design phase as well as downstream in the sale of products to business partners and end customers. For instance, the technology makes it possible to present collections in showrooms worldwide to demonstrate different fabric or color variations rather than using physical samples, significantly optimizing the use of resources.

Organizational structure permits seamless development process

The HUGO BOSS Group's organizational structure is geared towards precisely synchronizing various steps of the product design, product development and sourcing processes. Brand and creative management is organized based on the product categories clothing, sportswear, womenswear as well as shoes and accessories. One of the advantages of this organizational structure is that it allows direct links between the creative departments and the product divisions responsible for pattern design and technical product development as well as sourcing and production activities. This ensures a more direct communication between all those responsible for product development, while creating efficiency gains measured in terms of quality, speed and cost.

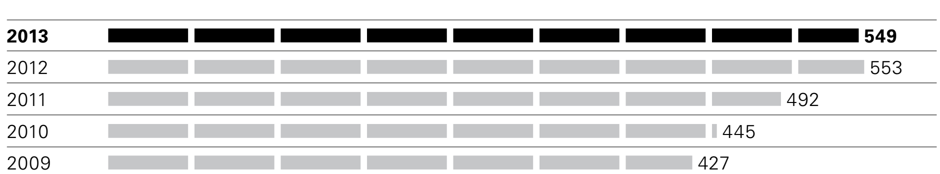
Development activities are spread across five locations

At HUGO BOSS, innovation and development work is organized across five development centers: in Metzingen (Germany), New York City (USA), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). At its Group headquarters in Metzingen, the Company leverages its many years of experience in industrial textile manufacturing for trend-setting creative and technological product developments in the core business of classic tailoring as well as leisure and sportswear. Since the appointment of Jason Wu as Artistic Director, the BOSS womenswear collections are partly created at a design studio in New York. The Coldrerio competence center is responsible for both the development of the textile product groups shirts, ties and knitwear but also has overarching responsibility for shoes and leather accessories as well as bodywear. The Italian locations in Morrovalle and Scandicci focus on the development of shoes and leather accessories.

Almost 550 employees in R&D

The HUGO BOSS Group's creative and development departments are staffed by skilled fashion designers, tailors, shoe and clothing technicians as well as engineers. In 2013, the headcount in research and development came to 549 employees (2012: 553). → **Employees**

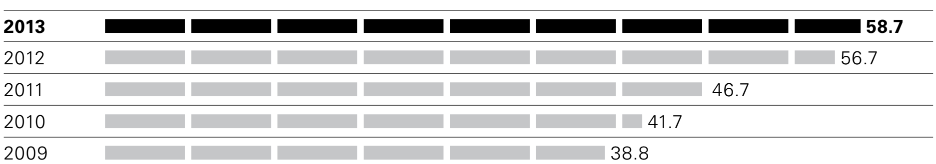
02|18 NUMBER OF EMPLOYEES IN R&D AS OF DECEMBER 31



Moderate increase in R&D expenses

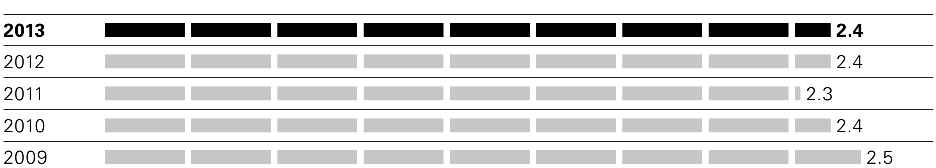
Research and development expenses largely comprise personnel expenses and other operating expenses. In 2013, as in the past several years, the majority of research and development expenses were expensed as incurred. In addition, some of the production-related development expenses are included proportionately in the costs of conversion of inventories. No research and development expenses were capitalized as internally generated intangible assets. Total expenditure across the Group in connection with the creation of collections increased by 4% in the past fiscal year to EUR 59 million (2012: EUR 57 million). At 69%, personnel expenses made up the majority of research and development expenses (2012: 70%). The ratio of research and development expenses to consolidated sales remained unchanged at 2% in the past fiscal year (2012: 2%).

02|19 R&D EXPENSES[1]
(in EUR million)



[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, „Changes in accounting policies/Corrections“, page 170 ff).

02|20 R&D EXPENSES[1]
(in % of sales)



[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, „Changes in accounting policies/Corrections“, page 170 ff).

SOURCING AND PRODUCTION

The aim of sourcing and production activities of HUGO BOSS is to source products of utmost quality at competitive cost while observing strict social and environmental standards and deliver them on-schedule to retail partners and the Group's own stores. To achieve this, HUGO BOSS works incessantly to ensure zero-error, efficient and sustainable sourcing and production processes by carefully selecting suppliers, continuously strengthening its existing supplier relationships and observing the most exacting production-related standards.

Majority of production by independent suppliers

As a company with international production activities and business operations, HUGO BOSS relies on well-rehearsed, standardized and system-enabled sourcing and production processes as a key success factor. This is the only way to ensure the timely availability of goods on the shop floor and the outstanding quality that customers of HUGO BOSS products are accustomed to. 20% of the total assortment of products is manufactured by HUGO BOSS' own factories (2012: 20%), 80% of the assortment is manufactured by independent contract suppliers or sourced as merchandise (2012: 80%). As the Group produces a substantial part of its classic tailoring range in-house, it has and continually expands critical know-how and optimizes quality standards and the availability of goods.

In-house production facilities are located in Izmir (Turkey), the Group's largest production facility, Cleveland (USA), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). The Izmir plant mainly produces suits, trousers, jackets, shirts and classic womenswear. At its Cleveland factory, HUGO BOSS produces suits for the American market. Apart from prototypes, sample pieces and individual orders, the Metzingen site mainly produces suits, jackets and trousers in small series. This is also where HUGO BOSS tailors its Made to Measure suits. Production activities in Radom and Morrovalle focus on making shoes.

Strategic management of the supplier network as a success factor

Given its broad spectrum of apparel and accessories for the premium and luxury segment, HUGO BOSS draws on an adequately sized network of specialist suppliers. Through the optimal use of capacity it was possible to concentrate the sourcing volume on a reduced number of suppliers in the past year. In the areas of merchandise and contract manufacturing, for instance, the Group partnered with less than 300 suppliers in 2013 (2012: 320). The sourcing volume is generally distributed among a global network of suppliers in order to spread risk and maintain the greatest possible independence from individual sourcing regions and producers. Indeed, the largest single independent supplier only made up 7% of the total volume sourced by the HUGO BOSS Group (2012: 8%). → **Report on Risks and Opportunities**

Objective selection criteria as a basis for choosing suppliers

Suppliers are selected based on clearly defined production-related specifications. The most important criterion is the ability to meet the high quality and finishing standards. Additional criteria factored into the selection process include supplier reliability, technical equipment and innovation power, financial robustness and the cost efficiency of each supplier. Strict adherence of production sites to the social standards contractually agreed upon is a non-negotiable precondition for the establishment of a business relationship. → **Sustainability**

Sourcing modes depend on product groups

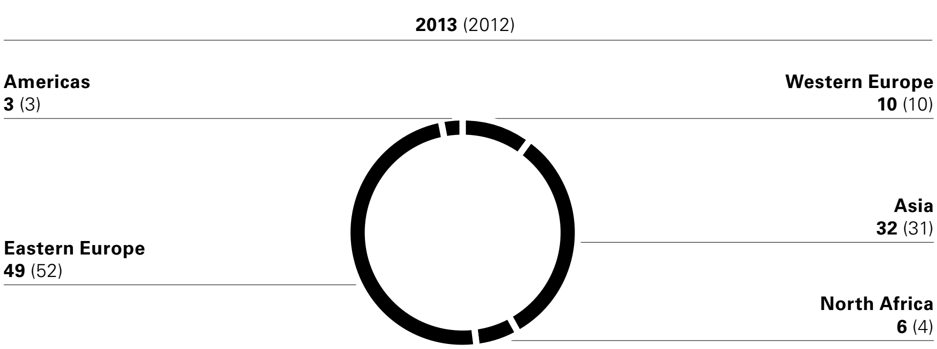
Sourcing activities break down into the procurement of raw materials, contract manufacturing and purchased merchandise. The raw materials sourced are mainly fabrics but also include additional items such as lining, buttons, thread or zippers. The majority of raw materials processed in-house or under contract comes from Europe. Fabrics are preferably sourced from long-standing fabric suppliers in Italy.

It is primarily suits, jackets and trousers that are made under contract manufacturing arrangements. In these product groups, HUGO BOSS mainly works with companies in Eastern Europe. For products made under contract manufacturing, the supplier is provided with the requisite patterns as well as the fabrics and other components. By contrast, sourcing in the area of sportswear has a greater focus on merchandise, which is mostly sourced from Asia and Eastern Europe. With this kind of sourcing, suppliers get patterns from HUGO BOSS as necessary but independently source their raw materials. With the exception of the classic shoe collection that is produced at the Company's own factories in Italy and Poland, the product category shoes and leather accessories is mainly sourced from business partners in Asia and Europe.

Eastern Europe remains most important sourcing region

Measured by value, almost half of all HUGO BOSS products are produced in Eastern Europe and Turkey (49%; 2012: 52%). The Company's own factory in Turkey plays a leading role in this context, making up 15% of the total volume sourced (2012: 15%). Asia is the source of 32% of products (2012: 31%). China is still the most important supplier country in this region. The remaining goods stem from Western Europe (10%; 2012: 10%), North Africa (6%; 2012: 4%) and the Americas (3%; 2012: 3%).

02|21 REGIONAL SPLIT OF SOURCING AND PRODUCTION VOLUME (in %)



Close ties with suppliers are of strategic importance

The Group has a keen interest in maintaining long-term collaboration with its suppliers. Joint efforts to enhance manufacturing expertise are essential in order to ensure the excellent finishing quality for which HUGO BOSS products are renowned the world over. Precise synchronization between the production companies and the technical development departments within the HUGO BOSS Group is of fundamental importance in order to allow a quick response to market trends and minimize lead times. Production-related considerations are factored into the product development process at a very early stage for instance. Moreover, feedback from suppliers on the fabrics and patterns processed in the last collection is taken into account in new designs. → **Research and Development**

Reducing complexity raises sourcing efficiency

In order to effectively counter cost increases in the sourcing processes, especially due to increased labor costs, continuous efficiency improvements are needed along the entire supply chain. A key lever to this end is ensuring a seasonally balanced utilization of supplier capacity and ordering large volumes where possible. In this context, the core range and the associated reduction of a collection's complexity play an important role. Indeed, the complexity of collections has been reduced by almost a third over the past few years. A 10% year-on-year reduction was possible in fiscal year 2013. In addition, the Group continually reassesses the regional optimization of its sourcing activities in light of diverging labor cost trends and changing industrial structures and manufacturing competencies in individual markets.

System-side integration of suppliers boosts efficiency of supply chain

Furthermore, the Group continues to work on the system-side optimization of its planning, production and logistics processes. To this end, the uniform electronic integration of suppliers in the Company's organization was driven forward in the past few years, thereby improving the transparency of merchandise flows along the entire supply chain. For instance, an online supplier platform simplifies communication with suppliers. System-side exchange of information also enables bundling of orders based on requirements and by customer as well as the early and cost-effective reservation of the production capacity needed from suppliers. Real-time status reporting enables priority-driven control over orders and on-schedule delivery of goods. Moreover, closer integration with suppliers also allows the placement of follow-up orders at short notice and quick response times. This is especially relevant for the replenishment business, which ensures the supply of business partners at short notice, especially with the basic never-out-of-stock assortment.

Quality assurance throughout the production process

HUGO BOSS sets exacting standards on the quality of its products. To meet these, quality assurance starts its work where the product begins to take shape – at suppliers. For instance, production companies are provided with standardized quality and processing manuals that document standards. At HUGO BOSS' own factories, the key processes of relevance to quality are described in a process manual and are subject to continuous optimization under ISO 9001 certification.

In order to meet the high quality standards while minimizing manufacturing tolerance, the manufacturing process is automated to the extent economically viable. In addition, compliance with manufacturing standards is ensured using fixed, technology-enabled controls that are always performed at specific steps within the production line. Individual steps are also regularly reviewed on a sample basis.

SUSTAINABILITY

HUGO BOSS acts responsibly. The Group faces up to the challenges that this principle entails both operatively and strategically. The principle of excellence that has its origins in the Company's self-imposed product-related standards also drives the Company's actions along the entire value added chain – beginning with development and production processes, continuing through to sourcing and human resources management and ending with social commitment.

With its products, HUGO BOSS wishes to inspire people worldwide to express their individual lifestyle and fully live out their success potential. On their part, customers expect excellent products that also take into account the aspect of sustainability as a permanent element of all processes. By acting responsibly and thinking in the long term, the Group creates added value – for customers, shareholders, business partners, employees and the society as a whole. Sustainability is thus a permanent part of HUGO BOSS' mission statement, its strategy and its business processes.

In fiscal year 2013, sustainability objectives at HUGO BOSS were derived from the principle "we act responsibly" and existing fields of action were specified and extended. These fields of action form the strategic framework for activities targeted to address the challenges and the expectations of its global stakeholders and to translate them into responsible actions.

02|22 SUSTAINABLE ACTIVITIES

We act responsibly

We	**Acting in the interests of stakeholders**
Environment	**Conserving natural resources**
Employees	**Providing fair employment and targeted support**
Partners	**Working together responsibly**
Products	**Developing ideas for tomorrow**
Society	**Establishing common values**

The fields of action were specified as part of a materiality analysis. They define the central sustainability challenges for HUGO BOSS and, together with the reporting standard of the Global Reporting Initiative (GRI), form the basis for future reporting on sustainability achievements and objectives of the Group.

The Group aims to improve in all fields of action and has set itself ambitious goals in accordance with the priorities derived from the materiality analysis. As a means of measuring the Group's progress and the degree of implementation of these objectives, HUGO BOSS is working towards inclusion in the Dow Jones Sustainability Index in the medium term.

We. "Acting in the interests of stakeholders"

As part of its sustainability management, HUGO BOSS maintains continuous dialogue with its stakeholders. The Company sees stakeholders' diverse expectations and demands as an opportunity to create value for all concerned. In 2014, HUGO BOSS will intensify ongoing dialog with scientific institutions, in cross-industry initiatives and in its cooperation with non-government organizations. This also includes the extended reporting on own activities.

The propagation of the concept of sustainability similarly is given high priority within the organization. For this reason, management is planning to establish the Company's objectives set out in the fields of action of environment, employees, partners, product and social responsibility in executives' individual target agreements as of the coming year.

Environment. "Conserving natural resources"

Environmental and climate protection is given high priority at HUGO BOSS. Against this backdrop, the environmental footprint is to be reduced over the entire value chain – from sourcing of raw materials through to the development and manufacturing of products and on to transportation and retail. HUGO BOSS pursues the aim of significantly reducing its specific CO2 emissions (Scope 1 and 2 Greenhouse Gas Protocol) in relation to sales by 2020. The Group is taking a wide range of measures to this end.

For example, the administrative buildings of HUGO BOSS AG already obtain 84 percent of their energy from renewable sources. HUGO BOSS Ticino (Switzerland) has been supplied with electricity stemming completely from renewable sources already since 2010. Energy management to ISO 50001 introduced for HUGO BOSS' administrative buildings in 2012 was successfully re-audited in 2013. HUGO BOSS has set itself the objective of continually improving building efficiency. The Group aims to attain recognized sustainability certificates for all newly built operating properties. An important milestone in this respect was reached in 2013. The German Sustainable Building Council (DGNB) awarded the new administrative building in Metzingen with its "Gold" certificate as one of the three most sustainable new office and administrative buildings in Germany. HUGO BOSS seeks to obtain "Gold" certification for the new flat-packed goods distribution center in Filderstadt as well.

Furthemore, the Group has taken measures to reduce the volume of CO2 emissions from logistics and distribution processes (Scope 3). Changes in global transport routes have already brought about a significant reduction in this context.

Similarly, the environmental compatibility of the packaging used was subject to critical analysis. As a consequence, the Company will switch over to using a type of environmentally friendly recycled paper (post consumer recycled) for all paper carrier bags of the BOSS core brand in 2014, which means they meet the strictest ecological standards.

Employees. "Providing fair employment and targeted support"

HUGO BOSS' corporate vision – inspiring people to live out their success potential – is the principle for how the Company treats its employees.

HUGO BOSS' code of conduct forms the basis for cooperation within the Company and with external partners. It is binding for all employees. Among other things, the code puts into words the general demands placed on conduct in business activities, contains regulations on avoiding conflicts of interest, governs the topics of data protection, health and industrial safety and forbids corruption and bribery. Within the framework of these regulations, executives are responsible for creating, together with employees, a culture characterized by the corporate values of quality, passion, respect, cooperation and innovation. → **Employees**

Various projects contribute to translating HUGO BOSS' corporate values into concrete action. For example the INNOVATION initiative offers employees the opportunity to contribute their own ideas for improving aspects of corporate culture and existing processes and services. The proposals are assessed by a specialist committee applying transparent criteria and awards are presented if the ideas are implemented. By doing so, HUGO BOSS promotes an appreciative and constructive dialog with employees over all levels of the hierarchy. Furthermore, the EVOLUTION project makes it possible for employees to contribute to improving and accelerating processes within the Company. Borne by the pillars of participation and personal responsibility on the part of employees, this initiative boosts the flexibility and efficiency of the Company and promotes sparing use of resources.

Diversity is brought to life at HUGO BOSS as a Company with international operations and an international culture. For the Group, this means recognizing the diversity of society and safeguarding equal opportunities for all employees in the Company – irrespective of nationality, gender, religious and political opinion, sexual orientation, age or any disability. Diversity therefore enriches the corporate culture and is a clear success factor in international competition. The Company has further underlined the importance attached to diversity by its becoming a signatory to the "Charter of Diversity".

A wide range of training and further education possibilities provide support to employees and executives in their personal further development. With a wide range of sport and health offers and a program to improve the compatibility of career and family, HUGO BOSS supports its employees in achieving a healthy work-life balance. → **Employees**

Partners. "Working together responsibly"

Social compliance and environmental protection are the focal points of commitment to sustainability in the global supply chain of HUGO BOSS. Ensuring compliance with human rights and environmental standards especially in emerging markets is of central importance to the Company.

Accordingly, HUGO BOSS subjects itself and its suppliers to the obligation to comply with internationally recognized labor and social standards following the conventions of the International Labour Organization (ILO) and the Universal Declaration of Human Rights of the United Nations. The resulting social standards are a fixed component of contracts with suppliers. Before the Company enters into ongoing business relationships with new suppliers, they are always audited with regard to compliance with social standards. The social standards govern the following points: compliance with local law, prohibition of child labor, prohibition of forced labor, maximum working hours, humane working conditions, prohibition of discrimination, payment of fair wages, healthy and safe working conditions, freedom of association and collective wage bargaining and conscientious use of the environment. If there are deficiencies in local legislation where, for example, working hours and reasonable wages are not specified, HUGO BOSS' social standards become the minimum standard.

Contract manufacturers and suppliers of merchandise that generate a relevant level of sales with HUGO BOSS are reviewed worldwide in regular audits. These audits are performed both by the Company's own auditors and by external, experienced service partners. These audits ensure compliance with social standards and serve to assist the efforts of HUGO BOSS' suppliers to make improvements in the field of social management.

The audit findings are included in a bi-annual supplier evaluation. If infringements of the social standards or legal regulations are identified, a binding package of measures is agreed with the supplier and a repeat check of implementation scheduled. In exceptional cases, such as repeated warnings without improvements being initiated or serious breaches of the social standards, HUGO BOSS retains the right to terminate cooperation. In principle, however, the Company places an emphasis on mutually defined, ongoing improvement measures as part of supplier development within the scope of long-term partnerships.

HUGO BOSS' social standards oblige suppliers to comply with local and national environmental legislation and to establish a conscientious mindset at their sites that seeks to continually improve the environmental footprint. In doing so, HUGO BOSS provides advice to its partners wherever possible in order to ensure an ongoing knowledge transfer.

In order to have even more influence on compliance with good working and social conditions, the Group is striving towards having HUGO BOSS' social standards introduced into the transparent and universally binding standard of a social compliance initiative and jointly working towards compliance with it in HUGO BOSS' global supply chain. For this reason, HUGO BOSS is planning to sign up to such an initiative in the course of 2014.

Products.
“Developing ideas for tomorrow”

As a leading international company in the premium and luxury segment of the apparel industry, it is a matter of course for HUGO BOSS to live up to its responsibility to consumers. For its collections, the Group uses exclusively materials that meet high quality standards and it ensures that HUGO BOSS products do not pose a health risk.

Correspondingly, HUGO BOSS obliges its suppliers to sign a guarantee declaration on compliance with the Restricted Substances List (RSL). The RSL stipulates that the materials used must comply with the respective national legislation and the Group’s internal guidelines, which are often more stringent than legal minimum standards, and must not pose a health risk either in the production process or to the consumer. HUGO BOSS supports such preventive measures with active tests for hazardous products performed in accredited laboratories which ensure the safety and quality of the products over the long term.

Likewise, HUGO BOSS attaches great importance to avoiding health hazards in the production companies. In this respect, the Group abstains from a procedure known as sandblasting. This procedure refers to the use of sand jets as a method of refining denim products to achieve a “used” look. Using quartz sand for this method without sufficient protective measures can lead to serious damage to employees’ health. The Group does not use any other sandblasting technology and therefore does not employ any other blasting agents.

Animal welfare and protection of biodiversity are similarly central principles of HUGO BOSS’ product responsibility. The Company respects wildlife conservation and thereby supports diversity of species. Any animal testing as well as animal breeding and rearing methods that are not appropriate for the species in question are consequentially rejected. Fur products only account for a very small share of the overall collection. If applied, fur is mostly used for appliqués and trimming on collars, hoods and sleeves.

In addition, HUGO BOSS has been in dialogue with several animal and consumer protection organizations for many years. As a result, the Company has decided, for example, to divert the sourcing of merino wool to sources able to prove that mulesing, which is a painful treatment for sheep, is not being applied.

Society.
“Establishing common values”

HUGO BOSS is aware that its success as a company also depends on an intact society. The Company’s economic strength empowers and obliges it to support society and work towards improvements. Corporate social responsibility is therefore a matter of course for HUGO BOSS.

The framework for corporate social responsibility is likewise set by HUGO BOSS’ code of conduct. It prohibits donations to political parties and its representatives and to organizations such as trade unions, consumer rights groups and environmental protection groups, with which conflicts of interests might arise. Furthermore, the code provides for specific criteria for HUGO BOSS’ charitable donations.

In line with its vision of inspiring people to success, the Group has aligned its corporate social responsibility to helping disadvantaged children lead a better life particularly by granting them access to education. To this end, the Group works together with selected child welfare organizations. For example, UNICEF and HUGO BOSS have been partners for quite some time. For many years now, the Company has been successfully supporting the UNICEF initiative “Schools for Africa” and additionally provides aid in crises, when assistance is needed at short notice. This was the case, for example, in 2013 within the scope of an emergency relief action for the victims of the typhoon in the Philippines. At a national level, HUGO BOSS champions children and young people and since 2011 has supported the Off Road Kids foundation as a permanent sponsor. This is an organization providing relief to street children throughout Germany.

