2

COMBINED MANAGEMENT REPORT GROUP PROFILE

COMBINED MANAGEMENT REPORT
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, Germany, and with just under 13,000 employees, the Group generated sales of EUR 2.6 billion in fiscal year 2014 and is one of the most profitable listed apparel manufacturers in the world.

Positioned 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. It focuses on developing and marketing premium fashion and accessories for men and women. With its core brand BOSS, HUGO and its other brand lines BOSS Green and BOSS Orange, HUGO BOSS caters for different and clearly defined target groups. The brands cover a comprehensive product range encompassing classic-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.

Targeted brand communication

HUGO BOSS leverages targeted marketing measures to raise the appeal of its brands. Apart from traditional marketing instruments such as print and out-of-home media, it increasingly reaches the relevant target groups using digital channels. In light of the expansion of the Group's own retail business, the importance of retail marketing is also mounting. Sports sponsorship activities focus on premium sports such as Formula 1, golf or sailing that are an ideal way to 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 Group 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

HUGO BOSS sources roughly 20% of its procurement volume internally. In addition, products are manufactured by independent suppliers that are mainly located in Eastern Europe and Asia. The Group sells its collections in 130 countries around the world. The Group's sales regions are Europe (61% of sales), the Americas (23% of sales) and Asia/Pacific (14% of sales). In addition, 2% of sales are generated from licenses. **→ Sourcing and Production → Sales and Profit Development of the Business Segments**

Group's own retail business the most important sales channel

Over the last few years, HUGO BOSS has expanded its own retail business significantly. In fiscal year 2014, 57% of Group sales were generated in this sales channel. The number of points of sale owned by the Group rose by a net 31 to 1,041. These include freestanding stores operated by the Group in prime locations, shop-in-shops operated by the Group on multibrand retail space, particularly that of department store partners, and factory outlets. At the same time, online sales are also gaining in importance. At present, the Group operates eleven online stores in Germany, Great Britain, France, Spain, Italy, the Netherlands, Belgium, Austria, Switzerland, the USA and China. Wholesale business contributed 41% to Group sales in fiscal year 2014. Wholesale partners include department stores, specialist retailers, which are frequently family-run, franchise partners and, to a lesser extent, specialist online retailers. Department stores and specialist retailers sell HUGO BOSS products either in separate shop-in-shops or in a multibrand setting. Franchise partners operate freestanding HUGO BOSS stores in accordance with the Group's specifications and particularly operate in small markets not addressed by the Group's own retail business. In total, HUGO BOSS products can be bought at around 7,600 wholesale points of sale. → **Group Strategy** → **General Economic Situation and Industry Development**

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:** HUGO BOSS 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 on selling space with only limited own branding
Factory outlets: Sale of prior season's merchandise in specialist stores in high-traffic peripheral zones	**Franchise business:** Freestanding HUGO BOSS stores operated by partners
E-commerce: HUGO BOSS online stores in a number of different countries around the globe	**Online:** Online distribution through specialist online stores

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 55 consolidated subsidiaries that are responsible for local business activities. Of these, 35 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 bundles 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 license 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.