Furthermore, HUGO BOSS and its employees at the headquarters are firmly embedded in the community in Metzingen. For example, the Company has joined forces with the works council in numerous regional charitable works and supported medical, societal and charitable organizations. Additionally, the Company has for many years worked closely with the children’s cancer ward in Tübingen, which it supports with unwavering commitment by giving donations in cash and kind.

COMBINED MANAGEMENT REPORT
THE FISCAL YEAR

3

COMBINED MANAGEMENT REPORT
THE FISCAL YEAR

GROUP SALES AND RESULTS OF OPERATIONS

In 2013, the development of the HUGO BOSS Group's sales and earnings was primarily marked by the recessionary macroeconomic conditions in the Eurozone and the significantly weaker growth of the Chinese industry compared to prior years. In spite of this, consolidated sales grew 4% to EUR 2,432 million. Adjusted for currency effects, this is an increase of 6%. This was driven by growth across all regions and double-digit growth in the Group's own retail business. HUGO BOSS fared better than the global economy and roughly matched the growth levels reported by the premium and luxury goods industry. Thanks to the sales growth and the significant increase in gross margin, the operating result (EBITDA before special items) increased by 7% to EUR 565 million.

GENERAL ECONOMIC SITUATION

Macroeconomic environment improves slightly over the course of the year

Following the generally disappointing development of the **global economy** in the first half of the year, the economy gained momentum slightly as the year progressed. According to the IMF, global economic growth reached 2.9% in the year as a whole. The United States in particular reported robust growth. Europe emerged from recession in the second half of the year. However, the development of the global economy was still burdened by uncertainty surrounding the debt crisis in the eurozone, the impending insolvency of the United States as well as a slowdown in the economic growth of emerging markets and the related exchange rate turbulence. As a result, the HUGO BOSS Group still faced challenging economic conditions in 2013.

Signs of stabilization of European economy

Following a negative development at the start of the year, the economy in the **Eurozone** stabilized as the year progressed. This was reflected in lower unemployment rates and a gradual improvement in consumer sentiment. However, severe austerity measures in many of the region's important markets, sluggish reform efforts as a consequence of the national political crises affecting some countries together with high unemployment overall put a damper on the economic recovery. This means that the development of the economy in the Eurozone over the full year was still negative, contracting by 0.4% according to the IMF. In view of lower inflation rates, the ECB continued its expansionary monetary policy and cut key interest rates to a historical low. The positive development of Germany, the region's largest economy, played a major part in stabilizing the European economy. Growth here was supported by increasing domestic demand, which was buoyed by favorable labor market and income trends. Austerity measures and the sluggish realization of economic policy reform curbed economic growth in France, which the IMF says merely reached 0.2%. In Great Britain, by contrast, the economy saw robust growth of 1.4% thanks to the monetary impetus provided by the Bank of England.

American economy continues to grow at a moderate pace

Although the **U.S. economy** was repeatedly affected over the course of the year by the budget dispute and the associated cut in government spending as well as higher wage and income tax, the IMF estimates that the United States returned a robust growth of 1.6% in the past year. Confirmation from the Federal Reserve that it would keep key interest rates low in the long term, declining unemployment rates and a stabilization of the real estate market had a positive impact on domestic demand and industrial activity. In addition, the weak U.S. dollar favored the export sector. In the past year, the **Latin American** economy was confronted with challenging foreign trade conditions, which further slowed economic growth in the region. The core markets of Brazil and Argentina were particularly hard hit.

Slower growth rates in Asia

In 2013, the **Asian economy** struggled with weak export demand worldwide, high private sector debt and signs of overheating in the real estate market, and disappointed with a relatively low growth rate of 6.3% according to the IMF. At 7.6%, growth in China also lagged behind the growth rates seen in the past. The Chinese government therefore implemented a comprehensive catalog of measures designed to shore up economic growth, including tax incentives and infrastructure expansion. By contrast, the Japanese economy developed robustly last year. Growth was supported by the clearly expansionary monetary policy adopted by the Japanese central bank as well as the government's economic stimulus package. The Australian economy cooled down substantially, partly due to weaker domestic and foreign demand year on year.

SECTOR PERFORMANCE

Slower growth of premium and luxury sector

The growth trajectory of the global premium and luxury goods sector continued in the current fiscal year, despite the challenging macroeconomic conditions and weak consumer spending in many key markets. According to a study by the Altagamma trade association and the consulting firm Bain & Company, the industry expanded by 6% after currency adjustments last year, outpacing aggregate economic growth. In comparison to past years, however, this indicates a weaker growth trend, which was primarily attributable to the still difficult market environment in China. Growth in the sector was mainly supported by a good development of the retail channel, although most of the growth was driven by the opening of new stores.

Overall, the sector increased by about 3% in **Europe** after currency adjustments. Despite the relatively low growth, Europe remained the world's largest market for luxury goods. In many parts of the region, high unemployment rates, severe austerity measures and low wage growth affected consumer spending and, in turn, the development of the luxury sector. However, healthy growth in Eastern European markets partially made up for persistently weaker trends in Western and particularly Southern Europe. Especially the metropolitan areas of Western and Southern Europe benefited from demand from tourists. In the **Americas** the premium and luxury sector increased its sales despite recurring uncertainty with respect to the U.S. budget dispute and the resulting temporary decrease in consumer confidence. Overall the region saw growth of roughly 7% after currency adjustments. An increasingly stabilizing labor market and real estate market had a positive impact on consumer spending in the region. Sector growth was also supported by growing demand from tourists in the large American cities. Demand for premium and luxury products in **Asia** remained at a relatively moderate level during 2013. Particularly in China, the low level of economic growth and weaker consumer sentiment in response to the government's anti-corruption laws resulted in merely modest growth in the industry compared to prior years. Indeed, the menswear segment, which is of particular importance for the HUGO BOSS Group, even contracted slightly according to one market study. Overall, Hong Kong and Macao developed on average somewhat better than Mainland China. Despite the slower growth, China remained the nation with the largest share of industry sales worldwide. Surprisingly positive figures were reported in the past year in Japan, where the industry benefited from improved consumer confidence and a shift toward domestic consumption triggered by exchange rates. Adjusted for currency effects, the Asian luxury goods market is estimated to be growing at about 5%.

CHANGE IN REPORTING

Some of the figures presented deviate from the figures reported in prior years on account of adjustments and corrections made in connection with the first-time adoption of IAS 19 (Employee Benefits), changes in the evaluation of overhead cost mark-ups and the changed allocation of direct selling expenses and the cost of the functions allocated to sourcing related to the continuous optimization of the supplier structure. Detailed information on this topic is presented in the notes to the consolidated financial statements. **→ Notes to the consolidated financial statements, Changes in accounting policies/corrections, p. 170**

SALES PERFORMANCE

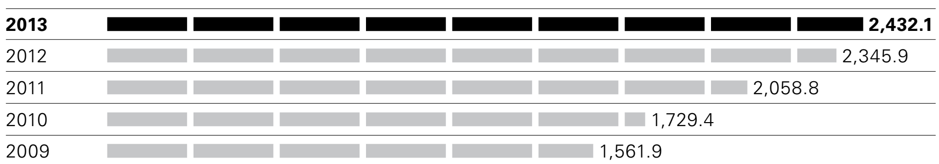
OVERALL STATEMENT ON BUSINESS DEVELOPMENT

HUGO BOSS grows sales and consolidated net income

In fiscal year 2013, the HUGO BOSS Group uncompromisingly tackled the challenges posed by the overall economic conditions and the difficult environment in the retail business in many key markets and generated healthy, profitable growth. The powerful portfolio of brands, the expansion and professionalization of the Group's own retail business as well as the long-standing relationships with wholesale partners allowed HUGO BOSS to push consolidated sales and net income to record heights in fiscal year 2013.

SALES DEVELOPMENT

03|01 SALES DEVELOPMENT (in EUR million)



In fiscal year 2013, HUGO BOSS generated consolidated sales of EUR 2,432 million. Sales in the Group's reporting currency were thus 4% up on the prior-year period (2012: EUR 2,346 million). Exchange rate fluctuations had a negative impact on the development of consolidated sales in the reporting period. In local currencies, HUGO BOSS registered a 6% increase in sales year on year.

03|02 SALES PERFORMANCE BY QUARTER (in EUR million)

Development of sales over the course of the year reflects new seasonal structure of business model

The **development of sales over the course of the year** reflects in particular the increasing share in sales of the Group's own retail business. Against the backdrop of challenging prior-year figures used for comparison purposes, sales in the first quarter were down slightly, despite the double-digit growth reported by the Group's own retail business. At EUR 593 million, sales in the Group's reporting currency and local currencies were down 2% on the prior-year period (Q1 2012: EUR 607 million). A significant negative effect underlying this development was the earlier delivery of the spring collection to wholesale partners in the fourth quarter of the prior year. However, a significant increase in the second quarter compensated for the contraction in the first quarter. Indeed, second-quarter sales reached EUR 532 million, up 10%, or 11% adjusted for currency effects, on the comparable prior-year period (Q2 2012: EUR 485 million). All regions contributed to this positive development. In a challenging market environment, HUGO BOSS generated sales of EUR 658 million (Q3 2012: EUR 646 million), which corresponds to an increase of 2%. Adjusted for currency effects, sales were up 5% on the comparable prior-year period. As the share of sales contributed by the Group's own retail business grows, so too does the importance of the fourth quarter for the sales development. At EUR 649 million, fourth-quarter sales in 2013 were up 7% on the prior-year quarter (Q4 2012: EUR 607 million). Adjusted for currency effects, sales in the fourth quarter were up 10% on the comparable prior-year period.

SALES BY REGION

03|03 SALES BY REGION (in EUR million)

	2013	**In % of sales**	2012	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,457.3	60	1,378.0	59	6	7
Americas	570.1	24	558.7	24	2	6
Asia/Pacific	346.8	14	352.7	15	(2)	4
Royalties	57.9	2	56.5	2	2	2
TOTAL	**2,432.1**	**100**	**2,345.9**	**100**	**4**	**6**

[1] Including Middle East and Africa.

03|04 SALES BY REGION – FIVE-YEAR-OVERVIEW (in EUR million)

	2013	2012	2011	2010	2009
Europe[1]	1,457.3	1,378.0	1,245.4	1,073.2	1,041.3
Americas	570.1	558.7	454.8	380.7	312.2
Asia/Pacific	346.8	352.7	309.3	230.4	164.7
Royalties	57.9	56.5	49.3	45.1	43.7
TOTAL	**2,432.1**	**2,345.9**	**2,058.8**	**1,729.4**	**1,561.9**

[1] Including Middle East and Africa.

Sales growth in all regions in local currencies

In fiscal year 2013, HUGO BOSS saw sales growth across all three regions adjusted for currency effects. Sales in **Europe** including the Middle East and Africa increased in reporting currency by 6% to EUR 1,457 million (2012: EUR 1,378 million). This corresponds to an increase of 7% in local currencies. The main underlying driver was sales growth in the markets of France and Great Britain. In the **Americas** sales in the Group's reporting currency increased by 2% to EUR 570 million (2012: EUR 559 million). In local currencies, sales growth of 6% was generated in the reporting period. Apart from the United States, this development was driven by the Central and South American market. At EUR 347 million sales in the Group's reporting currency in **Asia/Pacific** were down 2% on the prior-year level (2012: EUR 353 million). Local currency sales, by contrast, rose 4% compared to the prior-year period. All markets in the region reported sales growth after currency adjustments.

→ Pofit development of the business segments

SALES BY DISTRIBUTION CHANNEL

03|05 SALES BY DISTRIBUTION CHANNEL (in EUR million)

	2013	**In % of sales**	2012	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,314.1	54	1,149.7	49	14	18
Directly operated stores	874.0	36	757.6	32	15	19
Outlet	378.6	15	343.2	15	10	13
Online	61.5	3	48.9	2	26	26
Wholesale	1,060.1	44	1,139.7	49	(7)	(6)
Royalties	57.9	2	56.5	2	2	2
TOTAL	**2,432.1**	**100**	**2,345.9**	**100**	**4**	**6**

03|06 SALES BY DISTRIBUTION CHANNEL – FIVE-YEAR-OVERVIEW (in EUR million)

	2013	2012	2011	2010	2009
Group's own retail business	1,314.1	1,149.7	924.2	691.1	510.3
Directly operated stores	874.0	757.6	617.7	447.7	303.5
Outlet	378.6	343.2	273.6	223.7	199.1
Online	61.5	48.9	32.9	19.7	7.7
Wholesale	1,060.1	1,139.7	1,085.3	993.2	1,007.9
Royalties	57.9	56.5	49.3	45.1	43.7
TOTAL	**2,432.1**	**2,345.9**	**2,058.8**	**1,729.4**	**1,561.9**

The Group's own retail business posted double-digit growth

In the **Group's own retail business** it was possible to generate double-digit growth again in fiscal year 2013. The expansion of the store network, which was mainly driven by the opening of new stores and takeovers, led to a sales increase of 14% to EUR 1,314 million (2012: EUR 1,150 million). Adjusted for currency effects, this corresponds to sales growth of 18%. Retail comp store sales adjusted for currency effects were up 2% on the prior year.

In the past fiscal year, the share of the Group's own retail business in consolidated sales increased to 54% (2012: 49%).

Takeovers and a challenging market environment burdened the development of sales in the wholesale channel

In fiscal year 2013, sales in the **wholesale channel** were down 7% on the prior year and totaled EUR 1,060 million (2012: EUR 1,140 million). A challenging market environment burdened the development of sales in this distribution channel. Adjusted for currency effects, sales decreased by 6%. The takeover of selling space previously operated by wholesale partners, particularly in Spain, the United States, and Germany also led to a shift in sales from the wholesale business to the Group's own retail business. The replenishment business, which allows HUGO BOSS to react to short-term surges in demand from business partners, exhibited a stable development adjusted for currency effects in the past fiscal year.

This share of the wholesale channel in consolidated sales decreased from 49% in the prior year to 44% in fiscal year 2013.

Positive development of sales in the royalties business

The **royalties business** continued its favorable development in fiscal year 2013. The products manufactured by partners include fragrances, eyewear and watches. Sales with external licensees increased year on year by 2% to EUR 58 million (2012: EUR 57 million).

As in the prior year, the share of the royalties business in consolidated sales came to 2%.

SALES BY RETAIL FORMAT

In the reporting period, it was possible to increase sales from **directly operated stores (DOS)** by 15% (or by 19% after currency adjustments) to EUR 874 million (2012: EUR 758 million). This includes sales of directly operated freestanding stores as well as sales generated with concession partners. With the concession model, the Group directly operates HUGO BOSS shop-in-shops on the sales floor of retail partners.

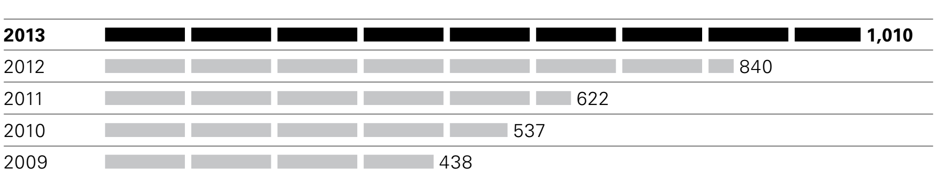
With sales growth in the Group's reporting currency of 10% to EUR 379 million the **outlet business** contributed to the positive development of sales from the Group's own retail business (2012: EUR 343 million). This is equivalent to an increase of 13% adjusted for currency effects.

Sales generated from the Group's own **online stores** in the Group's reporting currency increased in the fiscal year 2013 by 26% to EUR 61 million (2012: EUR 49 million). This is equivalent to sales growth of 26% after currency adjustments. Double-digit sales growth in all markets drove this development.

NUMBER OF GROUP 'S OWN RETAIL STORES

In fiscal year 2013, the total number of the **Group's own retail stores** including outlets increased by a net figure of 170 to 1,010 (2012: 840). **:// www.hugoboss.com / Store Locator**

03|07 NUMBER OF GROUP'S OWN RETAIL STORES



Group's own retail network grows by a net figure of 170 stores in 2013

The Group's own retail network was strengthened in particular by the **takeover** of 115 shop-in-shops previously operated by wholesale partners. This allowed an expansion of the concession model in Spain, the United States and Germany. At the same time, the Group pushed on with its expansion strategy based on organic growth with 91 **new openings** during reporting period. This compares to 36 stores closed in the same period.

03|08 NUMBER OF DIRECTLY OPERATED STORES

2013	Freestanding stores	Shop-in-Shops	Outlets	TOTAL
Europe	169	357	50	**576**
Americas	83	78	39	**200**
Asia/Pacific	119	91	24	**234**
TOTAL	**371**	**526**	**113**	**1.010**
2012				
Europe	149	276	44	**469**
Americas	68	43	36	**147**
Asia/Pacific	106	94	24	**224**
TOTAL	**323**	**413**	**104**	**840**

Strengthening the concession model in Spain and Germany

Particularly in **Europe**, the retail network was further strengthened by the takeover of 68 shop-in-shops that had previously been operated by wholesale partners together with 50 stores newly opened by the Group. This allowed the Group to grow its presence in the Spanish and German markets in particular. Taking into account the eleven closures, operations in Europe report a net increase in the number of the Group's own retail stores of 107 to a current 576 (2012: 469).

Takeovers and openings in the Americas

The number of the Group's own retail stores in the **Americas** increased in the past fiscal year, mainly due to the takeover of 37 shop-in-shop units of a U.S. wholesale partner. Adding to this the five takeovers of freestanding stores together with 15 new stores opened by the Group and taking into account four closures over the same period there was a net increase of 53 retail stores in the region to a total of 200 (2012: 147).

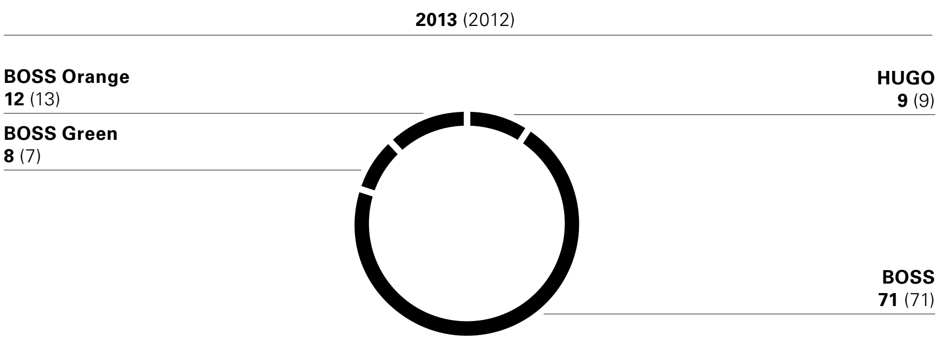
Opening of flagship stores strengthens market presence in major Asian cities

In the course of the expansion in **Asia/Pacific**, 26 new stores and five takeovers were added to the portfolio of stores in fiscal year 2013. Here, the market presence was strengthened in particular through the opening of new flagship stores in Shanghai, Hong Kong and Tokyo. Taking into account the closure of 21 mostly smaller locations, the region saw a net increase of 10 to the current 234 own retail stores (2012: 224).

In addition, some 6,100 points of sale are operated by wholesale partners, either as separate stores and shop-in-shops or in a multi-brand setting. This means that customers today can buy HUGO BOSS products in a total of more than 7,100 points of sale in 127 countries.
→ **Key locations / global market presence**

SALES BY BRAND

03|09 SALES BY BRAND (in %)



In fiscal year 2013, the **BOSS** core brand reported sales growth of 3% compared to the prior year. The **BOSS Green** brand saw sales growth of 14% in the same period. **BOSS Orange** sales were down 6% on the comparable prior-year period, while the **HUGO** brand reported a year-on-year increase in sales of 11%.

In the reporting period, **menswear** sales were up 3% on the prior-year level and totaled EUR 2,169 million (2012: EUR 2,097 million). This corresponds to an unchanged share in total sales of 89% (2012: 89%).

It was possible to increase **womenswear** sales above-trend by 5% to a current EUR 263 million (2012: EUR 249 million). As in the prior year, womenswear made up 11% of total sales.

Brand sales generated with HUGO BOSS products worldwide in fiscal year 2013 came to EUR 5,014 million and were down on the prior-year figure on account of negative currency effects (2012: EUR 5,077 million). Brand sales are calculated as consolidated sales adjusted for income from royalties plus sales with licensed HUGO BOSS partners, whereby the latter and sales with wholesale partners are extrapolated based on retail figures.

DEVELOPMENT OF THE ORDER SITUATION

HUGO BOSS is increasingly aligning its distribution activities and its business model to its own retail business, but without neglecting the wholesale channel. Shifting away from the pre-order business that had dominated in the past, sales today increasingly stem from the Group's own retail business or the replenishment business. The continuous integration processes along the value chain, the gradual reduction of complexity and the continuous enhancement of the brand and collection portfolio in line with sales markets are necessary in order to address the customers' changing demands.

Pre-order business accounts for 34% of total sales

HUGO BOSS now offers its customers worldwide new fashion collections four times a year, while increasing the number of monthly themed deliveries. In the past fiscal year, the share **in total sales of the traditional pre-order business**, that is the sale of goods ordered in advance to wholesale partners, decreased to 34% (2012: 39%). By contrast, HUGO BOSS products that are independent of current trends can today be supplied flexibly to business partners through the replenishment business. In response to this continually changing distribution situation and in order to allow predictable production conditions, HUGO BOSS does not rely on order intake alone but also increasingly feeds information from distribution companies and the Group's own retail stores into its volume planning.

EARNINGS DEVELOPMENT

INCOME STATEMENT

03|10 INCOME STATEMENT (in EUR million)

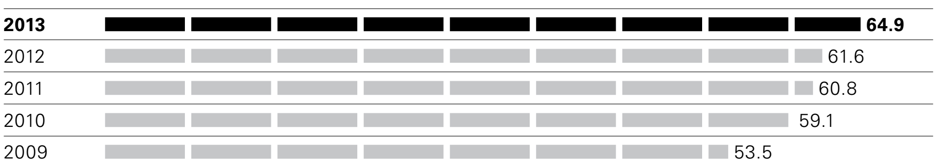
	2013	In % of sales	2012[1]	In % of sales	Change in %
Sales	**2,432.1**	**100.0**	**2,345.9**	**100.0**	**4**
Cost of sales	(852.5)	(35.1)	(901.8)	(38.4)	5
Gross profit	**1,579.6**	**64.9**	**1,444.1**	**61.6**	**9**
Selling and distribution expenses	(891.6)	(36.7)	(791.9)	(33.8)	(13)
Administration costs	(228.5)	(9.4)	(216.0)	(9.2)	(6)
Other operating income and expenses	(3.3)	(0.1)	(4.2)	(0.2)	21
Operating result (EBIT)	**456.2**	**18.7**	**432.0**	**18.4**	**6**
Net interest income and expenses	(14.4)	(0.6)	(18.0)	(0.8)	20
Other financial items	(8.3)	(0.3)	(5.8)	(0.2)	(43)
Financial result	**(22.7)**	**(0.9)**	**(23.8)**	**(1.0)**	**5**
Earnings before taxes	**433.5**	**17.8**	**408.2**	**17.4**	**6**
Income taxes	(100.1)	(4.1)	(97.6)	(4.2)	(3)
Net income	**333.4**	**13.7**	**310.6**	**13.2**	**7**
Attributable to:					
Equity holders of the parent company	329.0	13.5	306.5	13.0	7
Non-controlling interests	4.4	0.2	4.1	0.2	7
Earnings per share (EUR)[2]	**4.77**		**4.44**		**7**
EBITDA	**561.4**	**23.1**	**523.9**	**22.3**	**7**
Special items	(3.3)	(0.1)	(4.2)	(0.2)	21
EBITDA before special items	**564.7**	**23.2**	**528.1**	**22.5**	**7**
Income tax rate in %	**23**		**24**		

[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

[2] Basic and diluted earnings per share.