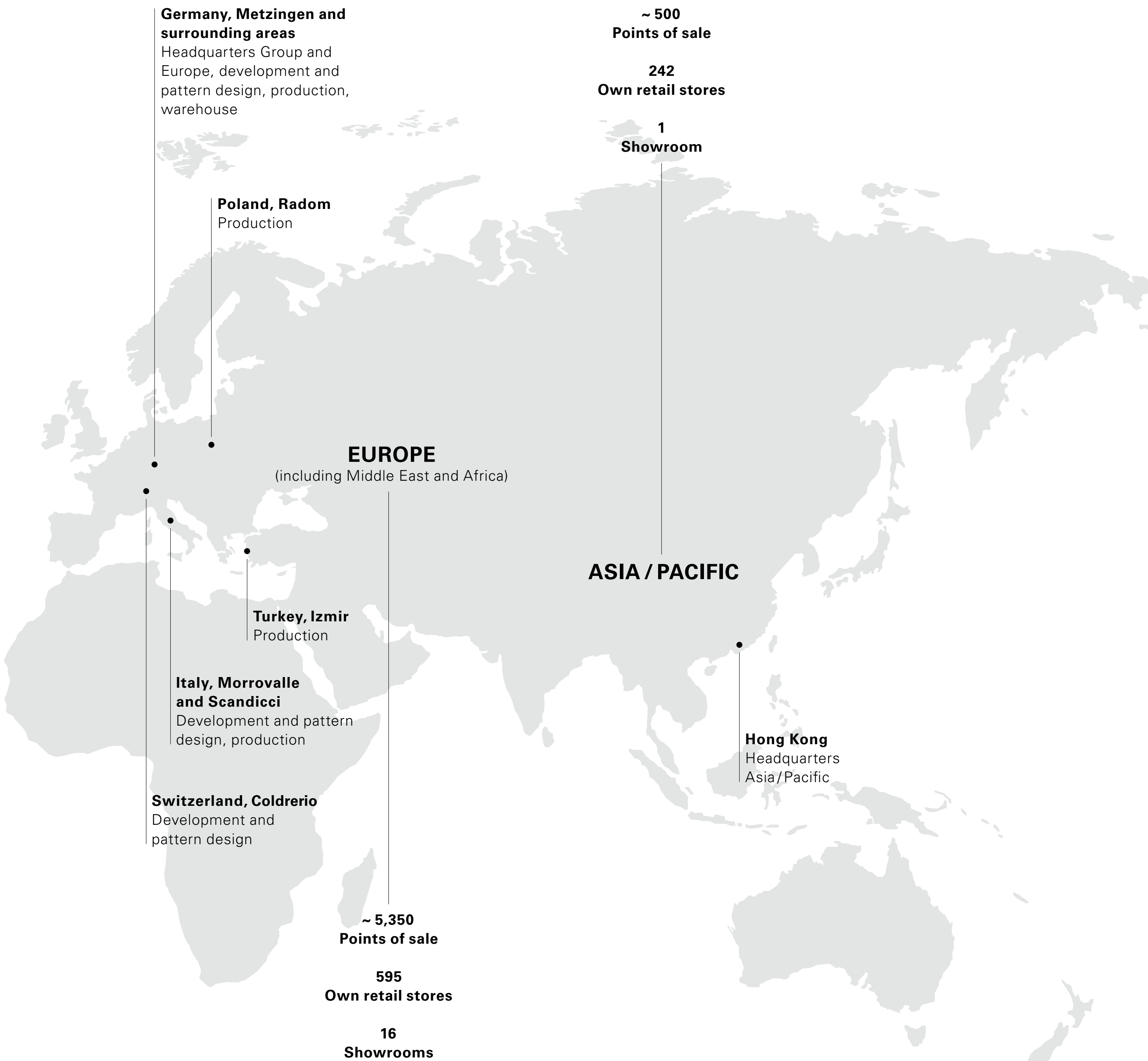
02|02 HUGO BOSS GROUP STRUCTURE

MANAGING BOARD	
CENTRAL FUNCTIONS	**OPERATIVE SEGMENTS**
Brand Management	**EUROPE** incl. Middle East and Africa
Communication	
Creative Management	
Finance and Controlling	**AMERICAS**
Human Resources	
Investor Relations	
IT	**ASIA/PACIFIC**
Legal, Compliance and Risk Management	
Licenses	
Logistics	**LICENSES**
Own Retail	
Sales	
Sourcing and Production	

Regional organizational units implement the Group's strategy

In each of the three regional organizational units, the regional director is responsible for implementing the Group's strategy in the applicable market. 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 retail and wholesale as well as the development of sales and earnings. This regional emphasis in the distribution structures brings the Group closer to customers, improves responsiveness to market trends and allows adjustment to individual market characteristics. It also enables the fast exchange of knowledge through the close integration of local companies.

02|03 KEY LOCATIONS/GLOBAL MARKET PRESENCE


Germany, Metzingen and surrounding areas
Headquarters Group and Europe, development and pattern design, production, warehouse
Poland, Radom
Production
EUROPE
(including Middle East and Africa)
Turkey, Izmir
Production
Italy, Morrovalle and Scandicci
Development and pattern design, production
Switzerland, Coldrerio
Development and pattern design
~ 5,350
Points of sale
595
Own retail stores
16
Showrooms
~ 500
Points of sale
242
Own retail stores
1
Showroom
ASIA / PACIFIC
Hong Kong
Headquarters Asia / Pacific

GROUP MANAGEMENT

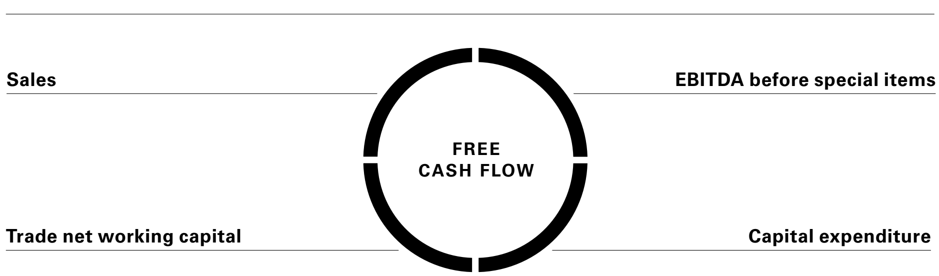
Management at HUGO BOSS aims to sustainably increase the enterprise value. The Company's internal management system helps the Managing Board and leadership at the level of individual business units focus all business processes on this objective.

GROUP MANAGEMENT FOCUSES ON PROFITABLE GROWTH

The HUGO BOSS Group is helmed by the Managing Board, which sets the Group's strategic direction in particular. Operational implementation of the Group strategy takes place in close cooperation with the regional and brand directors and the heads of the central functions. The organizational and management structure clearly allocates areas of authority and responsibility and defines reporting lines, so that all corporate resources are focused on sustainably increasing the enterprise value.

KEY PERFORMANCE INDICATORS

02|04 KEY PERFORMANCE INDICATORS OF THE HUGO BOSS GROUP



Focus on increasing free cash flow in the long-term

To increase the enterprise value, the Group focuses on maximizing free cash flow over the long term. Maintaining positive free cash flow on a lasting basis 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 and amortization) before special items, are 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 an increase in adjusted EBITDA and the adjusted 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 Group 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 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 is the responsibility of the central operating functions and distribution units. Moreover the central operating functions are responsible for the management of trade payables. 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 remuneration 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, a specific approval process was established 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)

	2014	2013	Change in %
Sales	2,571.6	2,432.1	6
EBITDA before special items	590.8	564.7	5
Trade net working capital	503.0	431.8	16
Capital expenditure	134.7	185.3	(27)
Free cash flow	268.4	230.0	17

Free cash flow is primarily used to finance the dividend distribution

The free cash flow generated by the Group is primarily used to finance the dividend distribution. The Group's dividend policy provides for 60 - 80% of the Group's net income to be distributed to the shareholders. Any liquidity available over and above this is used to further reduce financial liabilities or retained as a cash reserve. The Group analyzes its balance sheet structure at least once a year to determine its efficiency and ability to support future growth and to simultaneously provide sufficient security in the event that business performance falls short of expectations. In addition to net financial liabilities, this analysis also takes account of future rental obligations.

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
- 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 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 planning. The planning of 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 as a basis for currency hedging, among other things. ➔ **Report on Risks and Opportunities, Financial Risks**

Group-wide reporting focuses on analysis of early indicators

The Managing Board and management of Group subsidiaries 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 must be 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 the goal of growing strongly and improving its profitability. The basis for this is the Group's core competence – the development and marketing of high-quality apparel as well as shoes and accessories in the premium and luxury segment. Thanks to its industrial scale and strength, HUGO BOSS offers its customers an attractive range of products characterized by consistently advantageous value for money compared with the competition. In 2014, the Group enhanced its proven strategy, defining new focal points. The Group's strategy aims at elevating the core BOSS brand, expanding its market position in womenswear, developing the Group's own retail business, achieving global growth and maximizing operational strength.

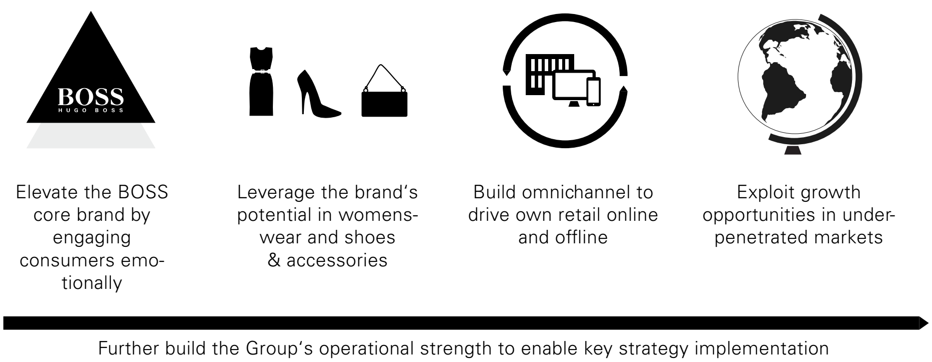
HUGO BOSS aiming for continued profitable growth