NOTES TO THE INCOME STATEMENT

03|11 GROSS PROFIT MARGIN (in %)



Gross profit margin increased to 64.9%

In fiscal year 2013, it was possible to ratchet up the **gross profit margin** by 330 basis points to 64.9% (2012: 61.6%). This positive development is mainly due to the expansion of the Group's own retail business, lower discounts in the Group's own retail business as well as due to positive effects from the improved inventory situation. At EUR 1,580 million, the **gross profit** in 2013 was up 9% year on year (2012: EUR 1,444 million).

Expansion of the Group's own retail business led to higher selling expenses

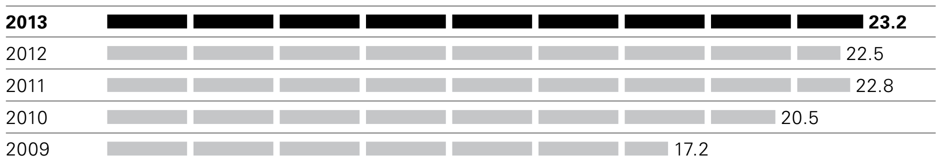
Selling and distribution expenses in fiscal year 2013 totaled EUR 892 million, up 13% year on year (2012: EUR 792 million). Relative to sales, selling and distribution expenses increased from 34% to 37%. Particularly due to the global expansion of the Group's own retail business, selling expenses increased in the reporting year by 19% compared to the prior year. This includes additional expenses for the net increase of 170 locations, which were opened or taken over in the course of the global expansion of this sales channel in fiscal year 2013. Marketing expenses increased by 1% year on year. Relative to sales, logistic expenses decreased from 3% in the prior year to a current 2%. Bad debt allowances were again immaterial in the reporting period on account of the strict receivables management. **→ Notes to the consolidated financial statements, Note 3**

Stable administration expenses in relation to sales

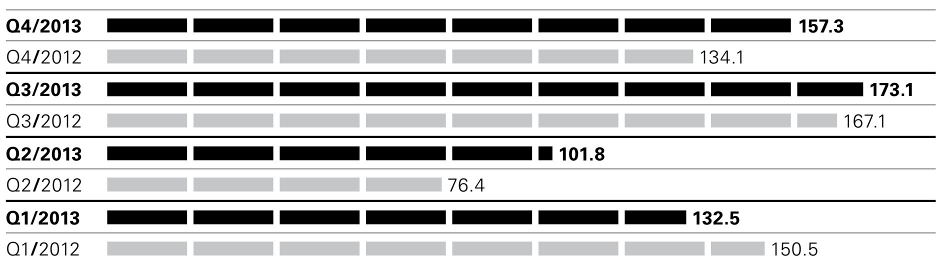
Administration expenses in fiscal year 2013 totaled EUR 229 million, up 6% year on year (2012: EUR 216 million). Relative to sales, administration expenses remained at the prior-year level of 9%. General administration expenses increased by 7% to EUR 170 million (2012: EUR 159 million). Relative to sales, research and development costs incurred creating fashion collections remained at the prior-year level of 2%, while increasing in absolute terms by 4% year on year to EUR 59 million (2012: EUR 57 million). **→ Notes to the consolidated financial statements, Note 4**

Other operating expenses net of other operating income came to EUR –3 million (2012: EUR -4 million); this was a result of special items, mainly related to organizational changes in Europe. **→ Notes to the consolidated financial statements, Note 5**

03|12 ADJUSTED EBITDA MARGIN (in %)



03|13 EBITDA BEFORE SPECIAL ITEMS BY QUARTER (in EUR million)



Adjusted EBITDA margin climbs to 23.2%

The key internal performance indicator **EBITDA before special items** increased year on year by 7% to EUR 565 million (2012: EUR 528 million). At 23.2%, the adjusted EBITDA margin was 70 basis points above the prior-year figure (2012: 22.5%).

At EUR 105 million, depreciation and amortization were 14% up on the prior-year figure (2012: EUR 92 million). This was primarily due to the relative increase in property, plant and equipment and intangible assets compared to total assets as a result of investment in the Group's own retail business. → **Notes to the consolidated financial statements, Note 11,** → **Notes to the consolidated financial statements, Note 12**

EBIT came to EUR 456 million at the end of fiscal year 2013, up 6% year on year (2012: EUR 432 million). Higher selling expenses were partially offset by the increase in gross profit.

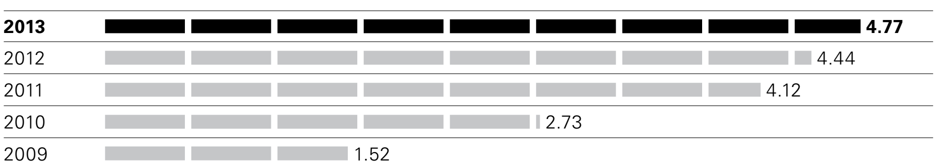
The **financial result**, measured as the net expense after aggregating the interest result and other financial items, decreased by EUR 1 million to EUR 23 million in fiscal year 2013 (2012: EUR 24 million). On account of the lower amount of debt following refinancing measures and a lower interest level, the net interest expense decreased by 20% to EUR 14 million (2012: EUR 18 million). Other financial items came to a net expense of EUR 8 million and, mainly due to negative exchange rate effects, were up EUR 2 million on the prior-year period (2012: net expense of EUR 6 million). → **Notes to the consolidated financial statements, Note 6**

At EUR 433 million, **earnings before taxes** were up 6% year on year (2012: EUR 408 million). At 23%, the **Group's income tax rate** was down one percentage point below the prior-year level (2012: 24%). A regional shift in the share of earnings of domestic and foreign entities of the HUGO BOSS Group, coupled with marginally lower corporate tax rates at an international level, led to a decrease in the Group's effective tax rate.

Net income increases by 7%

Net income totaled EUR 333 million in the past fiscal year, up 7% year on year (2012: EUR 311 million). The net income attributable to equity holders of the parent company also increased by 7% to EUR 329 million (2012: EUR 307 million). As in the prior year, net income attributable to non-controlling interests came to EUR 4 million (2012: EUR 4 million) and mainly relates to the 40% investment held by the Rainbow Group in the "joint venture" entities in China.

03|14 EARNINGS PER SHARE (in EUR)



Earnings per share improved year on year by 7% to EUR 4.77 (2012: EUR 4.44).

DIVIDENDS AND APPROPRIATION OF PROFIT

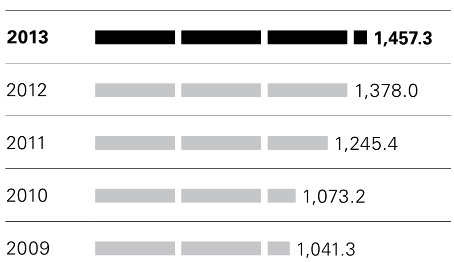
HUGO BOSS AG closed fiscal year 2013 with a net income of EUR 211 million (2012: EUR 288 million). The unappropriated surplus after withdrawal from retained earnings came to EUR 235 million (2012: EUR 220 million). Given the **profits-based dividend policy,** the Supervisory Board and the Managing Board will propose to the Annual Shareholders' Meeting that a **dividend of EUR 3.34** per share be paid out for fiscal year 2013 (2012: EUR 3.12 per share). This corresponds to a figure of EUR 231 million (2012: EUR 215 million). It will also be proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 5 million is to be carried forward to new account (2012: EUR 4 million).

PROFIT DEVELOPMENT OF THE BUSINESS SEGMENTS

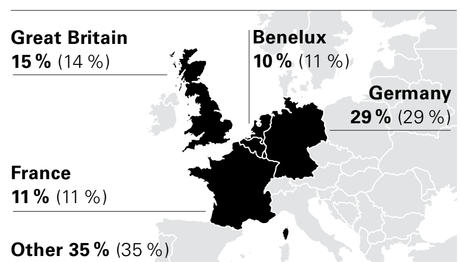
In fiscal year 2013, HUGO BOSS generated sales increases adjusted for currency effects across all four segments, further expanding its market position in the premium and luxury goods industry. The development of sales and earnings of the business segments benefited in particular from the sales growth in the Group's own retail business.

EUROPE

03|15 SALES EUROPE
(in EUR million)



03|16 SHARE IN SALES EUROPE 2013
(2012)



Sales in **Europe** including the Middle East and Africa increased in the Group's reporting currency by 6% to EUR 1,457 million in fiscal year 2013 (2012: EUR 1,378 million). This corresponds to an increase of 7% in local currencies.

Significant sales growth in the Group's own retail business compensates for declining wholesale business

At EUR 417 million, sales in **Germany** were up 4% on the prior-year level (2012: EUR 401 million). The takeover of selling space previously operated by wholesale partners supported the positive development of the Group's own retail business. Accordingly, the wholesale business reported a slight decrease. Likewise in **Great Britain** and **France**, double-digit sales growth in the Group's own retail business compensated for the decrease in sales generated with wholesale partners. Sales in Great Britain in the Group's reporting currency, reached EUR 215 million, up 9% on the prior-year period (2012: EUR 197 million). In local currencies, this corresponds to sales growth of 14%. At EUR 166 million, sales in France were up 13% year on year (2012: EUR 147 million). Owing to the difficult market environment in the Netherlands, sales in the **Benelux countries** came to EUR 153 million, down 3% on the comparable prior-year period (2012: EUR 157 million). In the past fiscal year, however, the Group's own retail business developed positively in this market as well.

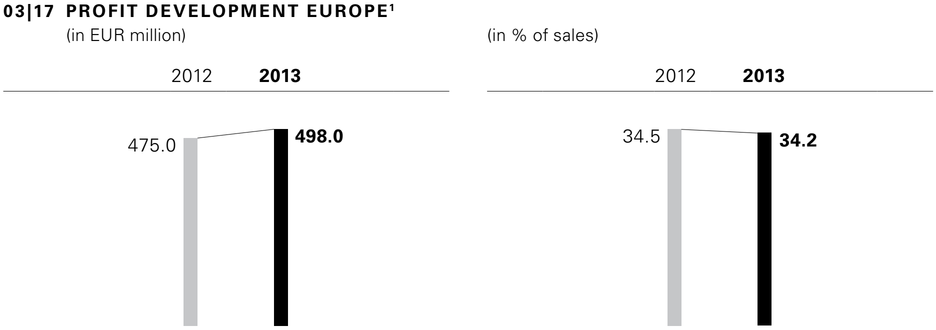
Driven by the industry's robust development in **Eastern Europe**, the Group's sales in this sales territory increased 8%, both in the Group's reporting currency and local currencies, totaling EUR 94 million (2012: EUR 87 million).

Sales perform well in Southern Europe despite difficult market conditions

Despite the difficult market conditions in **Southern Europe**, HUGO BOSS was able to generate sales growth in **Italy** and on the **Iberian peninsula** in fiscal year 2013. Supported by the takeover of various shop-in-shop units, sales on the Iberian peninsula increased by 9% to EUR 95 million (2012: EUR 87 million). In Italy, a 3% sales increase to EUR 50 million was reported (2012: EUR 49 million).

In the past fiscal year, sales in the **Group's own retail business** in Europe rose 23% to EUR 747 million (2012: EUR 610 million). This is equivalent to an increase of 24% in local currencies. This means that, for the first time, the sales generated in Europe from the Group's own retail business exceeded those from the wholesale channel. Sales with **wholesale** customers in the Group's reporting currency decreased by 8% to EUR 710 million (2012: EUR 768 million). Measured in local currencies, sales here decreased 7%. The main drivers behind this development were the continued challenging market conditions and the takeover of selling space that had previously been operated by wholesale partners. The latter triggered a shift in sales from the wholesale business to the Group's own retail business.

03|17 PROFIT DEVELOPMENT EUROPE[1]



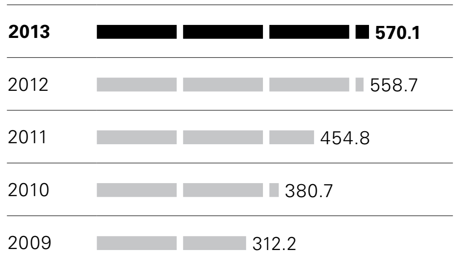
[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

Segment profit up on prior-year level due to rise in gross profit margin

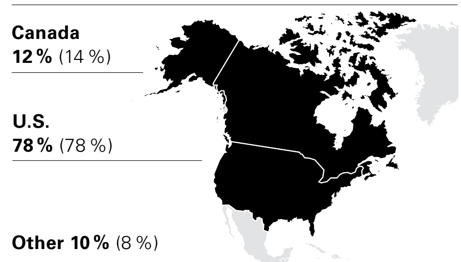
The **segment profit** for Europe came to EUR 498 million, up 5% year on year (2012: EUR 475 million). It was possible to increase the gross profit margin through the further expansion of the Group's own retail business and strict pricing policy. It was not possible to fully compensate for the accompanying increase in selling and distribution expenses and the expenditure on strengthening local organizational structures. The adjusted EBITDA margin decreased slightly to 34.2% (2012: 34.5%).

AMERICAS

03|18 SALES AMERICAS
(in EUR million)



03|19 SHARE IN SALES AMERICAS 2013
(2012)



In the **Americas sales** in the Group's reporting currency increased by 2% year on year to EUR 570 million (2012: EUR 559 million). In local currencies, this corresponds to sales growth of 6%.

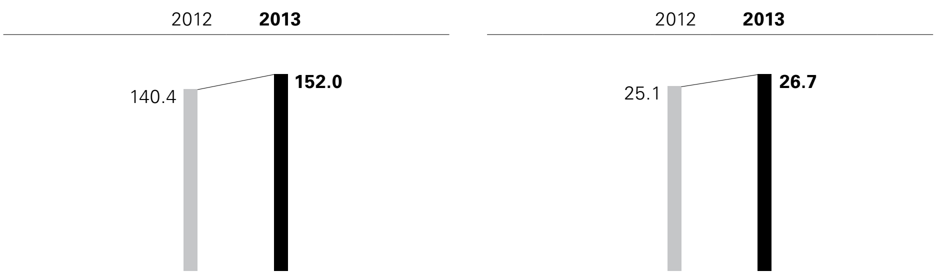
In the **United States** sales in the Group's reporting currency increased by 3% to EUR 447 million (2012: EUR 434 million). In local currency, sales growth of 6% was posted. Sales increases from existing retail space, the takeover of shop-in-shops previously operated by wholesale partners and selected new store openings led to double-digit growth in sales from the Group's retail business in the reporting period.

Significant sales growth in Central and South America

Sales in **Canada** in the Group's reporting currency totaled EUR 68 million, down 10% year on year (2012: EUR 76 million). Owing to the challenging market environment, especially in the wholesale channel, sales here decreased by 5% after currency adjustments. In **Central and South America**, it was possible to grow sales by 12% in the Group's reporting currency to EUR 55 million (2012: EUR 49 million). Despite the slowdown in economic growth in the region, it was possible to generate sales growth adjusted for currency effects of 16%.

In fiscal year 2013, sales in the **Group's own retail business** increased by 12% to EUR 293 million (2012: EUR 260 million). This is equivalent to an increase of 17% adjusted for currency effects. All markets in the region contributed to this development. Sales of EUR 277 million were generated in the **wholesale channel** in the same period (2012: EUR 299 million). Sales in this channel thus decreased by 7% in the Group's reporting currency, or 4% in local currencies. The takeover of stores previously operated by wholesale partners, particularly in the United States, led to a shift in sales from the wholesale business to the Group's own retail business.

03|20 PROFIT DEVELOPMENT AMERICAS[1]
(in EUR million) (in % of sales)



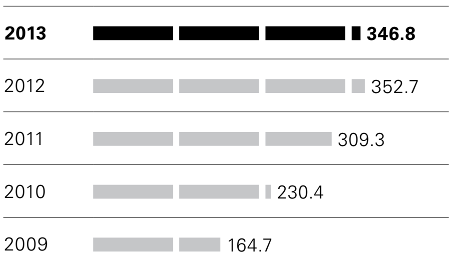
[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

Above-trend increase in Americas segment profit

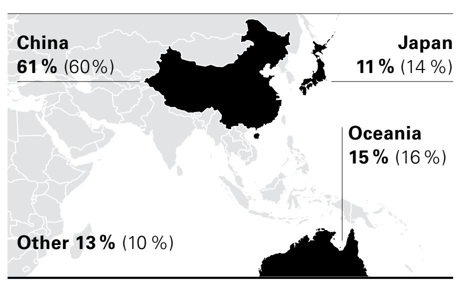
The **segment profit** for the Americas came to EUR 152 million, up 8% year on year (2012: EUR 140 million). Driven by the further expansion of the Group's own retail business and strict pricing policy, it was possible to further increase the gross profit margin. An improvement in the gross margin meant that it was possible to almost completely compensate for the above-trend increase in fixed costs, mainly due to the expansion of the Group's own retail business. At 26.7%, the adjusted EBITDA margin was above the prior-year figure of 25.1%.

ASIA/PACIFIC

03|21 SALES ASIA/PACIFIC
(in EUR million)



03|22 SHARE IN SALES ASIA/PACIFIC 2013
(2012)



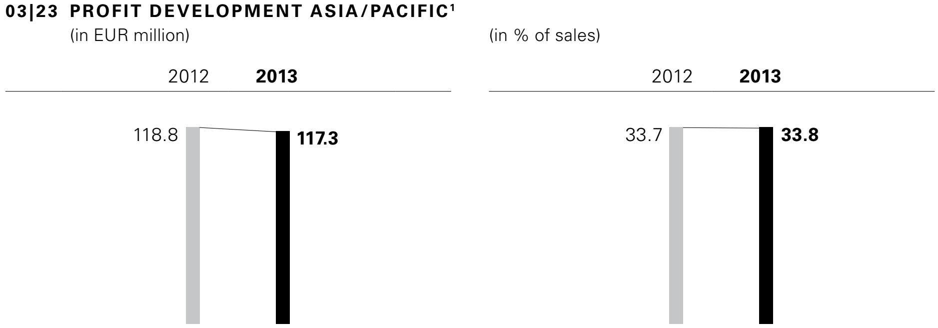
At EUR 347 million, **sales** in the Group's reporting currency in **Asia/Pacific** in fiscal year 2013 were down 2% on the prior-year period (2012: EUR 353 million). Local currencies' sales, by contrast, rose 4%.

After currency adjustments, sales increase across all markets in the region

At EUR 211 million, sales in **China** remained at the prior-year level (2012: EUR 211 million). Adjusted for currency effects, the sales increase was 2%. The still difficult environment in the retail business again burdened the development of sales here. In **Oceania**, sales totaled EUR 53 million, down 5% year on year (2012: EUR 56 million). Despite the still challenging market environment, it was possible to post a sales increase after currency adjustments of 6%. At EUR 39 million, sales in **Japan** were down 18% on the prior-year level (2012: EUR 48 million). This development is mainly influenced by the depreciation of the Japanese yen against the euro. After currency adjustments, sales increased by 3% year on year.

In the Group's reporting currency, Asia/Pacific saw a slight decrease of 2% in sales in the **Group's own retail business** to EUR 274 million (2012: EUR 280 million). In local currencies, by contrast, sales in this distribution channel increased by 4% compared to the prior-year period. At EUR 72 million, sales in the Group's reporting currency with **wholesale** partners were down 1% year on year (2012: EUR 73 million). After currency adjustments, sales in this sales channel were up 3% on the prior-year period.

03|23 PROFIT DEVELOPMENT ASIA/PACIFIC[1]



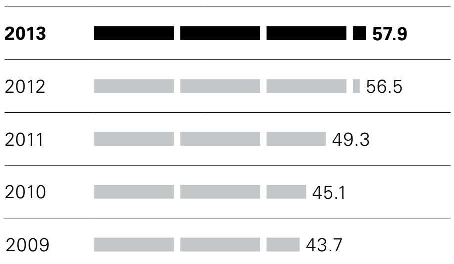
[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

Segment profit down slightly year on year

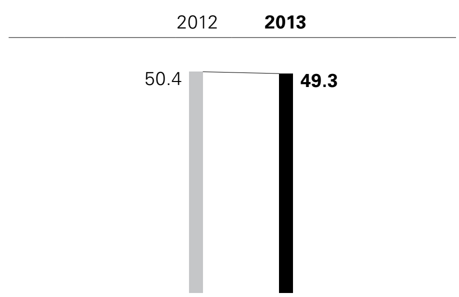
The **segment profit** for Asia/Pacific came to EUR 117 million, down slightly on the prior year (2012: EUR 119 million). The improvement in the gross profit margin fully compensated for the increase in fixed costs caused by the expansion of the Group's own retail business. At 33.8%, the adjusted EBITDA margin was slightly above the prior-year level (2012: 33.7%).

ROYALTIES

03|24 SALES ROYALTIES
(in EUR million)



03|25 PROFIT DEVELOPMENT ROYALTIES
(in EUR million)



Royalties continued to develop positively

The **royalties business** developed favorably in fiscal year 2013. The products produced by partners include fragrances, eyewear and watches. Sales with external licensees increased year on year by 2% to EUR 58 million (2012: EUR 57 million). Especially eyewear royalties registered double-digit growth. Fragrance royalties showed a stable development compared to the prior year.

The royalties **segment profit** came to EUR 49 million, down 2% year on year (2012: EUR 50 million). This is attributable to the other income contained in the prior year, which was generated through the sale of trademarks for the "Baldessarini" fragrance.

NET ASSETS AND FINANCIAL POSITION

In the past fiscal year, the Group's key financial reporting indicators developed favorably. For instance, it was possible to set a new benchmark in trade net working capital efficiency defined as the ratio of trade net working capital to sales. Free cash flow increased to EUR 230 million in the past fiscal year. Capital expenditure of EUR 185 million significantly exceeded the prior-year figure. Despite increased capital expenditure, it was possible to decrease net financial liabilities to EUR 57 million.

STRUCTURE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND KEY PERFORMANCE INDICATORS

Deconsolidation of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG

At the end of the first half of 2013, the entity Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG was deconsolidated due to the loss of control and has since then been carried as an investment under other non-current assets. This mainly affects the development of property, plant and equipment and intangible assets and financial liabilities. → **Notes to the consolidated financial statements, Note 5 → Basis of consolidation**

Total assets decreased by 5% at the end of fiscal year 2013 to EUR 1,501 million (December 31, 2012: EUR 1,577 million). This was largely attributable to a decrease in liabilities due to banks. On the assets side of the statement of financial position, this was reflected in a decrease in cash and cash equivalents. This development more than compensated for the slightly higher balance of inventories and receivables compared to the end of the prior year.