The Group's successful business performance over the past few years underscores the strength of HUGO BOSS' business model. On this basis, the Group is striving for average sales growth in the high single digits until 2020. The operating margin is to be increased to 25% over the same period. The planned increase in earnings, together with the strict management of trade net working capital as well as disciplined capital spending, will form the basis for the planned maximization of free cash flow. In this way, the Group's enterprise value will continue to grow. In addition, shareholders participate in the Group's success via the earnings-oriented dividend policy. → **Group Management**

Growth strategy based on five pillars

HUGO BOSS has identified five levers for ensuring profitable growth. The BOSS core brand is to be enhanced by means of product, distribution and communication measures. The brand strength, which has its roots in menswear, is to be leveraged to a greater extent than before in womenswear, including shoes and accessories. The expansion of omnichannel offerings will spur continued growth in the Group's own retail business in both the online and offline segment. Finally, the Group is seeking a stronger regional balance than before and plans to generate a greater volume of sales outside its European home market in the medium term. Building on the Group's operational strengths, particularly supply chain management, the product development process and the IT and logistics infrastructure, will provide substantial support to the implementation of the various growth initiatives.

02|08 HUGO BOSS GROWTH STRATEGY 2020

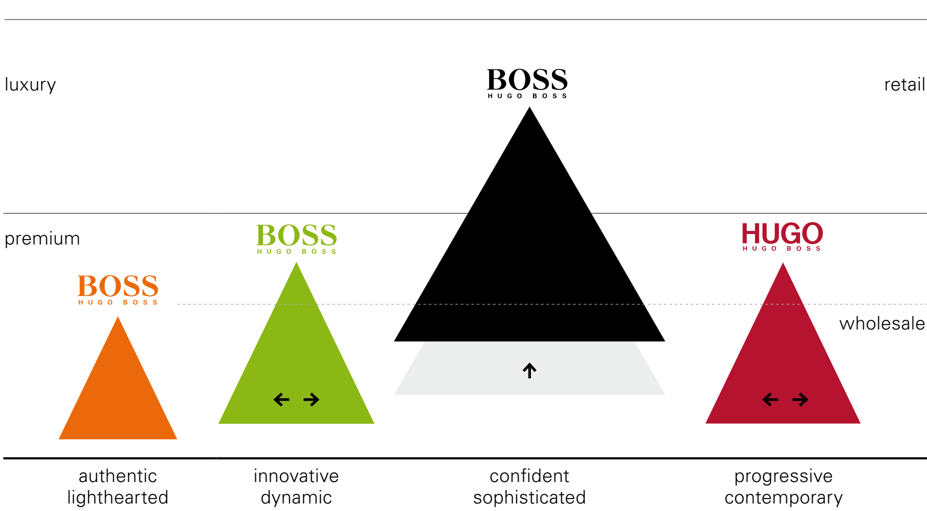


ELEVATION OF THE BOSS CORE BRAND

Nuanced brand portfolio addresses different customer requirements

The Group reaches out to consumers with BOSS, by far its largest single brand, as well as HUGO. Whereas the BOSS core brand epitomizes authentic, understated luxury, HUGO is the fashion spearhead, featuring progressive looks and a modern, urban attitude. The BOSS core brand is flanked by the brand lines BOSS Orange and BOSS Green. BOSS Orange is synonymous with urban casualwear, reflecting a laid-back approach to life. BOSS Green is the active HUGO BOSS sportswear line, transcending the border between fashionable leisurewear and performance golf apparel. With its brand portfolio, HUGO BOSS is able to respond to the diverse requirements of different target groups, creating offerings for different occasions to wear.