03|26 STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 (in %)

ASSETS	2012[1]	2013
Property, plant and equipment and intangible assets	31	34
Inventories	27	29
Trade receivables	14	15
Other assets	12	14
Cash and cash equivalents	16	8
TOTAL	100	**100**
ASSETS (in EUR million)	1,577.2	**1,501.3**

[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

For absolute figures please refer to the statement of financial position, p. 145

The **share of current assets** decreased compared to the prior year to 59% (December 31, 2012: 63%). The **share of non-current assets** increased accordingly from 37% in the prior year to 41% as of December 31, 2013. This development is mainly attributable to the lower amount of cash and cash equivalents as a result of the reduction in financial liabilities.

03|27 STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 (in %)

EQUITY AND LIABILITIES	2012[1]	**2013**
Shareholders' equity	40	**49**
Provisions and deferred taxes	10	**11**
Trade payables	15	**16**
Other liabilities	10	**12**
Financial liabilities	25	**12**
TOTAL	100	**100**
EQUITY AND LIABILITIES (in EUR million)	1,577.2	**1,501.3**

[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

For absolute figures please refer to the statement of financial position, p. 145

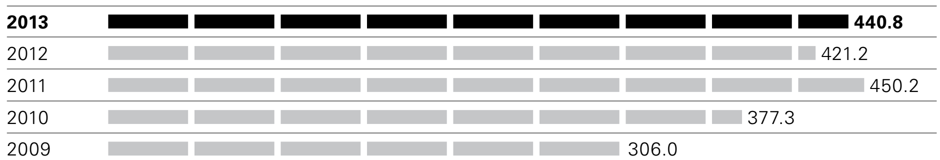
On the **equity and liabilities side**, the share of financial liabilities decreased significantly from 25% in the prior year to 12% as of the reporting date. This development is attributable to the refinancing of the syndicated credit facility and a related reduction in the amount drawn from the credit facility. The **equity ratio** increased to 49% as of the reporting date (December 31, 2012: 40%).

NET ASSETS

Investment in administration and distribution capacity causes increase in property, plant and equipment and intangible assets

On the assets side, **property, plant and equipment and intangible assets** increased as of the end of the reporting period by 2% to EUR 508 million (December 31, 2012: EUR 500 million). Capital expenditure on the further expansion and modernization of the Group's own retail business as well as the expansion of the administration capacities contributed to this increase. This was counterbalanced by the disposal of property, plant and equipment and intangible assets amounting to EUR 57 million in connection with the deconsolidation of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

03|28 INVENTORIES AS OF DECEMBER 31[1] (in EUR million)

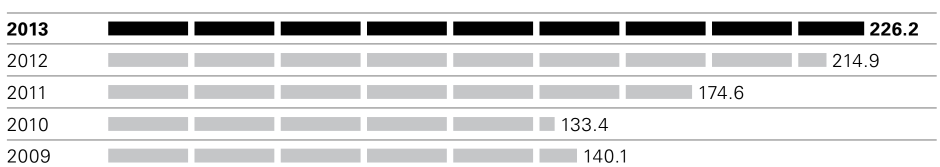


[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

Expansion of Group's own retail business drives up inventories

Inventories increased by 5% as of December 31, 2013 to EUR 441 million (December 31, 2012: EUR 421 million). After currency adjustments, inventories decreased by 9% year on year. The higher volume of inventories was largely driven by the further expansion of the Group's own retail business. Measures geared to optimizing inventory management meant that the increase was underproportionally as compared to sales growth in the Group's own retail business.

03|29 TRADE RECEIVABLES AS OF DECEMBER 31 (in EUR million)



Increase in trade receivables

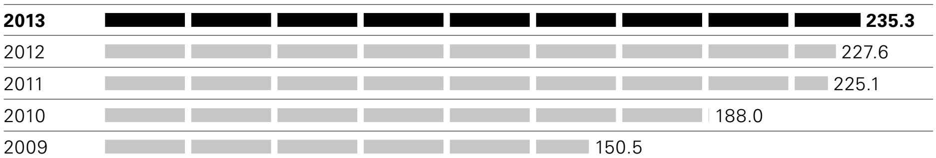
Trade receivables increased by 5% to EUR 226 million year on year (December 31, 2012: EUR 215 million). Adjusted for exchange rate effects, this corresponds to an increase of 8%. The increase is mainly due to receivables in connection with the expansion of the concession model.

Other assets increased by 11% year on year to EUR 207 million (December 31, 2012: EUR 187 million). This increase mainly stems from an increase in deferred tax assets as well as an increase in rent deposits for the Group's own retail stores. → **Notes to the consolidated financial statements, Note 7**

Cash and cash equivalents came to EUR 119 million as of the reporting date (December 31, 2012: EUR 255 million). This development is essentially attributable to the repayment of liabilities due to banks.

On the equity and liabilities side, **provisions and deferred taxes** came to EUR 170 million, up 4% on the prior-year figure (December 31, 2012: EUR 164 million). The increase was attributed to higher provisions for return of goods as well as provisions for deconstruction related to the conclusion of lease agreements for Group's own retail stores. This increase is accompanied by a decrease in provisions for personnel expenses.

03|30 TRADE PAYABLES AS OF DECEMBER 31 (in EUR million)



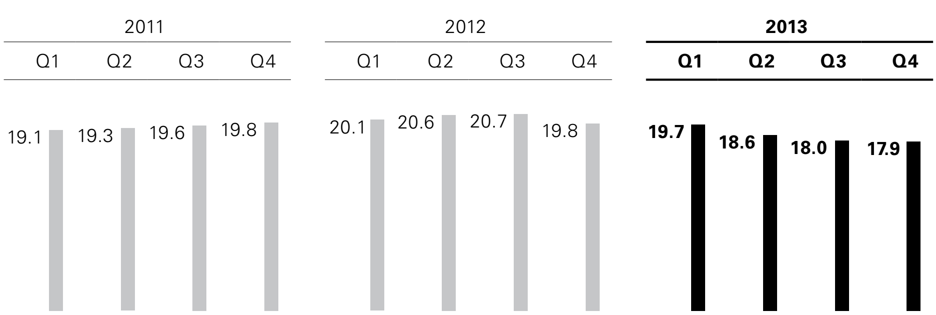
Slight increase in trade payables

Trade payables increased by 3% to EUR 235 million year on year driven by quantity effects (December 31, 2012: EUR 228 million). After currency adjustments, this corresponds to a rise of 4%.

The aggregate of **current and non-current financial liabilities** decreased as of the reporting date by 55% to EUR 179 million (December 31, 2012: EUR 395 million). This development mainly reflects a lower amount drawn of EUR 111 million from the refinanced syndicated loan facility compared to the prior year (December 31, 2012: EUR 300 million). Apart from the tranches of the syndicated loan agreement drawn, the financial liabilities contain negative market values of interest and exchange rate hedges amounting to EUR 3 million (December 31, 2012: EUR 10 million).

Other liabilities increased by 11% year on year to EUR 176 million (December 31, 2012: EUR 158 million).

03|31 TRADE NET WORKING CAPITAL[1] (in % of sales)



[1] Due to changes in accounting policies and corrections made, certain amounts shown here do not correspond to the figures reported in prior years (for more details see notes to the Consolidated Financial Statements, "Changes in accounting policies/Corrections", page 170).

Trade net working capital is the HUGO BOSS Group's key performance indicator for measuring the efficient use of capital. The only components factored into the calculation are inventories, trade receivables and trade payables.

Trade net working capital increased by 6% year on year to EUR 432 million (December 31, 2012: EUR 408 million). The increase in trade payables was only partially counterbalanced by the increase in inventories and trade receivables.

Efficiency of trade net working capital reaches record level

The 12-month moving average of **trade net working capital as a percentage of sales** reached 17.9%, significantly down on the prior-year period (2012: 19.8%). The efficiency of trade net working capital thus reached a record level. This positive development is due in particular to the effective measures taken to reduce inventories.

FINANCIAL POSITION

FINANCIAL MANAGEMENT AND FINANCING PRINCIPLES

The most important goal of **financial management** at HUGO BOSS is to secure sufficient liquidity reserves, while minimizing financial expenses in the Group. Accordingly, the aim is to ensure that the Group can meet its payment obligations at all times and that it has sufficient liquidity to grow its business. → **Report on risks and opportunities, Financing and liquidity risks**

Central bundling of global financial management

Group-wide liquidity management and monitoring of financial risks are bundled at the central treasury department of HUGO BOSS AG. **Global financial management** is based on Group-wide principles and guidelines. At the level of the subsidiaries, the finance managers are responsible for compliance with treasury guidelines.

The HUGO BOSS Group's **external financing volume** is essentially drawn thorough HUGO BOSS International B.V. This covers most of the financing requirements of the Group's entities. Only in individual cases do HUGO BOSS companies directly obtain debt capital, for instance, if it is economically advantageous to use local credit and capital markets. If the Group companies directly enter into external loan transactions, HUGO BOSS AG or HUGO BOSS International B.V. issue guarantees or letters of comfort as required in each case.

The cash inflow from the operating activities of each Group company is the Group's most important source of liquidity. The liquidity forecast is based on a three-year financial planning and a supplementary liquidity planning on a rolling basis with a one-year planning horizon that is prepared by all Group companies using a **central financial reporting system**. This allows the HUGO BOSS Group to continuously monitor its financial position and the future development of liquid funds and to intervene if necessary.

Daily liquidity management uses efficient **cash management systems** to channel liquidity surpluses of individual Group companies to other companies with financial requirements (cash pooling). This intercompany financial balancing system reduces external financial requirements and optimizes net interest expenses.

FINANCING

Market capacity, cost of financing, investor diversification, flexibility, covenants and terms to maturity are taken into account when **selecting financial instruments**. **→ Notes to the consolidated financial statements, Note 26 → Notes to the consolidated financial statements, Note 29**

Syndicated loan secures long-term financial flexibility

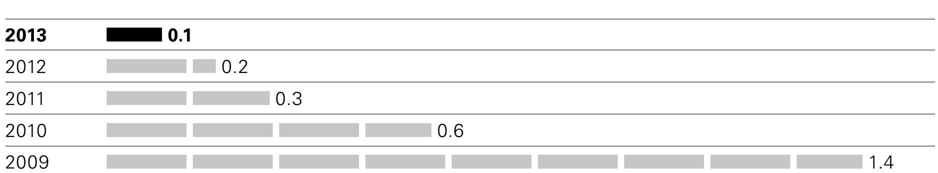
The Group secured its **financial flexibility** in the long term by refinancing the syndicated credit facility that expired in May 2013. The syndicate of banks led by DZ Bank, Landesbank Baden-Württemberg and Unicredit AG granted a new syndicated loan with a volume of EUR 450 million. This comprises a fixed tranche amounting to EUR 100 million and a revolving tranche of EUR 350 million. Apart from the fixed tranche, an amount of EUR 11 million had been drawn from the revolving tranche as of the reporting date.

In its capacity as "in-house bank", HUGO BOSS International B.V. provides these funds to Group companies with increased financing needs in the form of intercompany loans. These loans are issued in the local currency of each respective distribution company and, for the most part, take the form of an overdraft facility. In order to hedge against the currency risk exposure of HUGO BOSS International B.V., forward exchange contracts were concluded for the main currencies. In addition, subbranches of the revolving tranche permit amounts to be borrowed in U.S. dollars and pounds sterling. The Group has additional liquidity secured in the form of bilateral lines of credit with a total volume of EUR 111 million. Of this amount, EUR 69 million had been drawn as of December 31, 2013. Apart from the undrawn amounts from the lines of credit amounting to EUR 382 million, the Group has access to liquidity funds of EUR 119 million as of the reporting date, of which EUR 25 million is kept in time deposits with a term of up to three months.

FINANCING CONDITIONS

The **syndicated loan agreement** contains a standard covenant requiring the maintenance of total leverage, defined as the ratio of net financial liabilities to EBITDA before special items.
→ Notes to the consolidated financial statements, Note 26

03|32 TOTAL LEVERAGE AS OF DECEMBER 31[1]



[1] Net financial liabilities/EBITDA before special items.

Further improvement of financial strength

As in prior fiscal years, HUGO BOSS substantially exceeded the required minimum values as of December 31, 2013. Total leverage improved further year on year driven by the positive development of the operating result and the improvement in net financial liabilities. The ratio was down from 0.2 in the prior year to 0.1 as of the reporting date.

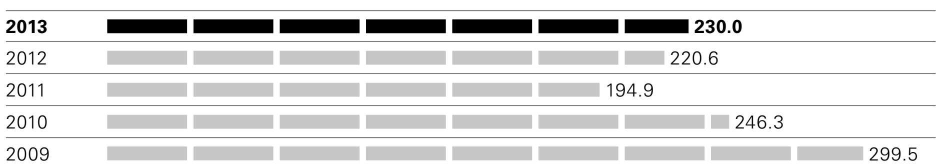
The **financial liabilities** of the HUGO BOSS Groups are mostly subject to variable interest rates and have short fixed-interest periods for the most part. Of the amount of financial liabilities subject to variable interest rates amounting to EUR 134 million, a volume of approximately EUR 112 million was hedged against an increase in interest rates using payer swaps as of December 31, 2013. There is no exposure to interest rate risks from the fixed-interest loans. → **Notes to the consolidated financial statements, Note 26**

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Financing is supplemented by operating lease agreements not reported in the statement of financial position relating to the Group's own retail locations as well as logistics and administration properties. → **Notes to the consolidated financial statements, Note 32**

STATEMENT OF CASH FLOWS

03|33 FREE CASH FLOW (in EUR million)



The statement of cash flows is presented in accordance with IAS 7. The cash and cash equivalents reported here correspond to the line item of that name in the statement of financial position.

Cash inflow from operating activities up on prior-year period

At EUR 416 million **cash inflow from operating activities** was up on the prior-year level (2012: EUR 392 million). The development was essentially attributable to the higher consolidated net income. Lower cash outflow from changes in trade receivables and higher cash inflow from changes in trade payables also had a positive effect. The cash outflow of EUR 36 million resulting from the change in inventories (2012: cash inflow of EUR 23 million) led to an overall cash outflow from trade net working capital of EUR 45 million (2012: EUR 16 million).

The net cash outflow from interest expenses and income decreased to EUR 8 million as of the reporting date (2012: EUR 16 million). The lower amount of debt following the refinancing and the lower market interest rates had a positive effect.

As cash flow is presented after currency adjustments, these figures cannot be derived from the statement of financial position.

Expansion of the Group's own retail business causes increase in cash outflow from investing activities

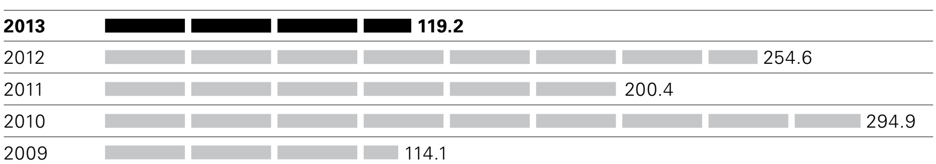
At EUR 186 million **cash outflow from investing activities** was up on the prior-year level (2012: EUR 172 million). This development was mainly driven by increased capital expenditure on property, plant and equipment in the course of expanding the Group's own retail business. A cash outflow of EUR 12 million is attributable to property, plant and equipment and intangible assets acquired in business combinations in fiscal year 2013. → **Notes to the consolidated financial statements, business combinations**

Free cash flow, measured as the cash inflow from operating activities and the cash outflow from investing activities, increased by EUR 9 million to EUR 230 million in the reporting year (2012: EUR 221 million).

Cash outflow from financing activities shaped by refinancing

Cash outflow from financing activities totaled EUR 363 million in fiscal year 2013 (2012: EUR 166 million). Apart from the dividend distribution of EUR 215 million (2012: EUR 199 million), this was mainly marked by the repayment of the fixed tranche of the syndicated loan that was replaced in fiscal year 2013. The tranche of EUR 111 million drawn under the new syndicated loan agreement partially compensated for the cash outflow.

03|34 CASH AND CASH EQUIVALENTS AS OF DECEMBER 31 (in EUR million)

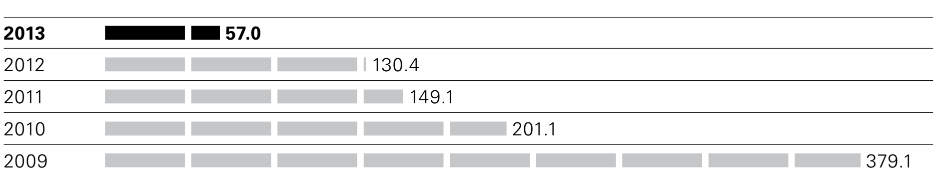


Cash and cash equivalents decreased to EUR 119 million as of the reporting date (December 31, 2012: EUR 255 million). This development was essentially attributable to the repayment of liabilities due to banks.

NET FINANCIAL LIABILITIES

Net financial liabilities are the total of all financial liabilities due to banks less cash and cash equivalents.

03|35 NET FINANCIAL LIABILITIES AS OF DECEMBER 31 (in EUR million)



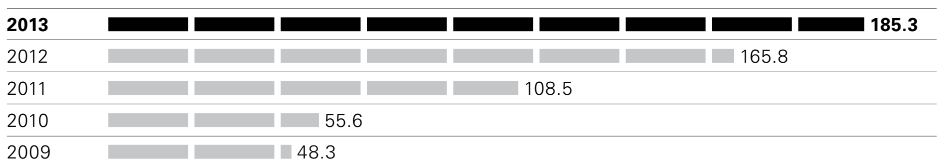
Financial liabilities to banks came to EUR 176 million, down on the prior-year level (December 31, 2012: EUR 385 million). This development mainly reflected a reduction in the amount of debt capital needed from the deconsolidation of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

Net financial liabilities improved

Net financial liabilities thus improved by a further EUR 73 million from EUR 130 million in the prior year to EUR 57 million as of December 31, 2013.

CAPITAL EXPENDITURE

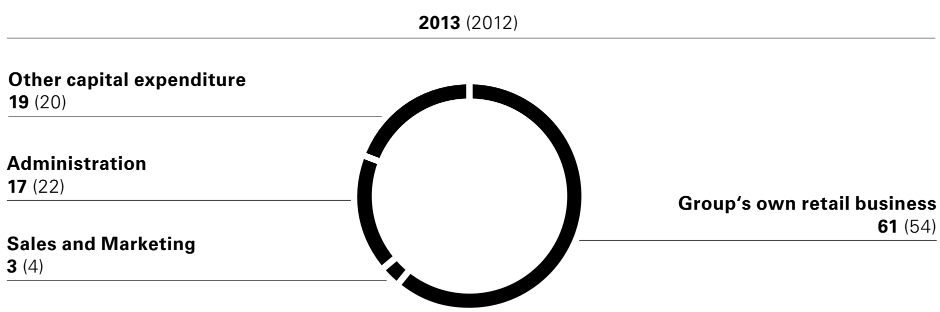
03|36 CAPITAL EXPENDITURE (in EUR million)



In 2013, HUGO BOSS invested a record EUR 185 million

In the past fiscal year, HUGO BOSS invested a total of EUR 185 million in property, plant and equipment and intangible assets. Total investment thus increased by 12% year on year (2012: EUR 166 million). EUR 12 million is attributable to property, plant and equipment and intangible assets acquired in business combinations in fiscal year 2013. → **Notes to the consolidated financial statements, business combinations**

03|37 CAPITAL EXPENDITURE BY FUNCTIONAL AREA (in %)



Capital expenditure focuses on own retail business

Making up 61% of the total investment volume, the **global expansion and modernization of the Group's own retail business** continued to be the focal point of investment activity in the past fiscal year (2012: 54%). This corresponds to an investment volume of EUR 113 million (2012: EUR 89 million).

Investment in **new retail stores** owned by the Group came to EUR 75 million in fiscal year 2013 (2012: EUR 51 million). In Europe, retail stores were opened in cities such as Stuttgart and Vienna, while flagship stores were opened in Moscow and Amsterdam. In the Americas, attractive locations were added to the portfolio in cities such as Boston, San Diego and Toronto. In Asia/Pacific, flagship stores were opened in Shanghai, Hong Kong and Tokyo.

Modernization of the New York flagship store on Columbus Circle

In the past fiscal year, EUR 38 million was invested worldwide in the **renovation and modernization** of existing retail locations (2012: EUR 39 million). Capital expenditure in the Americas should be noted in this context. There the flagship store on Columbus Circle in New York and the retail stores in Miami, Denver and Mexico City were renovated.

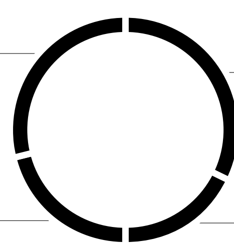
In 2013, investment in the **production, logistics and distribution structure** as well as in **research and development** amounted to EUR 41 million (2012: EUR 40 million). Of this amount, EUR 28 million was attributable to Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG, which was deconsolidated on June 30, 2013.

Investment in **administration** came to EUR 32 million in the past fiscal year (2012: EUR 36 million). This includes investment in IT infrastructure amounting to EUR 16 million as well as investment of EUR 7 million for an administration building in Metzingen.

The accumulated amortization and depreciation on property, plant and equipment and intangible assets taking into account own work capitalized totaled EUR 603 million (2012: EUR 545 million). **→ Notes to the consolidated financial statements, Note 11 → Notes to the consolidated financial statements, Note 12**

Obligations from investment projects that have commenced amounted to EUR 2 million as of December 31, 2013 (December 31, 2012: EUR 77 million). **→ Notes to the consolidated financial statements, Note 32**

03|38 CAPITAL EXPENDITURE BY REGION (in %)



[1] Including Middle East and Africa.

HUGO BOSS AG (DISCLOSURES PURSUANT TO HGB)

By contrast to the consolidated financial statements, the annual financial statements of HUGO BOSS AG are not prepared in accordance with International Financial Reporting Standards (IFRS), but rather in accordance with the provisions of HGB ["Handelsgesetzbuch": German Commercial Code].

BUSINESS ACTIVITY AND ECONOMIC ENVIRONMENT

As the parent company, HUGO BOSS AG is responsible for a number of functions within the HUGO BOSS Group. On the one hand, HUGO BOSS AG is responsible for all distribution channels in the German market and, through its permanent establishment, in the Austrian market. Responsibility for the collection theme and development for the main product groups across all brands is located in the Group's headquarters in Metzingen. Other tasks bundled at the Group's headquarters include management of the Group's own retail business, procurement, logistics, IT, personnel management, financial management including company financing as well as risk management. In addition, HUGO BOSS AG is responsible for internal communication and, in particular, for external communication including investor relations.

As part of its overarching Group functions, the Group's parent company, as represented by the members of the Managing Board, is responsible for the Group's alignment and thus also for setting the corporate strategy.

The development of the results of operations of HUGO BOSS AG is influenced by the operating business as well as management of the central functions in particular. The allocation of costs for services rendered to Group companies together with the investment result resulting from the holding function of HUGO BOSS AG are the main line items in this context.

HUGO BOSS AG's sales comprise external sales with wholesale partners and intercompany sales with foreign subsidiaries.

RESULTS OF OPERATIONS

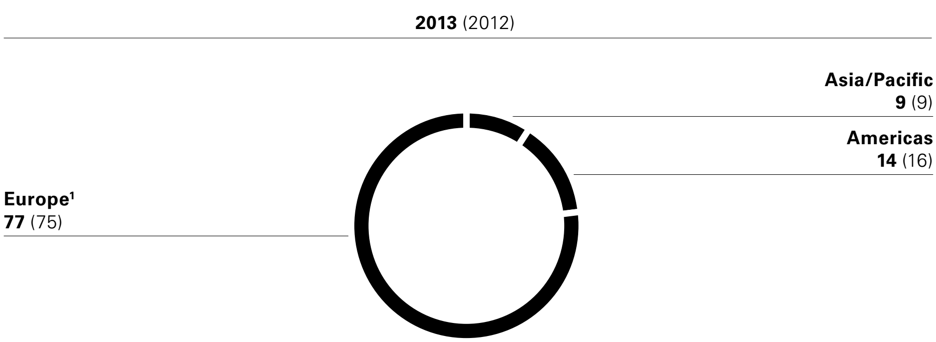
CHANGE IN DISCLOSURE AND RESTATEMENT OF PRIOR-YEAR DISCLOSURES

Owing to the presentation changes made and the related restatement of the prior-year figures in accordance with Sec. 265 (2) Sentence 3 HGB, some of the figures presented deviate from the figures reported in prior years. Detailed information on this matter is presented in the separate financial statements of HUGO BOSS AG.

SALES DEVELOPMENT

In fiscal year 2013, **sales** of HUGO BOSS AG decreased by 2% to EUR 1,067 million (2012: EUR 1,093 million). This development is attributable to a decrease in sales with third parties as well as a reduction in the volume of sales with wholesale partners. This was only partially compensated for by the positive development of sales generated by subsidiaries in the Group's own retail business.

03|39 REGIONAL SALES PERFORMANCE (in %)



[1] Including Middle East and Africa.

In **Europe** including the Middle East and Africa sales with subsidiaries of HUGO BOSS AG decreased by 3% to EUR 387 million in fiscal year 2013 (2012: EUR 400 million). By contrast, sales with third parties increased by 4% to a EUR 436 million in the same period (2012: EUR 420 million). Sales outside Germany and Austria were mainly generated with subsidiaries.

HUGO BOSS AG's sales in the **Americas** decreased by 17% to EUR 145 million (2012: EUR 174 million). In **Asia/Pacific,** HUGO BOSS AG reported a 1% increase in sales to EUR 100 million (2012: EUR 99 million).

BOSS brand sales decreased by 3% to EUR 940 million (2012: EUR 974 million). By contrast, the **HUGO brand** generated an increase in sales of 7% to EUR 127 million in fiscal year 2013 (2012: EUR 120 million).

NOTES TO THE INCOME STATEMENT

03|40 INCOME STATEMENT HUGO BOSS AG (in EUR million)

	2013	**In % of sales**	2012[1]	In % of sales	Change in %
Sales	**1,067.3**	**100.0**	**1,093.4**	**100.0**	**(2)**
Cost of sales	(653.9)	(61.3)	(681.8)	(62.4)	4
Gross profit	**413.4**	**38.7**	**411.6**	**37.6**	**0**
Distribution Costs	(298.9)	(28.0)	(283.8)	(26.0)	(5)
General administrative expenses	(101.3)	(9.5)	(93.3)	(8.5)	(9)
Other operating income	131.8	12.3	126.3	11.6	4
Other operating expenses	(59.1)	(5.5)	(61.7)	(5.6)	4
Operating profit	**85.8**	**8.0**	**99.1**	**9.1**	**(13)**
Income from investments in affiliated companies	196.6	18.4	250.8	22.9	(22)
Interest result	(10.6)	(1.0)	(13.3)	(1.2)	20
Income from ordinary activities	**271.8**	**25.5**	**336.6**	**30.8**	**(19)**
Taxes on income and other taxes	(61.1)	(5.7)	(48.3)	(4.4)	(27)
Net Income	**210.8**	**19.8**	**288.2**	**26.4**	**(27)**
Transfer to (–)/from (+) other revenue reserves	20.1	1.9	(72.6)	(6.6)	(128)
Accumulated income previous year	4.3	0.4	4.0	0.4	8
Unappropriated income	**235.1**	**22.0**	**219.6**	**20.1**	**7**

[1] Due to the adjustments made, certain amounts presented here do not correspond to the figures reported in the prior year. Detailed information on this matter is presented in the financial statements of HUGO BOSS AG.

At EUR 413 million, the **gross profit** was up slightly on the prior-year level (2012: EUR 412 million). The gross profit margin hence increased from 37.6% in the prior year to 38.7%. Apart from the higher share in sales contributed by the Group's own retail business compared to the prior year, this development reflected both the efficiency improvements in production and procurement activities as well as the positive effects from the improved inventories situation. Exchange rate effects had an adverse effect on gross profit.

Distribution costs increased by 5% to EUR 299 million in the fiscal year (2012: EUR 284 million). This development mainly relates to the expansion of the Group's own retail business. Increased sales in this distribution channel led to increased expenses in connection with rental agreements linked to sales performance.

General administrative expenses increased by 9% to EUR 101 million (2012: EUR 93 million) and mainly comprised personnel expenses, rent for premises, lease expenses, amortization and depreciation as well as various IT costs. The increase relates to the higher amount of amortization charged on enterprise software in connection with the more capital-intensive nature of the business model.

Other operating expenses mainly comprise research and development costs, bad debt allowances and exchange rate effects and decreased by 4% year on year to EUR 59 million (2012: EUR 62 million). The decrease is largely due to the expenses included in the prior year relating to the stock appreciation rights (SAR) program.

In the past fiscal year, **other operating income** amounted to EUR 132 million (2012: EUR 126 million) and mainly breaks down into cost allocations and services rendered to affiliated companies.

Compared to the prior year, **operating profit** decreased from EUR 99 million to EUR 86 million, mainly due to increased distribution costs.

At EUR 197 million, **income from investments in affiliated companies** decreased compared to the prior-year level (2012: EUR 251 million). Income from investments in affiliated companies mainly concerns the net income of HUGO BOSS Trade Mark Management GmbH & Co. KG amounting to EUR 95 million (2012: EUR 97 million), which is transferred to and drawn from the loan account of HUGO BOSS AG as limited partner in accordance with the partnership agreement. Income from profit and loss transfer agreements pertains to income from profit and loss transfer agreements in place with subsidiaries of HUGO BOSS AG. In fiscal year 2013, this amounted to EUR 102 million (2012: EUR 153 million) and resulted from the transfer of profit from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In fiscal year 2013, this company received dividend income from HUGO BOSS Holding Netherlands B.V. In the past fiscal year, expenses from loss absorption totaled EUR 1 million (2012: EUR 0 million) and relate to the loss absorbed by HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen.

The **interest result** as a net interest expense (other interest and similar income less interest and similar expenses) decreased to EUR 11 million in fiscal year 2013 (2012: EUR 13 million). This change primarily reflects the lower level of borrowing and the repayment of financial liabilities due to HUGO BOSS International B.V.

Income before taxes came to EUR 272 million in fiscal year 2013 (2012: EUR 337 million). The decrease in income before taxes was attributable to the lower operating profit as well as the lower income from profit and loss transfer agreements and investments in affiliated companies.

At 22%, the **effective tax rate** was well above the prior-year level (2012: 14%). The dividend income contained in profit transfers and income from a foreign joint venture had a positive effect on the effective tax rate. By contrast, expenses from income taxes relating to other periods of EUR 16 million (2012: EUR 1 million) increased the effective tax rate. These mainly stem from the recognition of a provision for risks in connection with the tax field audit for the years 2007 through 2011 including subsequent effects. Without these two effects, the normalized effective tax rate for the fiscal year would have stood at 28% (2012: 28%).

At EUR 211 million, the **net income** for fiscal year 2013 was thus down on the prior-year level (2012: EUR 288 million).

NET ASSETS

Property, plant and equipment and intangible assets increased slightly to EUR 669 million (December 31, 2012: EUR 666 million). This was mainly driven by investment for the expansion of the retail network in Germany and Austria as part of the takeover and opening of a net figure of 32 new locations.

Inventories increased by 9% at the end of fiscal year 2013 to EUR 170 million (December 31, 2012: EUR 156 million). The main driver behind this development is the 17% increase in finished goods in connection with the worldwide expansion of the Group's own retail business. By contrast, raw materials and supplies decreased by 13%. This development was largely a consequence of strict inventory management. As a result of the new business strategy, collection creation cycles were shortened, leading to shorter order lead times.

Trade receivables with external wholesale partners increased by 14% year on year to EUR 25 million (December 31, 2012: EUR 22 million). The main driver behind this development was an increased volume of deliveries made in the months of November and December compared to the prior year. Days sales outstanding deteriorated slightly compared to the prior year.

Receivables from affiliated companies saw an increase of EUR 65 million (December 31, 2012: EUR 31 million). This development is essentially attributable to the larger volume of receivables due from affiliated companies.

At EUR 29 million, **other assets** were up 22% year on year (December 31, 2012: EUR 24 million). These mainly pertain to bonus receivables from suppliers, credit card receivables as well as income tax and VAT receivables. Apart from the increase in income tax receivables, credit card receivables in particular increased as of the end of the year due to an increase in sales.

Cash and cash equivalents, as the sum of cash on hand and balances with banks, decreased by EUR 4 million to EUR 3 million compared to the prior year (December 31, 2012: EUR 7 million).

The equity and liabilities side was mainly affected by an increase in **liabilities**. These increased by 16% to EUR 355 million as of the reporting date (December 31, 2012: EUR 306 million). A key driver behind this development is the rise in liabilities due to affiliated companies on account of the newly obtained intercompany loan of EUR 100 million from HUGO BOSS International B.V. At EUR 88 million, trade payables were up 3% year on year (December 31, 2012: EUR 85 million).

On aggregate, **provisions** increased to EUR 110 million as of the reporting date (December 31, 2012: EUR 99 million). This increase is primarily attributable to an increase in tax provisions.

Trade net working capital is HUGO BOSS AG's key performance indicator for measuring the efficient use of capital. The only components factored into the calculation of this indicator are inventories, trade receivables and trade payables. Trade net working capital increased by EUR 14 million year on year to EUR 107 million (December 31, 2012: EUR 93 million). The increase in inventories and trade receivables was only partially counterbalanced by an increase in trade payables.

FINANCIAL POSITION

03|41 STATEMENT OF CASH FLOWS HUGO BOSS AG (in EUR million)

	2013	2012
Cash flow from operating activities	240	332
Cash flow from investing activities	(73)	(50)
Cash flow from financing activities	(170)	(316)
Change in cash and cash equivalents	**(4)**	**(33)**
Cash and cash equivalents at the beginning of the period	7	40
Cash and cash equivalents at the end of the period	3	7

At EUR 240 million, **cash inflow from operating activities** was down on the prior-year figure (2012: EUR 332 million). The decrease is mainly attributable to the EUR 77 million decline in net income combined with increased cash outflow from trade net working capital.

Cash outflow from financing activities totaled EUR 73 million in fiscal year 2013 (2012: EUR 50 million). This increase is essentially attributable to a larger amount of receivables from affiliated companies compared to the prior year. As in the prior year, investment in property, plant and equipment totaled EUR 39 million (2012: EUR 39 million).

Free cash flow, measured as the cash outflow from operating activities and the cash outflow from investing activities, decreased by EUR 115 million to EUR 167 million in the reporting year 2013 (2012: EUR 282 million).

The **cash outflow from financing activities** totaled EUR 170 million as of December 31, 2013 (2012: EUR 316 million). The payment of the dividend of EUR 215 million was partially compensated by higher liabilities to affiliated companies.

Cash and cash equivalents, as the sum of cash on hand and bank balances, decreased by EUR 4 million to EUR 3 million compared to the prior year (December 31, 2012: EUR 7 million).

CAPITAL EXPENDITURE

As in the prior year, investment in property, plant and equipment and intangible assets totaled EUR 39 million (2012: EUR 39 million).

Intangible assets mainly comprise software. The addition of EUR 13 million (2012: EUR 12 million) was mainly attributable to investment in software and user rights in connection with the continuous enhancement of the ERP system, comprising the industry solution SAP AFS and SAP Retail for the Group's own retail business.

The additions to **property, plant and equipment** of EUR 26 million (2012: EUR 27 million) partly relate to additions of land and buildings in Metzingen. In addition, the opening of eight new retail stores in Germany and Austria, together with the takeover of 25 shop-in-shops that had previously been operated by wholesale partners in Germany led to additional capital expenditure. In 2013, additional retail stores were opened, including in Berlin, Vienna and Innsbruck.

Existing obligations from investment projects that have commenced are reported in the annual financial statements of HUGO BOSS AG under "Other financial obligations" and amount to EUR 2 million as of December 31, 2012 (December 31, 2012: EUR 8 million).

RISKS AND OPPORTUNITIES

The business development of HUGO BOSS AG is subject for the most part to the same risks and opportunities as those applicable to the HUGO BOSS Group. HUGO BOSS AG is generally exposed to the risks and benefits from the opportunities of its subsidiaries and investees to the extent of its share in equity in each case. → **Report on risks and opportunities**

As the parent company, HUGO BOSS AG is integrated in the Group-wide risk management system of the HUGO BOSS Group. The description required under Sec. 289 (5) HGB ["Handelsgesetzbuch": German Commercial Code] of the accounting-related internal control system and risk management system for HUGO BOSS AG is presented in the HUGO BOSS Group's risk report. → **Report on risks and opportunities, Risk report**

OUTLOOK

Due to its integration with the Group's companies and its importance within the Group, the expectations for HUGO BOSS AG are reflected in the Group's outlook. It is expected that the statements made for the HUGO BOSS Group with respect to the development of markets, sales and profit development will essentially be reflected in the sales and profit development of HUGO BOSS AG. → **Subsequent events and outlook, Outlook**

COMPENSATION REPORT

This report is based on the recommendations of the German Corporate Governance Code and contains disclosures based on the requirements of German Accounting Standard (GAS) 17, the HGB ["Handelsgesetzbuch": German Commercial Code] and International Financial Reporting Standards (IFRS). The disclosures pursuant to IAS 24 are presented in the notes to the consolidated financial statements.

MAIN FEATURES OF THE COMPENSATION SYSTEM FOR THE MANAGING BOARD

Decisions concerning the compensation system for the Managing Board as well as regular consultation and review of the compensation system are the responsibility of the Supervisory Board. The Personnel Committee is charged with preparing proposals. The compensation system applicable for the members of the Managing Board of HUGO BOSS AG since fiscal year 2010 was approved with a clear majority by the Annual Shareholders' Meeting on May 10, 2011. Without in principle altering this system approved by the Annual Shareholders' Meeting, agreements with all members of the Managing Board were adjusted effective January 1, 2013 such that the performance-related compensation component is solely oriented toward quantitative targets. Consequently, personal objectives are no longer included in the objectives agreed with members of the Managing Board.

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

Pursuant to a resolution of the Annual Shareholders' Meeting of June 21, 2010, the individual amounts paid to members of the Managing Board are not disclosed. Accordingly, the disclosures required under Sec. 285 Sentence 1 No. 9 a) Sentences 5 to 8 HGB and Sec. 314 (1) No. 6 a) Sentences 5 to 8 HGB are not made for a period of five years. This applies to the fiscal year beginning on January 1, 2010 and the following four fiscal years, i.e., until December 31, 2014. As a consequence, the total compensation is disclosed as an aggregate amount and broken down into the individual compensation components.

NON-PERFORMANCE RELATED COMPENSATION

The fixed compensation components consist of a fixed basic compensation, fringe benefits and contributions to retirement benefits. The fixed basic compensation is paid as a monthly salary. The members of the Managing Board receive fringe benefits such as company cars, supplementary payments to health and nursing care insurance, conclusion of and contributions to an accident and directors and officers (D&O) liability insurance as well as other benefits in kind integral to the salary and other equipment and services needed to fulfill their duties as members of the Managing Board. In accordance with Sec. 93 (2) Sentence 3 AktG ["Aktiengesetz": German Stock Corporation Act], the deductible for the D&O insurance is 10% of the relevant loss but no more than one-and-a-half times of the fixed annual compensation. Each member of the Managing Board is responsible for the taxation of the taxable benefit resulting from the private use of the company car.

PERFORMANCE-RELATED COMPENSATION

In fiscal year 2013, the performance-related compensation, comprising an annual bonus and a bonus assessed over a multiple-year period, was adjusted such that only quantitative targets are taken into account. In future, personal objectives will no longer be included in the objectives agreed with members of the Managing Board.

SHORT-TERM VARIABLE INCENTIVES

The annual bonus is determined by reference to the development of a target indicator defined for each fiscal year. Trade net working capital (total of inventories and trade receivables less trade payables) was set as the assessment base for the annual bonus for all members of the Managing Board. At the beginning of each fiscal year, the Managing Board and the Supervisory Board agree on the target to be reached as well as the maximum and minimum thresholds for trade net working capital as a percentage of sales as a basis for determining the annual bonus. If the target is achieved in full, 100% of the amount contractually agreed with each member of the Managing Board is paid out. The maximum amount of 150% of the target annual bonus is paid out if a specified threshold set below the annual target is reached. No annual bonus is paid if a specified threshold set above the annual target is reached or exceeded. The annual bonus is payable within a week of the Supervisory Board approving the consolidated financial statements for the fiscal year in question.

LONG-TERM VARIABLE INCENTIVES

The multiple-year bonus is assessed over a period extending over several years and is measured by reference to the development of quantitative targets over a three-year period. The quantitative targets are oriented towards increasing the enterprise value and are tied to the development of the indicators sales and EBITDA before special items over a period of three years. The amount of variable compensation for a fiscal year depends on the degree to which a predefined target sales and target EBITDA before special items are achieved over a period of several years. For the multiple-year period, targets as well as maximum and minimum thresholds are defined for both earnings indicators for each of the three fiscal years. The degree of target achievement is determined separately for each of the three fiscal years. The payout is determined based on the weighted average annual target achievement for the three fiscal years. If the target is achieved in full, 100% of the amount contractually agreed with each member of the Managing Board is paid out. The maximum amount of

150% of the target multiple-year bonus is paid out if a specified maximum threshold is reached or exceeded. No multiple-year bonus is paid out if the indicators reach or drop below a specified minimum threshold.

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

TOTAL COMPENSATION AND AMOUNTS PAID OUT IN THE REPORTING YEAR

Total compensation of the Managing Board in fiscal year 2013 came to EUR 5,211 thousand (2012: EUR 7,053 thousand). Of this amount, EUR 3,466 thousand was attributable to fixed salary components including fringe benefits (2012: EUR 3,303 thousand), which were paid out in full in the reporting year 2013. An amount of EUR 855 thousand (2012: EUR 0 thousand) is attributable to the annual bonus agreed for fiscal year 2013; this will be paid in fiscal year 2014 within a week of the Supervisory Board approving the consolidated financial statements for 2013.

In addition, the compensation for fiscal year 2013 contains an amount of EUR 890 thousand (2012: EUR 3,750 thousand) that is related to the multiple-year bonus for 2010–2012 determined based on actual target realization and constitutes the difference between the amount of EUR 4,640 thousand paid out in 2013 and the amount of EUR 3,750 thousand proportionately provided for in prior years.

In fiscal year 2013, the Managing Board did not receive any advance installments of the multiple-year bonus for 2013–2015.

SHARE-BASED PAYMENTS

Active members of the Managing Board do not hold any participation rights from the tranches of the stock appreciation rights program issued in the fiscal years 2001 to 2009.

BENEFITS IN THE EVENT OF TERMINATION OF EMPLOYMENT

In the event of early termination, the service agreements include provisions that comply with the recommendations of the German Corporate Governance Code, with the exception of the deviation stated in the declaration of compliance of December 2013. The service agreements do not stipulate any provisions in the event of regular termination, with the exception of the provisions governing pensions.

The Company has entered into pension obligations for members of the Managing Board. The post-employments benefits are based on the years of service and the basic salary.

03|42 PENSION EXPENSES (in EUR thousand)

	2013	2012
Service Costs (IFRS)	1,638	1,793
Present value provision (IFRS) after offsetting of the plan assets	4,432	3,897
Expenses of earned pension commitments (HGB)	3,908	2,259
Present value provision (HGB) after offsetting of the plan assets	411	1,386

OTHER DISCLOSURES

In 2013, former members of the Managing Board and their surviving dependents received total compensation of EUR 3,967 thousand (2012: EUR 15,226 thousand). This contains payments of EUR 3,774 thousand to former members of the Managing Board in connection with post-employment benefits and the exercise of outstanding participation rights from the stock appreciation rights program (2012: EUR 15,035 thousand). Through the sale of the purchase option obtained to hedge against the participation rights there is no additional cash outflow for the Group.

COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the members of the Supervisory Board set by the Annual Shareholders' Meeting is governed by Art. 12 of Articles of Association of HUGO BOSS AG. The compensation is based on the company size and the scope of work of Supervisory Board members. Compensation of supervisory board members is split into fixed and variable components. The variable component is measured based on the amount of earnings per share in the consolidated financial statements. The position of chairman of the Supervisory Board and that of the deputy chairman are taken into account in the calculation of the compensation. The fixed and variable compensation is paid out after the end of the Annual Shareholders' Meeting that decides on the exoneration of the Supervisory Board for the fiscal year in question. Members of the Supervisory Board, who have been members of the Supervisory Board or a committee for part of the fiscal year are paid compensation proportionately to the duration of their office. Members of the Supervisory Board are reimbursed expenses incurred in connection with the performance of their duties. Any VAT is reimbursed by the Company if the members of the Supervisory Board have been authorized to provide the Company with a separate invoice for VAT, and exercise this right. The Supervisory Board received compensation for its activities in 2012 amounting to EUR 2,058 thousand. For fiscal year 2013, total compensation is expected to come to EUR 2,163 thousand. This figure includes a provision for the variable component of EUR 1,408 thousand (2012: EUR 1,259 thousand), which is calculated on the basis of the expected earnings per share in the consolidated financial statements.

LEGAL DISCLOSURES

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement (in accordance with Sec. 289a HGB ["Handelsgesetzbuch": German Commercial Code]) contains the declaration of compliance, disclosures relating to corporate governance practices and a description of the way the Managing Board and Supervisory work. **:// group.hugoboss.com/Investor Relations/Corporate Governance**

DEPENDENT COMPANY REPORT

Pursuant to Sec. 312 AktG ["Aktiengesetz": German Stock Corporation Act], the Managing Board of HUGO BOSS AG is obliged to prepare a dependent company report. The dependent company report presents the relationships with Permira Holdings Limited, Guernsey, and the companies of the HUGO BOSS Group. The Managing Board has prepared a dependent company report and made the following concluding statement: „… the Company has at all times received appropriate consideration for all transactions within the meaning of this report based on the circumstances prevailing at the time of each respective transactions and has not suffered any disadvantage in fiscal year 2013 by reason of undertaking or refraining from undertaking measures at the instruction or in the interest of Permira Holdings Limited, Guernsey, and its affiliates."