02|09 HUGO BOSS BRAND POSITIONING



Elevation of the BOSS core brand supports the growing verticalization of the brand portfolio

HUGO BOSS sees significant growth potential in the expansion of its luxury offering, which complements the strong positioning in the premium segment it has obtained over the years. With this in mind, it is working on enhancements to its BOSS core brand, particularly in markets in which the brand has historically been perceived predominantly in a multibrand setting and via its entry-price products. Consequently, HUGO BOSS offers its customers a globally consistent brand image and a comprehensive range extending up into the high-end segment in terms of both style and price. The Group assumes that BOSS brand sales in the luxury segment will more or less double to around 20% by 2020. At the same time, BOSS is gradually withdrawing from the entry-price segment, which will in future be addressed by HUGO and BOSS Green in particular.

Reinforcement of the BOSS luxury offerings

BOSS is reinforcing its luxury offerings across the full breadth of its product portfolio. Under BOSS Tailored, BOSS offers unique cuts, fabrics of the highest quality and exquisite designs. The expansion of the range of Made to Measure suits and shirts underscores the Group's competence in high-quality tailoring. In the sportswear segment, which will be harmonized even more closely with the tailoring segment in future, BOSS is also increasingly positioned at the leading edge of fashion.

Selective distribution of the core brand BOSS

The enhancement of the BOSS brand is also reflected in the Group's distribution activities. Looking forward, the core brand will be given even more space at the Group's own stores compared with the other brand concepts. Building on the exclusive setting and the quality of advice and service provided, a growing number of the Group's own stores will in future offer the BOSS brand exclusively. In wholesale as well, the Group is intensifying its control of the brand by requiring its partners to distribute the BOSS core brand solely in a mono-brand setting, i.e. in shop-in-shops, in future. These shop-in-shops will be operated either by the partner or by the Group itself in the form of a concession model. In category business, retail partners will in future be offered HUGO in the tailoring segment and BOSS Green in the sportswear segment.

Brand communications focusing on the core brand BOSS

The reputation of the BOSS core brand shapes the overall perception of the brand portfolio as a whole. For this reason, the Group is focusing brand communications even more intensively on its core brand than in the past. In communicating its brand message of inspiring people to success, the Group is primarily using its historical strength in tailoring. In this way HUGO BOSS is honing the way in which it is perceived by end consumers and generating strong brand recognition. In addition to traditional print advertising (in which creative input has been raised to a new level in the case of womenswear in particular), retail marketing activities centering on the now larger flagship store portfolio, fashion shows and sponsoring, digital communication formats are now also playing an increasingly important role. Using attractive content, HUGO BOSS is progressively strengthening customer ties at an emotional level and broadening its reach through the use of digital networks.

LEVERAGE OF BRAND POTENTIAL IN WOMENSWEAR

Womenswear market structurally attractive

The Group has identified good opportunities to expand its position in the womenswear market and repeat the success it has achieved with menswear. HUGO BOSS assumes that it will be able to increase the share of sales contributed by womenswear to at least 15% by 2020 (2014: 11%). The market relevant to HUGO BOSS is even larger in the womenswear segment than it is in menswear. At the same time, the Group holds a significantly smaller share of the womenswear market despite the solid growth of the last few years. However, substantial fragmentation and customers' greater willingness to change to other brands offer HUGO BOSS attractive new possibilities for reaching new groups of buyers. Despite the intensive competition, especially for shoes and accessories, the Group therefore considers itself to be ideally positioned to play a more prominent role in womenswear in the future, particularly in the apparel segment.

Womenswear business very successful in 2014

HUGO BOSS achieved significant success in womenswear in 2014. This was underpinned by the establishment of a separate organizational structure and the appointment of Jason Wu, one of the world's greatest design talents in premium womenswear, to the position of Artistic Director BOSS Woman. The two collections presented by Jason Wu last year had an unmistakable design signature, which will continue to define BOSS womenswear in the future. The impressive fashion shows during New York Fashion Week and the resulting media response ensured a significant improvement in terms of brand awareness and perception, which was reflected in double-digit sales growth in 2014.

Upgraded fashion status increasing emotional appeal

BOSS is seeking to further enhance its range of products. By raising the fashion level and offering sophisticated products, BOSS aims to heighten the brand's emotionality and relevance as a means of boosting its desirability. In this respect, the strengthening of the shoe and accessory range plays an important role in efforts to sharpen the brand core and forge closer links between the individual collections.