DISCLOSURES UNDER TAKEOVER LAW PURSUANT TO SEC. 289 (4), 315 (4) HGB

The disclosures required in accordance with Sec. 289 (4) and Sec. 315 (4) HGB are presented and explained in the following. As far as the Managing Board is concerned, there is no further need for explanations within the meaning of Sec. 175 (2) Sentence 1 and Sec. 176 (1) Sentence 1 AktG.

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

There are capital investments exceeding 10% of the voting rights. **➔ Information concerning the majority shareholder**

Apart from this, HUGO BOSS AG has not been notified of any other shareholders holding more than 10% of the voting rights.

In fiscal year 2013, HUGO BOSS AG was notified of two voting rights announcements pursuant to Sec. 21 (1) and Sec. 22 of the German Securities Trading Act (WpHG). **➔ Information concerning the majority shareholder**

The Company has not received any other notifications from shareholders who hold 3% or more of the voting rights in HUGO BOSS AG.

There are no shares in HUGO BOSS AG with special rights granting control authority. There are no special rules governing the exercise of shareholder rights by shareholders who are employees of HUGO BOSS AG.

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

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

AUTHORIZATION OF THE MANAGING BOARD TO INCREASE SHARE CAPITAL (AUTHORIZED CAPITAL 2009) WITH THE OPTION OF EXCLUDING SUBSCRIPTION RIGHTS

By resolution of the Annual Shareholders' Meeting of May 14, 2009, the Managing Board is authorized until May 13, 2014 to increase the share capital, subject to the approval of the Supervisory Board, once or several times through the issue of new registered ordinary and/or registered preferred shares without voting rights equivalent to the registered preferred shares without voting rights already issued in exchange for contributions in cash and/or kind up to a maximum of EUR 35,200,000 in total. In the event of increases in share capital in exchange for contributions in cash the ratio between the two share types is kept unchanged. As a rule, shareholders have a subscription right if authorized capital is used. However, the Managing Board is authorized to exclude the subscription rights of holders of one category of shares for shares of another category, to preclude fractional rights from the subscription rights of shareholders and, subject to the approval of the Supervisory Board, to exclude the subscription rights of shareholders if the capital increase in exchange for contributions in kind serves the purpose of acquiring companies or investments in companies.

AUTHORIZATION TO ACQUIRE OWN SHARES AND TO USE OWN SHARES, ALSO WHILE EXCLUDING PUT OPTIONS AND SUBSCRIPTION RIGHTS, INCLUDING AUTHORIZATION TO REDEEM ACQUIRED OWN SHARES AND REDUCE CAPITAL

The Annual Shareholders' Meeting of June 21, 2010 renewed the Managing Board's authorization to acquire own shares. Accordingly, the Managing Board is authorized until June 20, 2015 to acquire registered ordinary shares and/or registered preferred shares without voting rights of the Company up to a share of no more than 10% of the share capital outstanding as of June 21, 2010. HUGO BOSS AG can exercise its authorization to acquire own shares fully or in partial amounts, once or several times for one or several purposes only for registered ordinary shares and/or registered preferred shares while partially excluding any put options for the corresponding categories. The acquisition can be made through the stock exchange or a public offer addressed to the holders of the corresponding share category. Own shares acquired under this authorization can be sold again through the stock exchange or through an offer addressed to all shareholders while excluding subscription rights of shareholders. They can alternatively be redeemed as compensation for the acquisition of a company and investments in companies, for sale at a price that does not fall materially short of the current quoted price and for the admission of the share to foreign stock exchanges.

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

The service contract with one of the members of the Managing Board also contains a clause under which, in the event of a change of control (acquisition of more than 30% of the voting rights in HUGO BOSS AG), the contracting partners are granted under certain circumstances an additional termination right and, if the service agreement is indeed terminated, the member of the Managing Board has to be compensated. The Company has not entered into any other compensation arrangements with the other members of the Managing Board or employees in the event of a takeover bid.

REPORT ON RISKS AND OPPORTUNITIES

The risk and opportunities policy of the HUGO BOSS Group aims to secure the continuation of the Group as a going concern by ensuring that the financial and strategic targets are reached. It is therefore committed to the long-term increase in enterprise value. Effective risk management enables the Group to identify risks at an early stage and to mitigate any potential adverse consequences by implementing suitable measures. In combination with the systematic identification of new opportunities, this increases the reliability of the Group's decision making process and establishes the foundation for continuous target realization.

RISK REPORT

The success of the HUGO BOSS Group is based on the systematic use of opportunities within the framework of the medium- and long-term corporate strategy. Complementary to this, the risk policy pursues the objective of securing the Company's continuation as a going concern by supporting the efforts of the operating units to implement the strategy, thus increasing the enterprise value in the long term.

RISK MANAGEMENT

Group-wide standards ensure successful risk management

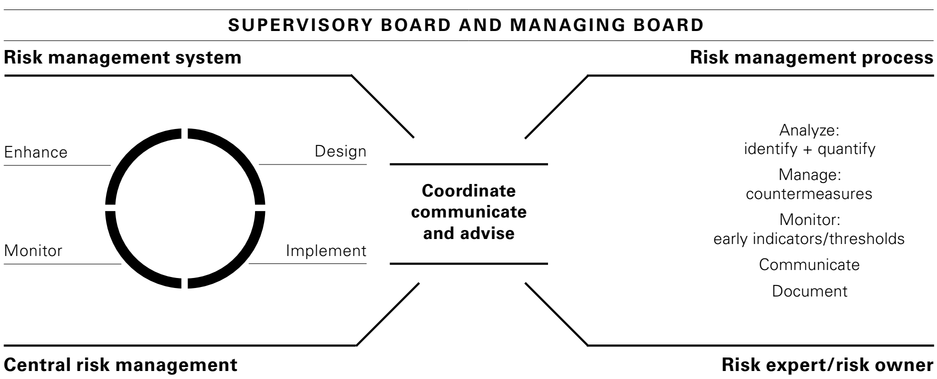
Successful risk management is founded on Group-wide standards for systematically handling risks. These are set for the HUGO BOSS Group by the Managing Board as part of the risk policy and documented in a risk manual that is applicable throughout the Group and is available for all employees online. Risks are defined as potential, negative deviations from the planned operating result (EBIT). Clear thresholds describe the risk-bearing capacity of the HUGO BOSS Group and permit a classification of risks into levels from "minor" to "high". Risks are reported at regular intervals. Whenever there are critical topics, the regular reporting process is supplemented by ad hoc reporting in order to allow timely analysis of new developments. In addition, the employees of the HUGO BOSS Group are obliged to be aware of risks in their behavior, especially regarding those risks that may threaten the existence of the Group. All risks are systematically recorded using risk software. This ensures reliable version management and audit trails. The HUGO BOSS Group's risk management system is designed in accordance with and complies with the recommendations of the international standard ISO 31000.

A dedicated team at the headquarters of HUGO BOSS AG is responsible for the coordination of the Group-wide risk management in order to identify risks early, analyze and monitor them, and to counteract them with risk mitigation measures. The team continuously enhances the tools of the risk management system and ensures that risks and opportunities are identified Group-wide using a uniform methodology at regular, pre-defined intervals. All information concerning the risks identified in the subsidiaries worldwide converges here allowing its timely aggregation and analysis at Group level. The team regularly communicates with all risk owners so that it is always informed of the latest developments.

Decentralized risk management in the divisions

Responsibility for risk analysis, adequate handling of risks and the implementation of effective risk mitigation measures is locally assigned to the respective divisions or subsidiaries where risks occur. To this end, risk owners are defined in each case. The team responsible for central risk management regularly reports to the Managing Board, supports it in the implementation, execution and monitoring of the risk management and internal control system as well as in the process of reporting to the Audit Committee of the Supervisory Board.

03|43 HUGO BOSS RISK POLICY



Risks are handled in four ways: avoidance, mitigation, transfer and acceptance. Consequently, one of the elements of risk management includes the transfer of risks to insurers. This allows the financial consequences of insurable risks to be largely neutralized.

Differentiated risk quantification based on a multiple scenario analysis

The current status of all identified risks is assessed at least once a year or at more frequent half-yearly, quarterly or monthly intervals, depending on the extent of the financial effect. In this process, new developments are documented and the risk quantification is revised if necessary. To this end, an estimate is made of the likelihood of occurrence of risks and the associated effects on the operating result (EBIT).

03|44 MEASUREMENT CRITERIA FOR BUSINESS RISKS

Likelihood of occurrence		Extent of financial impact
unlikely	**≤ 20%**	**minor**
possible	**> 20–40%**	**moderate**
likely	**> 40–60%**	**significant**
very likely	**> 60%**	**high**

To obtain a more precise view of the potential effects of identified risks, alternative risk scenarios are analyzed for the best, medium and worst case. This permits the inclusion of the potentially substantial effects from extreme scenarios that are unlikely to occur but which could have severe ramifications. The risk owner assigns a weighting to each of the three scenarios to calculate the average impact in the event of occurrence. This approach allows not only a differentiated view of potential effects, but also thorough analysis of unlikely extreme scenarios, that could potentially have a significantly stronger impact on the ability of the HUGO BOSS Group to achieve its objectives. In addition to the quantification of risk based on a 12-month planning period, medium-term risk trends are also determined. For growing risks, this approach permits the timely development of adequate countermeasures.

The continuous monitoring of early warning indicators enables the Group to identify possible deviations from the budget at an early stage. Reporting chains and the adoption of suitable countermeasures defined in advance ensure timely response in the event of occurrence. All of this information is compiled in the Group-wide risk software and is available at all times.

This allows the HUGO BOSS Group to identify risks at an early stage and to respond quickly and in a targeted manner. The risk management system is reviewed at regular intervals by the internal audit department to ensure its proper functioning and appropriateness. In consultation with the external auditors, the Audit Committee set up by the Supervisory Board regularly monitors the effectiveness of the systems of internal control, risk management and internal audit. In the course of the audit of the annual financial statements, the external auditors verify whether the Managing Board has suitably implemented the measures prescribed by Sec. 91 (2) Aktiengesetz (AktG – German Stock Corporation Act).

Risk categories and structure of the risk atlas

A uniform risk atlas is used as a basis for identifying and aggregating risks worldwide. This bundles individual risks by topic into risk areas. The latter are in turn allocated to one of the main risk categories: external risks, strategic risks, financial risks, operative risks and organizational risks.

03 |45 RISK CATEGORIES

EXTERNAL RISKS	STRATEGIC RISKS	FINANCIAL RISKS	OPERATIVE RISKS	ORGANIZATIONAL RISKS
Overall economy	Collection and industry	Financing and liquidity	Suppliers and sourcing markets	IT
Country-specific factors	Brands and corporate image	Changes in interest rates	Quality	Legal
	Investments	Currencies	Logistics	Personnel
		Credit risk	Sales and distribution	Corporate governance and compliance
		Taxes		
		Provision for pensions		

The main risks to which HUGO BOSS is exposed in fiscal year 2014 are presented in the following. The risks discussed concern both the operating segments as well as the corporate units of the HUGO BOSS Group. In general, it is possible that additional risks which are currently unknown or estimated as immaterial may also adversely affect the Group's development in the future. Irrespective of all measures introduced to manage the identified risks, entrepreneurial activity is always exposed to residual risks that cannot be fully eliminated, even by a comprehensive risk management system as that implemented in the HUGO BOSS Group. The respective net risk as the actual risk potential arises from the gross risk reduced by measures taken to mitigate or avoid the risks identified.

EXTERNAL RISKS

Macroeconomic risks

Like any company with global activities, the HUGO BOSS Group is exposed to risks arising from the uncertainty of future developments of macroeconomic conditions. A decisive factor in this context is the development of the global economy, which can lead to reduced demand for apparel and accessories in the premium and luxury segments. Its dependence on consumer behavior exposes the consumer goods industry in general to risks that can impact budgeted sales and/or margins. The effects of macroeconomic developments can occur globally or in individual markets, and can have knock-on effects. However, the advance order intake and the development of the Group's own retail business, provide the HUGO BOSS Group with early warning indicators that permit an early forecast of the consequences of potential macroeconomic risks. The HUGO BOSS Group has taken several measures to mitigate the impact of turns in the business cycle. This includes a clear brand profile geared towards the expansion of the market share in a highly competitive environment. A business model designed for international growth also taps the potential of new consumer groups and serves to compensate for potential decreases in demand in individual markets. A further objective is to achieve a balanced distribution of sales across different regions to avoid overdependence on individual markets. Looking at fiscal year 2014, the Group generally expects the continued growth of the global economy and the premium and luxury industry. Adverse macroeconomic developments can impact planned business growth, however, regardless of the measures taken. In light of continuing uncertainty in connection with the euro debt crisis and the final settlement of the budget dispute in the United States, management deems the potential financial consequences to be significant. The probability of occurrence of such a strong effect on global demand is considered to be unlikely, however.
→ Subsequent Events and Outlook, Outlook

Sovereign risks

A company with international activities, HUGO BOSS is also exposed to risks in connection with the development of individual sales markets. This risk can be triggered by changes in the political or regulatory environment or by socioeconomic developments. As is the case with any company, the Group's net assets, financial position and results of operations are exposed to the risk of terrorist activities and natural disasters. To keep sovereign risks as low as possible, HUGO BOSS products are sold for the most part in countries with stable economic and political conditions. At present the Managing Board considers major changes to the regulatory environment in the key sales markets of the HUGO BOSS Group to be unlikely. In addition, global distribution in more than 120 countries at Group-level provides a natural hedge against adverse developments in individual markets. Consequently, the Managing Board estimates the financial impact of an unexpected change in country-specific conditions to be minor.

STRATEGIC RISKS

Collection and industry risks

Collection and industry risks can arise from changes in fashion and lifestyle trends. The challenge lies in identifying the right trends in time and translating these quickly into an unmistakable collection statement. HUGO BOSS counters these risks with in-depth analyses of target groups and markets and the detailed assessment of the development of sales in the past season. Greater proximity to customers through the retail business also makes a major contribution toward quickly channeling information on trends and consumer behavior into collections. The probability of occurrence of collection and industry risks is therefore deemed unlikely by management. Potential adverse effects are classified as minor. → **Group strategy**

Risks to the brand and corporate image

The economic success of HUGO BOSS hinges on the brand image together with a strong and lasting positioning of the Group’s brands in the premium and luxury market. As a consequence, protecting and maintaining brand image has a high priority at HUGO BOSS. Strategic measures are taken for this purpose, including but not limited to a continuous monitoring of markets and media, clearly differentiated brand positioning supported by targeted marketing activities and a globally consistent brand presence. In addition, legal trademark protection and the prosecution of product piracy are important efforts to secure the brand image.

The corporate image of the HUGO BOSS Group is reflected in its perception by stakeholders such as customers, shareholders, suppliers and employees. Corporate communication is centrally coordinated by the corporate communication and investor relations departments. HUGO BOSS uses these interfaces to stay in continuous dialog with key interest groups. Compliance with laws, standards and guidelines, both within the Group and by suppliers is also regularly verified. Nevertheless, negative effects on the brand image and the Group’s reputation remain possible. Based on the measures taken, however, the effects on the Group’s net assets, financial position and results of operations are deemed minor.

Investment risk

One of the core strategic measures of HUGO BOSS is to continue the expansion of the Group’s own retail business. Retail activities involve investment risks that arise in connection with the establishment and maintenance of stores, long-term leases and personnel expenses. This leads to an increase in fixed costs. However, it also widens the gross profit margin. To keep the risk of bad investments and unprofitable Group retail stores as low as possible, decisions on the opening and closing of stores are made centrally in consultation with the responsible regional director. Prior to opening new retail stores, all locations are thoroughly examined regarding their potential and comprehensive sales and development plans are prepared. Nevertheless, there is still a general risk that individual retail stores of the Group will fail to reach the originally budgeted sales targets and, in the worst case, that they might need to be closed. Group companies therefore have to submit a monthly report on the performance of their retail activities so that negative developments can be detected early and countermeasures taken. The investment risk is also mitigated by the standardized store concept used in all points of sale worldwide, which means that fixtures and fittings can be redeployed elsewhere if a store is closed. As part of general investment controlling activities, the value contribution of all other investments is also examined taking into account the risks involved. In light of the measures described above, the investment risk is deemed minor and unlikely to occur. → **Group management, Investment controlling**

FINANCIAL RISKS

The central tasks of the HUGO BOSS Group include coordinating and managing internal financing requirements, ensuring the financial independence of the Group as a whole and mitigating financial risks.

The HUGO BOSS Group is mainly exposed to financing and liquidity risks, interest rate risks, currency risks and credit risks as well as tax and pension risks. These risks are subject to continuous and intensive control. The development of exposures is constantly monitored, quantified and – if necessary – hedged in order to mitigate accounting risks.

Financing and liquidity risk

Managing liquidity risks is one of the central tasks of the treasury department of HUGO BOSS AG. Liquidity risk is the risk that existing or future payment obligations cannot be settled in terms of timing, volume or currency due to a lack of cash. The HUGO BOSS Group manages this risk centrally. To ensure the Group's liquidity and financial flexibility at all times, financial requirements are determined based on a three-year financial planning and monthly rolling liquidity planning broken down by currency with a planning horizon of up to one year. These are then secured using lines of credit and liquid funds.

The HUGO BOSS Group successfully refinanced the syndicated loan that expired in May 2013 using a new syndicated loan. The new syndicated loan, which was granted by a syndicate of banks, has a total line of credit of EUR 450 million and a term of five years. It is intended for general corporate financing and comprises a fixed tranche of EUR 100 million and a revolving tranche of EUR 350 million. HUGO BOSS has thereby secured its long-term financial flexibility. Apart from the fixed tranche of EUR 100 million, a further EUR 11 million had been drawn from tranche subbranches as of the reporting date.

The existing syndicated loan agreement contains standard covenants requiring the maintenance of total leverage. A breach of covenants would lead to the early termination of the agreement. Even if general economic conditions deteriorate, HUGO BOSS does not see any risk of breaches of financial covenants. → **Net assets and financial position, Financing**

Apart from the syndicated financing line of credit, HUGO BOSS has short-term bilateral lines of credit amounting to EUR 111 million, which afford even greater flexibility.

The syndicated as well as the bilateral lines of credit contain customary conditions that grant the contracting parties additional termination rights in the event of a change of control.

In addition to the line of credit amounting to EUR 561 million as of December 31, 2013, the Group had liquid funds of EUR 119 million as of the reporting date. These funds are generally held as call deposits and time deposit investments. In addition, the HUGO BOSS Group mitigates financing and liquidity risks further using a cash pooling mechanism. Based on the amounts drawn from the lines of credit, the cash situation and the cash pooling mechanism in place, management deems the occurrence in the case of financing and liquidity risks to be unlikely and the financial impact to be minor.

Interest rate risks

Market-driven fluctuations in interest rates impact future interest income and payments on cash balances and liabilities subject to variable interest on the one hand. On the other hand, they also influence the market value of financial instruments. Significant changes in interest rates can therefore affect profitability, liquidity and the financial position of the Group.

The financial liabilities of the HUGO BOSS Groups are mostly subject to variable interest rates and have short-term fixed-interest periods. The resulting interest rate risk also poses a cash flow risk with implications for the amount of future interest payments. To minimize the effects of future interest volatility on borrowing cost, derivative financial instruments in the form of interest rate swaps are used for the most part. Derivatives designated to an effective hedge within the meaning of IFRS impact equity in the event of interest rate changes. Derivatives that are not designated to such a hedge are posted to profit or loss. As of the reporting date, derivatives amounting to EUR 100 million were designated as effective interest rate hedges for the syndicated loan agreement within the meaning of IFRS.

Moreover, opportunity effects can arise. These result from the recognition of non-derivative financial instruments at amortized cost rather than at fair value. The opportunity risk is the difference between both values, although this is neither reported in the statement of financial position nor in the income statement.

Owing to the continued low interest rates, the shift in the interest yield curve of +100/–30 basis points as in the prior year was repeated in the reporting year in order to avoid negative interest and present realistic scenarios in the analysis of interest rate sensitivity as of the reporting date. Given the underlying exposures to the euro, yen and Chinese renminbi, HUGO BOSS considers this change to be appropriate. In some cases, financial transactions were based on market interest rates below 30 basis points. In such cases, the lower sensitivity threshold was set at zero.

In accordance with IFRS 7, the effect on profit and equity of changes in the most important interest rates was analyzed. The scope of the analysis included variable-interest financial liabilities of EUR 134 million (December 31, 2012: EUR 339 million), interest derivatives of EUR 111 million (December 31, 2012: EUR 312 million) and cash and cash equivalents of EUR 119 million (December 31, 2012: EUR 255 million). The impact of interest rate fluctuations on future cash flows was not included in this analysis.

03|46 INTEREST RATE SENSITIVITIES AS OF DECEMBER 31 (in EUR million)

	2013		2012	
	+100 bp	**(30) bp**	+100 bp	(30) bp
Cash flow risks	0.5	(0.2)	1.7	(0.5)
Risks from interest rate derivates recognized in income	0.7	(0.2)	0.8	(0.3)
Effects on net income	**1.2**	**(0.4)**	**2.5**	**(0.8)**
Risks from interest rate derivates reflected on the consolidated statement of financial position	3.1	(0.9)	0.8	(0.1)
Effects on Group equity	**4.3**	**(1.3)**	**3.3**	**(0.9)**

An increase in market interest rates by 100 basis points as of December 31, 2013 would have led to an increase in net income of EUR 1.2 million (2012: EUR 2.5 million) and an increase in Group equity of EUR 4.3 million (December 31, 2012: EUR 3.3 million). A decrease in market interest rates by 30 basis points would have led to a decrease of EUR 0.4 million (2012: EUR 0.8 million decrease) in net income and a EUR 1.3 million decrease (December 31, 2012: EUR 0.9 million decrease) in Group equity. The effects from interest rate derivatives would have resulted from changes in fair value. Cash flow risks would have mainly resulted from higher/lower interest income and expenses from cash and cash equivalents.

Based on the effects of interest changes on financial instruments illustrated by the sensitivity analysis, the effects of interest rate changes on the HUGO BOSS Group are classified as minor. Given the expansionary monetary policy, particularly by the European Central Bank and the Federal Reserve, management currently considers significant interest rate changes likely with a minor financial impact.

Currency risks

The currency risks of the HUGO BOSS Group essentially result from the global business activities and the Group's internal financing activities. In business operations, exchange rate risks mainly relate to receivables and liabilities (transaction risk), such as through the sourcing of goods in a currency other than the Group's functional currency or through intercompany financing activities in Group companies that have a functional currency other than the euro.

Distribution activities in key markets are performed by Group companies, which place their orders directly with the Group. In order to centrally manage the exchange rate risk, intercompany orders are generally invoiced in local currency. The exchange rate risk thus results from the cash flow in local currency of the subsidiaries. The currency risks of the

HUGO BOSS Group from business operations are mainly attributable to the business operations in the United States, Great Britain, Australia, Switzerland, Japan, Hong Kong and China as well as the purchasing activities of sourcing units in foreign currency.

Exchange rate risks also arise from the translation of the net assets employed at Group companies outside the eurozone and of their income and expenses (translation risk). The Group does not hedge this risk. → **Notes to the consolidated financial statements, Currency translation**

Exchange rate management for transaction risks is centrally performed for all Group companies. The primary objective is to mitigate the overall exchange rate exposure using natural hedges. Such hedges are based on the offsetting of exchange rate exposures from business operations throughout the Group against each other, thereby reducing the overall exposure requiring hedging measures by the amount of the closed positions.

Forward exchange contracts and swaps as well as plain vanilla currency options can be concluded to hedge the remaining exposures. The primary objective of the hedging strategy is to limit the effects of exchange rate fluctuations on the balance sheet. As a rule, the terms of the derivatives entered into are adjusted to the underlying hedged item when they are concluded. The derivative financial instruments, which are traded in the OTC market, are solely intended to hedge the risk intrinsic in hedged items. To obtain the best possible terms, quotes are requested from several banks and the transaction is concluded with the bank that offers the best terms.

Foreign currency risks in financing result from financial receivables and liabilities in foreign currency and loans in foreign currency granted to finance Group comapnies. A distinction is drawn between two types of agreements when granting loans to Group companies. Operating loans are structured similarly to an overdraft facility and can be drawn flexibly within a set credit limit. Financing loans are granted to Group companies with greater financing requirements. As of the reporting date, the main financing loans with repayment on final maturity were hedged using forward exchange contracts.

Group-wide guidelines ensure strict separation of the functions trading, handling and control for all financial market transactions. The same guidelines form the basis for the selection and scope of hedges. The objective of currency hedges is to minimize currency effects on the development of the Group’s net income and equity.

The currency risk is determined based on the balance sheet currency exposure as of December 31, 2013. This approach is chosen by the HUGO BOSS Group based on its hedging strategy, which aims to minimize balance sheet risks. The exposures include cash, receivables and payables as well intercompany loans held in currencies other than the functional currency of each respective Group company. Effects from the translation of financial statements of foreign subsidiaries outside the eurozone are not taken into account.

Based on the requirements of IFRS 7, the HUGO BOSS Group has calculated the effects of changes in the most important exchange rates on net income and equity. The following sensitivity analyses show the net income and equity that would have resulted if different exchange rates had prevailed as of the reporting date. It is assumed that the balances as of the reporting date are representative for the entire year.

03|47 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2013
(in EUR million)

	USD	**GBP**	**AUD**	**CHF**	**JPY**	**HKD**	**CNY**
Gross currency exposure	**3.7**	**14.8**	**27.5**	**(39.7)**	**25.6**	**(9.5)**	**21.9**
Hedging	(17.4)	(15.6)	(25.9)	0.0	(22.1)	0.0	0.0
Net currency exposure	**(13.7)**	**(0.8)**	**1.5**	**(39.7)**	**3.4**	**(9.5)**	**21.9**
Historic volatility	8.4	7.3	10.4	4.9	12.4	9.0	9.1
Appreciation of the euro by standard deviation							
Net income	0.9	0.0	(0.1)	1.5	(0.3)	0.7	(1.5)
Depreciation of the euro by standard deviation							
Net income	(0.9)	0.0	0.1	(1.5)	0.3	(0.7)	1.5

03|48 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2012
(in EUR million)

	USD	GBP	AUD	CHF	JPY	HKD	CNY
Gross currency exposure	**40.4**	**16.6**	**22.5**	**(30.0)**	**29.8**	**(7.5)**	**18.5**
Hedging	(45.5)	(21.4)	0.0	0.0	(26.4)	(4.4)	0.0
Net currency exposure	**(5.1)**	**(4.8)**	**22.5**	**(30.0)**	**3.4**	**(11.9)**	**18.5**
Historic volatility	9.2	6.8	8.7	4.8	12.3	9.5	9.4
Appreciation of the euro by standard deviation							
Net income	0.4	0.2	(1.5)	1.1	(0.3)	0.9	(1.3)
Depreciation of the euro by standard deviation							
Net income	(0.4)	(0.2)	1.5	(1.1)	0.3	(0.9)	1.3

The historical volatility of the individual foreign currencies was factored in to present the fluctuation of the foreign currencies of relevance to the HUGO BOSS Group relative to the euro and satisfy the requirements of IFRS 7 with regards to the disclosure of a "reasonably possible change". This was calculated based on daily fluctuations over the past twelve months.

Had the euro appreciated against the foreign currency exposures of relevance by one standard deviation in each case the Group's net income would have been EUR 1.2 million higher (2012: EUR 0.5 million lower). Had the euro depreciated by the same amount, the Group's net income would have been EUR 1.2 million lower (2012: EUR 0.5 million higher). As of the reporting date, there were no derivatives designated as effective currency hedges within the meaning of IAS 39 reported directly in equity. The sensitivity of equity is thus reflected in the consolidated net income.

Management expects changes in the exchange rates of relevance to HUGO BOSS to be likely in fiscal year 2014. The risk of exchange rate fluctuations and its impact on the earnings of the HUGO BOSS Group based on the above sensitivity analysis is classified as minor.

Credit risk

The credit risk related to financial institutions mainly results from the investment of liquid funds as part of liquidity management, from any short-term bank deposits and from trading in derivative financial instruments.

With respect to financial instruments, the Group is exposed to a (bank) default risk in connection with the possible failure of a contractual party to meet its obligations. The maximum amount involved is therefore the positive fair value of the financial instrument in question. To minimize the risk of default, the HUGO BOSS Group generally only contracts financial instruments for financing activities with counterparties that have excellent credit ratings and in compliance with set risk limits. Only in exceptional cases and subject to the approval of the Managing Board it is permitted within tight limits to hold time deposits and conclude derivative transactions with banks that have lower credit ratings. HUGO BOSS assumes that the concentration of risk is low and perceives the probability of counterparty default to be unlikely with a minor financial impact. → **Notes to the Consolidated Financial Statements, Note 26**

Share price risk

In contrast to the prior year, there were no share price risks as of the reporting date as there were no option rights from the stock appreciation rights program that could be exercised. → **Notes to the Consolidated Financial Statements, Note 37**

Tax risks

Tax issues are regularly analyzed and assessed by the central tax department in cooperation with external tax consultants. There are tax risks for all open assessment periods. These can result from current business operations or changes in the legal or tax structure of the Group. Sufficient provisions were recognized in prior fiscal years for known tax risks. The amount provided for is based on various assumptions such as interpretation of the respective legal requirements, latest court rulings and the opinion of the authorities, which is used as a basis by management to measure the loss amount and its likelihood of occurrence. It is also resorted to the opinion of local authorized experts such as lawyers or tax consulting firms. On account of changes in the tax legislation of individual countries or diverging estimations of existing issues by the tax authorities, the Group assumes that additional tax risks are likely with minor financial impact.

Pension risks

The HUGO BOSS Group is exposed to risks in connection with defined benefit obligations. These can impact the net assets, financial position and results of operations of the Group. Pension commitments are measured on the basis of actuarial reports and accounted for accordingly. The main measurement parameters are the discount rate and the expected salary and pension trends. Future changes in measurement parameters can lead to an increase or decrease in pension provisions on subsequent reporting dates. Furthermore, changes in financial markets can affect the value of the plan assets available to cover the pension obligations. Furthermore, local pension regulations in specific countries can also lead to increased cash outflows. Pension risks and their effect on the net assets, financial position and results of operations are classified as likely with a minor financial impact. → **Notes to the Consolidated Financial Statements, Provisions for Pensions, Note 25**

OPERATIONAL RISKS

Risks relating to the sourcing market

The high quality requirements imposed on HUGO BOSS products and, in turn, on sourcing and production processes make close partnering with suppliers essential. However, concentration of production capacity can result in sales losses in the event of production downtime. Strategic suppliers are regularly inspected and rated so that any adverse developments are detected early and appropriate countermeasures can be implemented. A concentration of risk could also result from regional incidents affecting several suppliers, divisions or product groups at the same time.

To secure a reliable supply of production material and capacity at suitable quality and cost levels, orders to suppliers as well as capacity utilization are coordinated centrally. The supplier structure is regularly reviewed in order to detect sovereign risk in due time. Given the high quality standards and available production capacities, HUGO BOSS attempts to spread risks by diversification. The sourcing volume is distributed among a global network of suppliers in order to maintain the greatest possible independence from individual procurement markets and producers. Indeed, the largest single independent supplier only made up about 7% of the total sourcing volume (2012: 8%). As a rule, HUGO BOSS avoids single sourcing and identifies alternative suppliers early on as needed to secure the supply of goods in the event of contingencies. Against the backdrop of the known earthquake risks at the Group's own production site in Turkey, particularly thorough measures have been implemented here. Based on a regular analysis of the potential damage, relocation options have been identified and the risks of financial loss covered to the extent possible by taking out insurance.

Given the measures in place, management estimates that risks from dependence on individual suppliers or the regional distribution of the volume sourced are unlikely to occur. The financial consequences of risks in connection with supply chain interdependencies have decreased slightly compared to the prior year thanks to the optimization of sourcing processes and are now classified as minor.

Wage increases in production, which are particularly likely in emerging economies, together with rising prices for raw materials can augment production costs and burden gross profit margin. The HUGO BOSS Group counters this risk with margin-based collection planning, Group-wide measures to improve efficiency in production and sourcing processes, improvements in the use of materials and rigorous implementation of the pricing policy. The lead time in sourcing and production processes provides an opportunity to respond to early warning indicators. Given current developments in emerging economies, it is assumed at present that, although risks from higher production costs are still possible, they would only have a minor negative impact on the expected development of earnings.

The allocation of production capacity as well as raw materials and finished goods as part of the sourcing processes involves planning risks. Deviations from an appropriate allocation can lead to excess allocation resulting in high inventory levels on the one hand. On the other hand, it can also lead to insufficient allocation and the risk of failing to benefit from sales opportunities. In view of the large volumes involved, such misallocations have to be considered likely; depending on their magnitude, the associated financial consequences could have a significant impact on the expected development of earnings. As a consequence, the Group is making great efforts to continually improve forecast quality and shorten lead times to further mitigate this risk. To this end, the electronic integration of suppliers in the Group's organization was driven forward in the past few years, thereby optimizing transparency along the entire supply chain. → **Sourcing and production**

Quality risks

Product quality is decisive for brand image. With this in mind, HUGO BOSS products are subject to quality assurance controls that are standardized throughout the Group and executed at all steps of the manufacturing process. Production sites are regularly inspected by field technicians who verify whether design and product specifications are being strictly complied with. Entry controls, controls at suppliers and quality checks at the Technical Development Center located at the Metzingen headquarters ensure that the strict quality standards of HUGO BOSS are followed and that goods are supplied to customers in immaculate conditions and on schedule. Nevertheless, a certain amount of product returns for quality reasons is still very likely in the future. However, the impact on the development of earnings is classified as minor to moderate due to the recognition of appropriate provisions for returned goods and the regular review of the amounts recognized. → **Sourcing and production**

Logistics risks

Raw materials and finished goods are stored in a small number of selected locations that guarantee the highest quality standards. The central distribution center for hanging garments at the Group's headquarters in Metzingen and the commissioning of a modern flat goods warehouse in 2014 reinforce this consolidation trend. HUGO BOSS is exposed to logistics risks, mainly related to the outage or loss of warehouses. To counteract the risk of losing raw materials or finished goods and, in turn, sales due to interruptions in supply, warehouses of strategic importance are operated by the Group and extensive technical and organizational measures for fire prevention and security are implemented; their observance is continually inspected. HUGO BOSS has also taken out insurance to cover the indirect financial risk from a loss of warehoused goods or the outage of the Group's own production facilities. The risks involved in commencing operations at the new flat goods warehouse are minimized with the support of professional project management and by gradually increasing its capacity. Taking into account the measures in place, the likelihood of occurrence with respect to logistics risks has remained nearly unchanged compared to the prior year and is still classified as possible. However, the associated financial consequences are expected to be minor.

Sales and distribution risks

The increasing significance of the Group's own retail business has led to an increased inventory risk, particularly in the event of unfavorable macroeconomic developments. The challenge of inventory management is to optimize inventories without compromising the ability to rapidly respond to customer orders. To mitigate inventory risks and optimize inventories in general, replenishment activities are coordinated by a competence center. Write-downs provide for inventory risks from slow-moving goods and the resulting reduction in marketability; these are reviewed at regular intervals. Sufficient write-downs were recognized as of the reporting date from management's perspective. A downturn in demand or an erroneous assessment of sell-through rates can have a negative impact on stock turnover and possibly result in higher discounts. The countermeasure of granting additional discounts necessarily translates to a reduced margin and is therefore continually monitored by the controlling department. A centrally managed pricing policy, differentiated retail channels and collections adjusted to the respective distribution channel serve to further improve the efficiency of sales floor space. Nevertheless, unanticipated developments in sales markets leading to additional discounts or higher impairment losses will still be possible in the future. The Managing Board estimates the resulting effects on the net assets, financial position and results of operations of the Group to be moderate.

Attention is paid to ensuring a balanced customer structure to avoid a potential overdependence on customers in the wholesale channel. The expansion of the Group's own retail activities reduces the overall dependence on the wholesale business. Indicators such as order backlog, sales and supply rates are monitored continually and in a timely manner by the controlling department. In addition, bad debts can be incurred in the wholesale channel. This risk is a function of both macroeconomic developments as well as the individual situation of customers. The HUGO BOSS Group is thus exposed to the negative impact of the insolvency of individual business partners and a concentration of bad debts in the event of a deterioration of economic conditions in individual markets and regions. The Group-wide receivables management based on uniform rules which has been implemented in the past, was intensified further by introducing centrally coordinated measures. These focus on credit rating checks and the setting and observance of customer credit limits, monitoring of the age structure of receivables and the handling of doubtful accounts. In specific cases, this also means that deliveries are only made upon prepayment or by agreeing other terms designed to secure payment, or to the discontinuation of business with customers with an insufficient credit rating. The internal audit function regularly checks compliance with these Group guidelines. As of the reporting date, there was no concentration of default risk caused by significant overdue payments of individual customers. Consequently, risks in connection with the default of wholesale partners are possible but their overall impact is estimated to be minor. → **Notes to the consolidated financial statements, Note 16**

ORGANIZATIONAL RISKS

IT risks

A powerful IT infrastructure uniformly implemented throughout the Group ensures smooth business operations. Various measures have been taken to mitigate the risk of system interruptions, data loss and unauthorized access including multi-level security and anti-virus concepts, the issue of user rights, access control systems, data backups and uninterrupted power supply. HUGO BOSS also works with professional service providers to avert risks in specific subareas. Consequently, management assumes that the probability of occurrence with respect to IT risks is unlikely and that any financial effect would be minor.

Legal risks

Possible legal risks can arise in the course of worldwide business activities. All significant legal transactions entered into by the HUGO BOSS Group are reviewed and approved by the central legal department to avoid litigation to the extent possible. The central legal department works closely with local lawyers and subsidiaries. Insurance policies with coverage worldwide are used to mitigate liability risk. Sufficient provisions were recognized in the past fiscal year for current litigation costs. A burden from additional legal risks is considered possible, although the impact on the net assets, financial position and results of operations of the Group is considered minor from the perspective of management.

Personnel risks

Personnel risks mainly stem from recruitment bottlenecks, a shortage of specialists and employee turnover. These risks are limited using a comprehensive range of training measures, performance-based compensation and timely succession planning. In addition, extensive talent and performance management supports the development and career planning of employees in a targeted way. The Group's good reputation with respect to working conditions and employee satisfaction is regularly confirmed by the Group's consistent presence in the top positions of various employer rankings. The Group will continue to enhance the employer branding of HUGO BOSS in the future with additional initiatives and raise its appeal to secure the loyalty of employees. Measures launched in the past, such as the promotion of employee health and the support for striking a work-life balance will remain a focal point in future. Due to the successful measures, the Group is well positioned to face the growing international competition for highly qualified specialists and managers. As a result, it estimates the probability of occurrence of the associated risks to be unlikely with a minor impact on the planned development of earnings. → **Employees**

Risks relating to corporate governance and compliance

HUGO BOSS is characterized by a trust-based corporate culture with flat hierarchies. Conscientious conduct and mindsets are encouraged at every organizational level. Despite sophisticated and multi-level review and control mechanisms, access to confidential information and the high level of entrepreneurial leeway allowed generally entail the risk of misuse. In line with good corporate governance, HUGO BOSS has therefore incorporated corresponding rules in the employment agreements concluded with all employees. Individuals with insider knowledge within the meaning of German stock corporations law undertake to comply with the pertinent requirements and are listed in an insider register. In addition, the existing authorization rules are regularly reviewed and enhanced.

All employees of the HUGO BOSS Group are required to comply with the general code of conduct applicable throughout the Group and the supplementary compliance rules applicable in specific areas. As in the past, an extensive training program was implemented on the topic of compliance again in the past fiscal year. Compliance is monitored centrally and reported to the Managing Board. Compliance infringements are classified as possible, although their financial impact would be minor from the perspective of management.

In addition, suppliers are contractually bound to comply with social standards which govern issues such as occupational health and safety, bans on child labor and fair wages. Oversight takes the form of regular inspections. If infringements of standards and legal requirements are detected, depending on the seriousness of the infringement, the review frequency is increased and a binding plan of measures is agreed, with its implementation being monitored. In serious cases, a cooperation may be discontinued. Failure to comply with the Group's social standards is currently classified as unlikely by the Managing Board as a whole. Unexpected infringements could have a moderate impact on the Group's net assets, financial position and results of operations. → **Sustainability** → **Corporate Governance Report**

ASSESSMENT OF THE RISK SITUATION BY MANAGEMENT

On the basis of the detailed information that is continually recorded as part of the risk management process both by the parent Group and the subsidiaries worldwide and evaluated by the central risk management team, the Managing Board currently assumes that based on the information available all individual and aggregated risks can be classified as manageable. Interdependencies or common causes that could simultaneously trigger several risks also do not endanger the continued existence of the Group as a going concern. In general, however, the existence of additional latent risks that were not or only insufficiently identified as part of the risk management process cannot be ruled out.

Compared to the last report as of the end of fiscal year 2012, the HUGO BOSS Group's overall risk exposure has decreased slightly despite the growth realized and still projected. As in prior years, the largest risk position stems from the category operative risks.

03|49 DEVELOPMENT AND COMPOSITION OF TOTAL RISK EXPOSURE
Exposure = possible financial impact weighted by likelihood of occurrence

Risk categories	Trend	Exposure
External risks	→	
Strategic risks	→	
Financial risks	↗	
Operative risks	→	
Organizational risks	↘	
Total risk	➘	

REPORT ON THE ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM PURSUANT TO SEC. 289 (5) AND 315 (2) NO. 5 HGB

The system of internal control and risk management of the HUGO BOSS Group, as applied to the financial reporting process and the financial statements closing process, aims to accurately compile, present and assess all business transactions in the accounting records. The clear definition of areas of responsibility in the finance department of HUGO BOSS AG and the proper basic and advanced training of employees together with the deployment of adequate software and issue of uniformly applicable guidelines form the basis for a professional, efficient and consistent financial reporting process. Overall, this ensures that assets and liabilities are accurately recognized, measured and disclosed in the consolidated financial statements and that a reliable statement can be made on the net assets, financial position and results of operations as well as the cash flow.

Accounting-related IT systems

Management controls across all divisions depend on accurate and up-to-date information. Business information and reporting systems are therefore of high importance. In this context, the control quality has improved considerably with the Group-wide introduction of SAP AFS, SAP Retail and the BIS system (Business Intelligence Services system). The BIS system contains numerous KPI reports both for the area of finance and controlling and for all operational areas that can be accessed daily.

The extensive monthly management reporting package is one of the most important reporting tools in the area of finance. As part of the standardized Group-wide reporting, all HUGO BOSS companies supply detailed information on the most important line items of the statement of financial position and the income statement together with KPIs and explanations. In this process, the central finance department sets binding deadlines and content for reporting. Automated and standardized reporting formats are in place for many reporting topics. The central finance and controlling departments have content responsibility in this area. Related tasks include central maintenance of master data for the chart of accounts applicable throughout the Group as well as the continuous review of reporting formats with respect to their observance of the latest applicable international financial reporting requirements. In addition, checks are performed at regular intervals to verify whether business transactions at HUGO BOSS are recorded consistently and corrections made if deviations are detected.

In order to prevent unauthorized access to data of relevance to financial reporting and to ensure the integrity, availability and authenticity of data at all times, the SAP Security Policy (a component of the IT security guideline) was implemented Group-wide. This policy also contains requirements for controls designed to ensure a properly functioning finance organization. The IT security of the accounting-related processes is supplemented by system-enabled controls and workflow-based processes that impose the dual-control principle, suitable segregation of functions and approval processes. This includes invoice verification and approval, the sourcing processes or SAP authorization management.

In addition, the user rights required by employees are defined using roles which describe jobs or positions in the Group. Since 2009, HUGO BOSS has been using a special detection software without exceptions to ensure an appropriate segregation of functions in SAP systems. This compares a user's authorization profile with a pre-installed SoD (segregation of duties) model. Group-wide authorization management and the definition of roles are likewise performed in the central IT departments of HUGO BOSS AG in Metzingen.

Organization of financial reporting and accounting-related guidelines

All companies of the HUGO BOSS Group are legally independent entities. Apart from the managing director, who is responsible for business operations in the respective market, the finance manager is responsible for all issues of relevance to the company's financial reporting. The finance manager is also responsible for continuous monitoring of key management indicators, monthly reporting of KPIs to the central finance reporting and the preparation of a three-year plan for the respective market. In addition, the feasibility and viability of new investment projects, particularly in the Group's own retail business, have to be analyzed and also coordinated with the controlling department at HUGO BOSS AG.

In his capacity as technical supervisor of all finance managers, the CFO of HUGO BOSS AG is authorized to issue directives on and is thus responsible for the Group-wide financial management.

The finance managers and the managing directors of the HUGO BOSS companies confirm on a quarterly basis compliance with defined principles and the execution of management controls through what is referred to as a CFO certificate. Some of these controls are integrated in the ERP software deployed throughout the Group. Reports also have to be submitted regarding the appropriateness of controls for ensuring data integrity and data access protection as well as in the event of fraud or serious infringements of the internal control system.

In addition to providing active support to all divisions and Group companies, the central finance department in Metzingen is responsible for preparing and revising uniform guidelines and instructions for accounting-related processes. This mainly encompasses the preparation and revision of the bad debt allowance policy, an investment guideline, the IAS/IFRS accounting manual and clear intercompany reconciliation requirements.

Questions on specific accounting and valuation matters of relevance to the HUGO BOSS Group are likewise dealt with centrally, where they are analyzed, documented and communicated to the "HUGO BOSS financial community". In addition, a central e-mail address provides staff the option to address open issues in a timely manner to the central finance and controlling department. Significant accounting and valuation matters and changes to relevant IAS/IFRS and Interpretations are discussed with the auditors of the consolidated financial statements in regular meetings held at least on a quarterly basis. Professional development events are organized at regular intervals, while updates on topics of relevance for financial reporting are communicated in an accounting newsletter and posted in the Finance Forum on the Group's intranet. A financial college provides training to junior employees of the finance and controlling departments. Once a year, the finance managers meet at the finance managers' meeting.