Enhanced presentation in the Group's own retail business

At the same time, the Group is reinforcing the visibility of womenswear in its own retail business. In particular, it is being given a more prominent position in the new stores, which tend to be larger, and often occupies around one-third of the floorspace. With the introduction of global look concepts, great importance is being attached to standardized presentation worldwide. In addition, intensive training for sales personnel reflects the exceptional importance that quality of service has in this segment in particular. The development of a special store concept also aims to optimally address female customers' needs.

Communication activities make BOSS a prime destination for fashion-conscious consumers

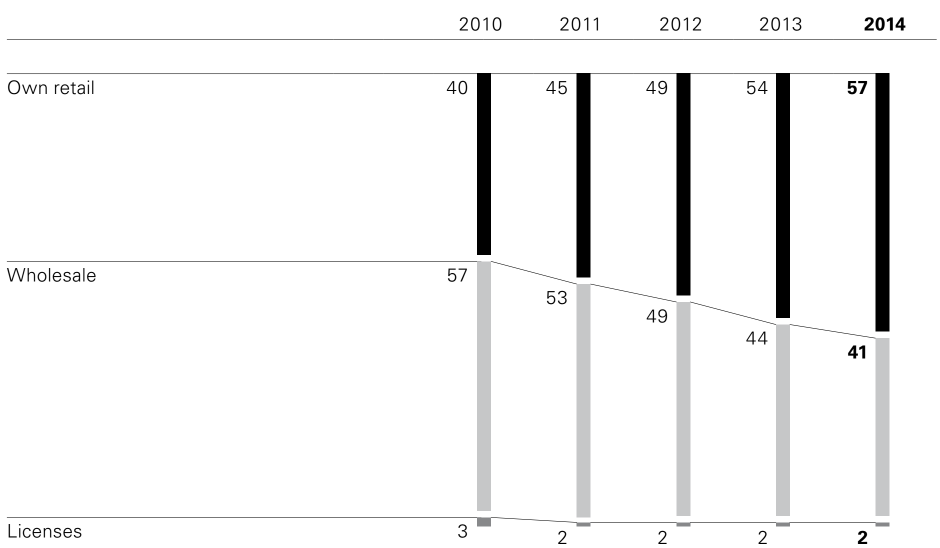
Finally, HUGO BOSS is intensifying its communication activities to make BOSS Woman more attractive to fashion-conscious consumers. In this context, a strong focus is being placed on celebrity outfitting. Fashion shows held during New York Fashion Week, campaigns and PR activities also serve to communicate the unmistakable brand core and establish BOSS as a fashion authority.

GROWTH OF THE GROUP'S OWN RETAIL BUSINESS ONLINE AND OFFLINE VIA OMNICHANNEL OFFERINGS

Extension of the Group's own retail business through omni-channel offerings

Over the past few years, HUGO BOSS has comprehensively realigned its business model with the requirements of the Group's own retail business. By enlarging this distribution channel, the Group is able to present and sell its brands and collections to optimum effect without relinquishing its established wholesale business. HUGO BOSS is responding to growing customer expectations of seamless cross-channel shopping and brand experiences by stepping up its omnichannel activities. 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 75% by 2020 (2014: 57%).

02|10 SALES BY DISTRIBUTION CHANNEL (in %)



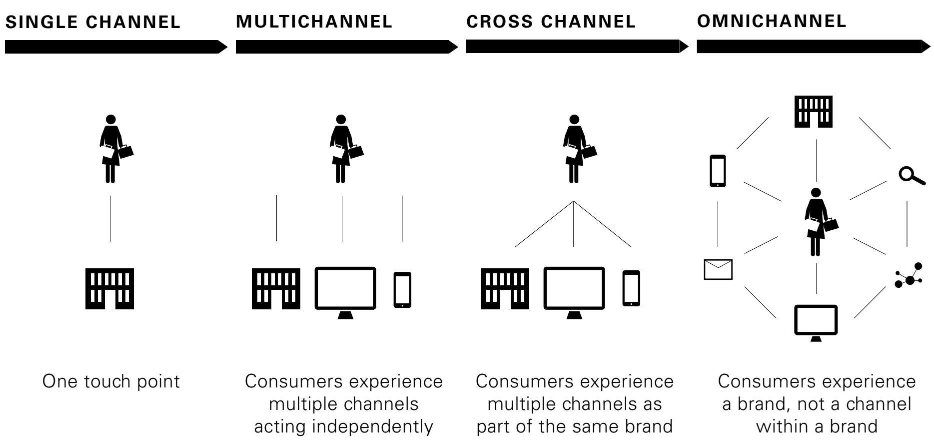
Further expansion of store network

The Group sees good opportunities to increase its global market penetration by opening new stores and shop-in-shops. In this connection, the main focus will be on expanding the portfolio in metropolitan regions, which account for the bulk of the global luxury goods business. Although the rate of expansion will gradually slow compared with earlier years, the Group now sees the possibility of profitably operating larger stores than in the past due to the breadth and quality of its offerings. In addition, it is increasingly making use of opportunities to renovate and/or expand successful stores to further improve their economic performance.