The internal audit function is part of the system of internal control and in its oversight function reviews compliance with and the effectiveness of the defined controls. The annual audit plan and its areas of focus are discussed with the Managing Board and Audit Committee. Ad hoc audits can be performed at any time. All audit reports are submitted directly to the CFO and, if necessary, to the Managing Board as a whole. In addition, the internal audit function reports regularly to the Audit Committee.

ADDITIONAL INFORMATION ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO HGB OF HUGO BOSS AG

As the parent company of the HUGO BOSS Group, HUGO BOSS AG is integrated in the Group-wide accounting-related system of internal control and risk management described above. The above disclosures also generally apply to the separate financial statements pursuant to HGB of HUGO BOSS AG.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). If necessary – for instance, for purposes relating to the separate financial statements pursuant to HGB or for tax purposes – reconciliations are made to the respective requirements on account level. This means that specific information contained in the IFRS consolidated financial statements also constitutes a significant basis for the separate financial statements of HUGO BOSS AG. At HUGO BOSS AG, the conceptual framework above is supplemented by a mandatory HGB accounting manual and HGB chart of accounts.

OPPORTUNITIES REPORT

Systematically identifying and capturing value-enhancing business opportunities is a key element of efforts to ensure that the Company grows profitably.

Decentralized organization of opportunity management

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

Ongoing monitoring and close links to Group planning

Short-term opportunities – in the sense of potential, positive deviations from the planned operating result (EBIT) – in the current fiscal year are centrally compiled at regular intervals. Long-term opportunities management is directly linked to corporate planning. Opportunities identified and evaluated based on their contribution to the enterprise value are factored into the annual budget and long-term strategy planning. In this process, the Managing Board, in consultation with operational units, makes decisions regarding their realization and allocates the resources needed.

HUGO BOSS has identified the following key opportunities that stem from the Company's environment and its strategy.

EXTERNAL OPPORTUNITIES

Opportunities from macroeconomic development

Economic conditions in its sales markets influence the Group's growth prospects. As a company operating in the consumer goods industry, HUGO BOSS can benefit directly from favorable macroeconomic developments and their effect on consumer confidence and customers' buying behavior.

Opportunities from changes in the market environment

Regulatory and legal changes can potentially have a positive impact on sales and the Company's profitability. A reduction of import duties or tax cuts, for instance, can improve the Company's competitive position compared to local competition.

STRATEGIC AND OPERATIONAL OPPORTUNITIES

Relevant customer segment growing significantly

Industry experts anticipate robust growth worldwide in the premium and luxury goods market. Indeed, some analysts project that by 2025 about 600 million more people will have the purchasing power to buy premium and luxury goods compared to today. Substantial growth is expected in emerging countries in particular, driven by rising income levels and the high share of total disposable income dedicated to consumption compared to other parts of the world. Given the positioning of its brands in the premium and luxury segment, the Group sees itself in an ideal position to profit from these developments. The Group is moving to capture the identified growth potential using market entry and market penetration strategies specifically tailored to individual countries. It is also systematically reinforcing its distribution activities in metropolitan areas, particularly in Europe, to create an attractive offering for the tourist segment, an area of growing commercial importance.

Growing interest in fashion among men

In recent years, interest in fashionable clothing has grown considerably, particularly among younger men. More and more men are paying increasing attention to fashionable appearance as a means of expressing their personality or standing out from the crowd. Clothing is also increasingly considered an important determinant of how an individual's competence in the workplace is perceived by others. HUGO BOSS' brand commitment to offer fashionable and stylish clothing of outstanding quality addresses these needs very effectively, so that the Group sees excellent opportunities to benefit from the growing fashion sense of men worldwide.

Changing shopping habits and lifestyles

The rapid technological progress seen in last 15 years, and particularly the quantum leap in the importance of the Internet, has radically changed the shopping habits and lifestyles of consumers. HUGO BOSS sees this change as an opportunity. With the expansion and continuous improvement of its online stores, the Group addresses the expectations of consumers with respect to product presentation, selection and service. Close integration of the online offering with bricks-and-mortar retail also affords good opportunities to offer comfortable and efficient shopping solutions to its core target group – men and women who are successful in their professions and private lives and who are on tight schedules. At the same time, the Group uses digital media to strengthen perception of its brands and charge them emotionally.

Growing need for individuality

The Group addresses its customers' growing need for individuality both in its brand strategy and in its distribution strategy. By building up and regionally extending its Made to Measure offering, the Group can offer to a growing number of interested consumers the option of wearing individually modified and tailored products with which they can stand out from the crowd. The exclusivity of this offering is also conveyed in the shopping experience, with dedicated sales floor space specially designed for this purpose. The Company also sees good opportunities for forging stronger ties between consumers and HUGO BOSS and encouraging the brand loyalty of customers by reaching out to them individually as part of systematic customer relationship management in the form of telephone calls, personal mailshots or newsletters.

Brand portfolio allows targeting of differentiated customer segments

HUGO BOSS believes it has an outstanding position in the global apparel market. The Group's brands stand for excellent quality, outstanding workmanship and modern design. With its brands, the Group reaches out to a wide public across the entire spectrum of the premium and luxury fashion market – from the avant-garde HUGO brand and the modern, sophisticated BOSS offering to the lifestyle brand BOSS Orange. By integrating BOSS Selection into the BOSS core brand, the Group has significantly strengthened its offering in the luxury segment. With this move, the Groups hopes to create better opportunities to tap sales potential and form stronger ties with existing customers while securing their loyalty to the brand through all stages of their lives.

Growth opportunities in product categories with relatively low market penetration

HUGO BOSS is the market leader in many market segments and regions, particularly in the premium menswear market. However, its penetration in the womenswear segment is significantly lower in most markets. As a result, the Group sees substantial potential in this business segment and is working intensively to successfully implement its strategy designed to grow its market share. Manpower in the business area was strengthened through the appointment of Jason Wu as Artistic Director. In addition, the profile of womenswear in the Group's own retail stores was raised, particularly in flagship stores. Perception of the womenswear range is also supported by the expansion of brand communication activities. Closely related to its core competence in apparel, the shoes and accessories product category is another area in which HUGO BOSS has identified good growth opportunities.

Growing retail expertise creates new growth opportunities

In recent years, HUGO BOSS has increasingly realigned its distribution activities towards end consumers and significantly increased the share of sales generated with its own retail business. With the expansion of its own store network, the Company is tapping additional sales potential, both in established and emerging markets. In addition, HUGO BOSS is increasingly taking the opportunity of directly operating mono-brand shop-in-shops at wholesale partners. Complete control over how the point of sale is designed allows improvements in the quality of presentation, thereby increasing perceived quality of the product range. At the same time, the Company is gaining insights into its customers' needs first hand. In view of the growing importance of the distribution channel, the Group is working hard to systematically increase its retail competence.

Process improvements tap additional sales and earnings potential

HUGO BOSS is addressing the growing importance of its own retail business by optimizing critical operational processes. This puts the Group in a position to cater more effectively to the needs of end consumers and respond more quickly than ever before to market changes. In this context, the focus in fiscal year 2014 is on the start of operations of the new flat-packed goods distribution center and the associated closer systematic integration of the supply chain in a move to accelerate and raise the efficiency of merchandise flows in Europe. The Group continues to see substantial opportunities to generate positive effects on sales and earnings over the coming years through the continuous optimization of processes. For instance, the Group is intensively working on increasing the use of virtualization technology in specific phases of the product development process to generate time and cost advantages.

FINANCIAL OPPORTUNITIES

Exchange rate and interest fluctuations can buoy the development of earnings

Favorable exchange rate and interest developments can potentially have a positive impact on the development of the Group's earnings. The Group continually analyzes the market environment in order to identify and benefit from opportunities in this area.

SUBSEQUENT EVENTS AND OUTLOOK

HUGO BOSS anticipates further growth in 2014. Implementation of the Group's strategy and the initiatives derived from it will raise sales and operating result to record heights for the Company. Adjusted for currency effects, the Group's sales are expected to grow by a high single-digit figure driven by expansion across all regions. The Group's own retail business is expected to continue functioning as the engine of growth with double-digit growth rates expected. HUGO BOSS believes that it can increase the operating result (EBITDA before special items) by a high single-digit figure in 2014 based on productivity improvements in the Group's own retail business, a positive development of the gross profit margin and strict management of operating overheads.

SUBSEQUENT EVENTS

No events requiring disclosure

Between the end of fiscal year 2013 and the release for publication of this report on February 19, 2014 there were no notable macroeconomic, socio-political, industry-related or company-specific changes which could have a material impact on the Company's results of operations, net assets and financial position according to the expectations of management.

OUTLOOK

Forward-looking statements

The following report presents the forecasts by management of HUGO BOSS with respect to the future development of business and describes the expected development of significant macroeconomic and sector-specific conditions. It reflects management's understanding when the report was being prepared. This takes into account that actual developments can deviate favorably or adversely from these forecasts due to the emergence of risks and opportunities as described in the report on risks and opportunities. The HUGO BOSS Group assumes no obligation to update the information contained in this report beyond the publication requirements prescribed by law.

External factors influence development of business

Economic and sector-specific developments influence the development of operations and the financial position of HUGO BOSS. It is therefore imperative for the Group to detect such trends early in order to respond quickly with suitable measures.

Brighter prospects for global economic growth despite existing risks

For 2014, the IMF expects the growth of the **global economy** to pick up to 3.6%. Reduced pressure to deleverage in many key economies, consensus from central banks to only gradually phase out their monetary stimulus measures and an acceleration of world trade should support the economic upswing. However, there are still risks for global economic growth from the failure to introduce structural reform in some emerging countries and related exchange rate turbulence as well as the still high levels of debt in many European countries and in the United States.

European economy returns to growth

According to estimates of the IMF the **European economy** will return to a growth path in 2014 and expand 1.0%. An easing of government austerity measures, the recovery of export activity globally and within Europe, increased capital expenditure and a slight recovery of private consumption are expected to fuel growth. Sluggish reform efforts, the still high level of debt in many countries of the region together with a strong euro still pose risks to the economic recovery, however. Nevertheless, the IMF anticipates that growth in Germany will again outpace the rest of the region on average in 2014. Here, impetus will stem from domestic demand, which is expected to deliver a robust performance thanks to a stable labor market, wage increases and a lower savings ratio. Growth in France is expected to accelerate to 1.0% on the back of the global economic recovery. However, the economy there still faces a headwind from the slow implementation of economic reform. In Great Britain, economic growth of 1.9% is anticipated, mainly due to increasing capital expenditure and positive impetus from the export sector.

Economy in the Americas continues to pick up

For the **United States**, the IMF expects economic growth to accelerate to a rate of 2.8% in 2014. Continued expansionary monetary policy, a further improvement of the labor market and increasing wages should support economic growth in the form of a recovery of private consumption and increased investment activity by companies. According to the IMF the **Latin American economy** should grow by 3.1% in 2014 and thus slightly faster than in the prior year. Particularly the Mexican economy will contribute to growth in the region. This trend is expected to be supported by the continued recovery of foreign demand, especially from the United States. In contrast, growth in the key markets of Brazil and Argentina will be further encumbered by failure to implement structural reforms and high production costs that place a burden on the competitiveness of these countries.

Further growth in Asia, but at normalized levels

The outlook for **Asian economies** has improved slightly in recent months. For the region as a whole, the IMF anticipates slightly faster growth of 6.5% in comparison to the prior year. For the Chinese economy, the IMF forecasts economic growth of 7.3%. This implies slower growth than in the prior year but roughly matches the growth targets of the Chinese government (up +7.5%). The forecast is based, however, on assumptions that world trade will recover and that further reforms will be implemented with a view to stimulating private consumption and economic liberalization of that country. The upcoming increase in VAT in Japan could have a temporary negative impact on economic development there. The weak yen should on the other hand further drive exports and therefore economic developments on the whole. In Australia, growth rates should accelerate on account of a slight upswing in private consumption and a recovery in the export sector, among other factors.

Ongoing industry growth in 2014

For 2014, continued growth is anticipated in the premium and luxury goods industry. According to Altagamma and Bain & Company, however, growth is likely to slow slightly to low- to mid-single digits after currency adjustments. It is anticipated that companies operating in this sector will primarily focus on their own retail activities. The number of new stores opened is expected to fall in comparison to prior years, however. Instead, a large number of market participants will concentrate on upgrading existing stores to improve the shopping experience and achieve higher productivity levels. Increasing importance will be placed on online distribution channels and integrating them into brick-and-mortar retail operations. On the other hand, department stores and specialist multi-brand retailers, that are still often owner operated, will come under pressure.

In 2014, all regions are expected to contribute to growth in the industry. Tourism, in particular from Asian countries, will in this respect bring about a shift in sales primarily in favor of the European and U.S. markets. Despite the gradual improvement in the economic environment in Western and, in particular, Southern Europe, industry growth in **Europe** will continue to suffer in many places from declining customer traffic of retail stores. This should, however, be offset by robust growth first and foremost in the emerging economies of Eastern Europe and the Middle East. In **the Americas** the industry outlook remains positive in light of upbeat consumer sentiment in the United States and ongoing sound growth in Latin America. Despite normalizing growth rates, the strongest growth for the industry continues to be forecast for **Asia**. The slowing rate of growth in the Chinese economy and the continuing anti-corruption campaign on the part of the Chinese government are likely to exert a dampening effect on local demand for luxury goods. Chinese consumers will also contribute to growth in the luxury goods industry in the form of tourism once again in 2014, however. The upcoming increase in VAT in Japan will probably initially have a negative impact on industry growth. The weakness of the yen is likely, however, to dampen tourism and thus tend to shift demand back into the local economy.

Significant increase in Group sales expected

HUGO BOSS anticipates that it will increase its sales in 2014 by a high single-digit percentage, adjusted for currency effects, despite the still challenging economic and industry situation in many markets. In this context, the Group assumes that growth will exceed the growth rates seen in the global economy and the luxury goods industry.

Growth forecast in all regions

In 2014, it is anticipated that all regions will contribute to the forecast increase in sales of the Group as a whole. Growth is expected in all important European markets, which will be borne by increasing orientation in the region to the Group’s own retail business. Positive development is forecast for the Americas region, with the U.S. market making the biggest contribution. The Group is also budgeting for growth in Asia. On the vital Chinese market in particular, HUGO BOSS is working to implement various measures to accelerate growth on the prior year. Sales in the royalties segment should similarly see positive developments.

Group's own retail business expected to see double-digit growth

In 2014, sales in the Group's own retail business are expected to return a clear double-digit increase. Alongside growth in own retail stores, the online business will contribute above-average growth rates. In addition to the positive sales effect from floor space growth, retail comp store sales are also forecast to rise. Comp store sales increases will be supported by more intense market communication activities and implementation of various measures to improve retail management. Takeovers of mono-brand retail areas previously managed by retail partners or franchisees will have a moderately positive impact on the development of Group sales. Broadly stable sales development is forecast for the wholesale business. This outlook is based on the development of order intake, feedback from business partners on the new collections and expectations as to the replenishment business. Ongoing consolidation of the customer portfolio and the associated decline in business with smaller business partners will have a negative impact on sales through this distribution channel.

Network of retail stores continues to grow

Once again in 2014, the HUGO BOSS Group will continue to expand its own retail business and open some 50 new stores. Based on an analysis of its market penetration, the Group sees opportunities for profitable expansion in all regions. Alongside organic growth from new stores, the Group intends to take over HUGO BOSS shop-in-shops in Australia that were previously managed by a retail partner. As part of quality enhancement of its store portfolio first and foremost in Asia, the Group also intends to close sales points. In many cases, this development is associated with the relocation and merging of existing stores to form higher quality and larger sales points.

Gross profit margin is to further increase

HUGO BOSS expects a further increase in its gross profit margin in 2014. While efficiency gains in production and sourcing activities are likely to be offset by rising labor costs, the rising share of sales generated by the Group's own retail business will support this increase. The gross profit margin generated through this distribution channel is higher than in the wholesale business.

Operating expenses rise on account of retail expansion and higher marketing expenses

The Group's operating expenses will increase primarily on account of the ongoing expansion of its own retail business. In addition, the Group is planning to significantly increase its marketing expenses in comparison to the prior year with a view to boosting customer demand. Logistics expenses will rise due to the new flat-packed goods distribution center in Germany going into operation. The non-recurring cost effects associated with the migration of existing locations in the first half of the year will override the positive effects from falling handling costs. Research and development costs are expected to see a moderate rise. All in all, administration expenses are expected to grow at a slower rate than sales, however.

Operating result forecast to rise at high single-digit rate

The forecast growth in sales and gross profit margin will support a high single-digit rise in the operating result (EBITDA before special items). The adjusted operating margin is therefore likely to remain stable. A high single-digit rise is also anticipated for Group net income and earnings per share. Alongside the increase in the operating result, another contribution to this will come from a decrease in net finance costs on account of a decline in the average level of liabilities.

Strict management of trade net working capital

Strict management of trade net working capital continues to be given high priority in order to boost improvements to operating cash flow. In 2014, the Group aims to repeat the significant progress achieved in 2013 and keep the ratio of trade net working capital to sales roughly at the same level as at year end. Further potential for improvement has been identified specifically in reducing days inventories outstanding. For example, implementation of a more frequent product turn as a consequence of the change in the rhythm of collections, and improved merchandise flow planning are intended to reduce days inventories outstanding, specifically in the Group's own retail business.

Capital expenditure focuses on Group's own retail business

Expanding the Group's own retail business and the renovation of existing stores and shops will be the focal point of the Group's capital expenditure in 2014. Furthermore, the Group plans to reinforce its operating infrastructure in the areas of IT, logistics and production. On account of the non-recurrence of expenses incurred in the prior year in connection with the new flat-packed goods distribution center as well as the comprehensive expansion of the flagship store portfolio, however, capital expenditure will decrease in 2014 amounting to between EUR 110 million and EUR 130 million.

Healthy cash flow development supports achievement of positive net financial position

The Group anticipates a healthy cash flow in 2014 primarily on account of the forecast earnings growth, strict management of trade net working capital and value-enhancing capital expenditure. Surplus funds in excess of the dividend payment are to be kept on hand as a liquidity reserve. The Group is correspondingly working on the assumption that cash and cash equivalents will exceed gross financial liabilities as of year-end. In light of the Group's strong internal financing power and the long-term financing in the form of a syndicated loan taken out at favorable conditions, the Group is not planning any material financing activities in 2014.

Dividend per share on the rise

HUGO BOSS pursues a profit-based distribution policy that allows the shareholders to participate appropriately in the Group's earnings development. The policy is to distribute to shareholders between 60% and 80% of consolidated net income on a regular basis. On account of the rise in profits in the past fiscal year, the Company's strong financial position and positive expectations for 2014, the Managing Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting to be held on May 13, 2014 a dividend of EUR 3.34 per share for fiscal year 2013 (2012: EUR 3.12). The proposal is equivalent to a payout ratio of 70% of the consolidated net income attributable to the shareholders of the parent company in 2013 (2012: 70%). Assuming that the shareholders approve the proposal, the dividend will be paid out on the day after the Annual Shareholders' Meeting, May 14, 2014. On the basis of the number of shares outstanding at year-end, the amount distributed will come to EUR 231 million (2012: EUR 216 million).

Further sales and earnings improvements in 2015 and beyond

The Group intends to generate further increases in sales and earnings in 2015 and beyond. The Group's strategy is oriented at organic growth of the existing brand portfolio. In 2015, Group sales are expected to reach EUR 3 billion, with more than 60% of sales expected to be generated in the Group's own retail business. The Group also assumes that, in future, it will generate a larger share of sales in emerging markets, which would lead to a regionally more balanced distribution of its sales. HUGO BOSS has also set itself the objective of earning an adjusted operating margin (EBITDA before special items in relation to sales) of 25% in the medium term. The Group plans to make further progress along these lines in 2015. Adverse macroeconomic and sector-specific developments in key sales markets, cost inflation in sourcing processes or a loss of appeal of the Group's brands could jeopardize the ability to meet these objectives. The Group has contingency plans in place to limit the likelihood of and impact in the event of occurrence of these and further risks. Details are presented in the risk report. → **Risk Report**

03|50 TARGET ACHIEVEMENT AND OUTLOOK

	Targets 2013	**Result 2013**	Outlook 2014
Group sales[1]	Further increase	+6%	High single-digit increase
Sales by region[1]	Growth in all regions		Growth in all regions
Europe		+7%	
Americas		+6%	
Asia/Pacific		+4%	
Sales by distribution channel[1]			
Group's own retail business	Double-digit growth	+18%	Double-digit growth
Wholesale	Roughly stable development	(6%)	Roughly stable development
Royalties	Growth	+2%	Growth
EBITDA before special items	Stronger growth than sales	Growth of 7% exceeds sales increase, adjusted EBITDA margin increases by 70 basis points to 23.2%	High single-digit increase
Trade net working capital	Decrease relative to sales	Decrease by 190 basis points to 17.9% of sales	Roughly stable development relative to sales
Capital expenditure	At previous year's level excluding special projects (EUR 166 million in 2012)	EUR 185 million (including EUR 34 million related to special projects)	EUR 110 million to EUR 130 million
Group's own retail stores	Ongoing expansion in floor space	Net increase by 170 stores to 1,010, including 115 takeovers	Opening of about 50 new stores
Free cash flow	Ongoing strong development	Free cash flow increases by EUR 9 million to EUR 229 million	Ongoing strong development
Net financial liabilities	Further reduction	Reduction of EUR 73 million to EUR 57 million	Attainment of positive net financial position

[1] On a currency-adjusted basis.

OVERALL ASSESSMENT OF THE MANAGING BOARD ON THE ECONOMIC SITUATION OF THE GROUP

HUGO BOSS looks back at a solid development of its business in 2013. As anticipated in the annual report 2012, sales and earnings grew despite the challenging economic environment.

Sales growth outperformed the development of the economy as whole and matched the level seen in the global premium and luxury goods industry. As forecast, all regions made a contribution to this development after currency adjustments. An analysis by distribution channel shows that, owing to the challenging market environment and the larger number of shop-in-shop units taken over from business partners than originally anticipated, the development of sales in the wholesale business remained below earlier expectations. The latter effect was more than compensated for by corresponding sales growth in the Group's own retail business. In total, sales in the Group's own retail business exhibited double-digit growth, in line with the original forecast.

The operating result (EBITDA before special items) increased by 7%. This development was supported by a better-than-anticipated development of the gross profit margin. As forecast, earnings growth thus exceeded sales growth leading to an improvement in the adjusted operating margin. → **Group Sales and Results of Operations**

Despite extensive investment in the Company's long-term growth, it was possible to increase free cash flow based on significant improvements in the management of trade net working capital and to reach the target set to further decrease net financial liabilities.
→ **Net Assets and Financial Position**

The Group is thus in an exceedingly healthy economic condition that offers a good basis for further profitable growth. Against this backdrop, HUGO BOSS expects that consolidated sales and earnings will continue to grow in 2014 and anticipates a further positive development of the Company overall also beyond the current year. → **Subsequent Events and Outlook**

Metzingen, February 19, 2014

HUGO BOSS AG
The Managing Board

Claus-Dietrich Lahrs
Christoph Auhagen
Mark Langer