Takeovers remain an important growth driver

In addition to opening new stores, the Group is also considering the takeover of stores that are currently operated by franchise partners, depending on the attractiveness and growth prospects of the relevant market. Independent management of shop-in-shops currently run by wholesale partners is another means of enhancing the attractiveness of the brand presentation and tapping additional sales and earnings potential. The Group believes it can significantly increase the sales productivity of the stores it takes over by autonomously selecting the product range, using its own specially trained sales personnel and assuming responsibility for replenishment.

02|11 OMNICHANNEL APPROACH



Over the last few years, HUGO BOSS has boosted its sales significantly in both physical retail and online business. Moving forward, it will create closer links between these two channels to offer consumers a seamless, integrated brand and shopping experience. In a first step, HUGO BOSS acquired the online store front end from its former fulfillment partner at the beginning of 2014. Following on from this, it completely overhauled the hugoboss.com website and integrated the online store and brand world in the same year. In 2015, new features will be gradually introduced to further improve the online experience and user-friendliness of the store, so that a digital flagship store is created. In addition, the Group is investing in cross-channel customer relationship management in order to address consumers personally and on a targeted basis. Finally, the acquisition of crucial elements of the e-commerce value chain, particularly in the IT and logistics areas, at the beginning of 2016 will make it possible to offer omnichannel services such as “Click & Collect”.

Expansion of omnichannel offerings driving online and offline sales growth

Based on its customer relationships in the premium and luxury apparel segment, which it has built over decades, and its brand attractiveness, the Group is confident it can continue to offer its department store partners a convincing product range, best-in-class service and a high level of supplier reliability, and increase its market share in the process. In addition, the Group is expanding its business with specialist online retailers committed to high-quality brand presentation to leverage penetration advantages and to obtain access to new consumer groups. However, takeovers will exert pressure on wholesale sales. Moreover, HUGO BOSS assumes that business with specialist stores, which are frequently owner-run, will contract. In sum, it therefore expects a decline in the proportion of Group sales contributed by wholesale.

Wholesale still an important distribution channel despite declining proportion of sales

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 Group sees substantial opportunities for commercially exploiting this brand perception in the coming years more 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 continue to expand its own retail business in particular. Overall, the proportion of non-European sales is expected to widen in the medium term.

02|12 SALES BY REGION (in %)

	2010	2011	2012	2013	**2014**
Europe[1]	62	61	59	60	**61**
Americas	22	22	24	24	**23**
Asia/Pacific	13	15	15	14	**14**
Licenses	3	2	2	2	**2**

[1] Including Middle East and Africa.

Transformation of the business model the key to continued growth in Europe

However, Europe will remain the Group's largest sales market. To this end, the Group is advancing the process-related, organizational and cultural transformation of its business model aimed at strengthening own retail. By expanding its own retail business, it is strengthening the homogeneity and perceived value of its global brand image and raising its appeal for local consumers as well as the growing number of non-European customers who visit the region as tourists. In addition, HUGO BOSS is increasingly managing wholesale space itself. Comprehensive process changes particularly in the areas of merchandise management, retail operations and customer service are additionally strengthening the organization's retail competence. This has allowed the Group to generate growth that outstrips the sector average in many markets. Apart from expanding its market position in traditional core markets such as Germany, Great Britain, France and the Benelux countries, the Group sees attractive growth opportunities in Eastern Europe including Russia and in the Middle East.

Strong brand perception forms foundation for success in the Americas

HUGO BOSS enjoys a sturdy market position in the Americas. It is primarily anchored in a favorable perception shaped by associations with the European lifestyle. In addition to a modern design characterized by slim cuts, HUGO BOSS is seen as possessing a high degree of reliability with respect to fit and quality as well as an attractive value proposition. HUGO BOSS wants to increasingly also take advantage of these strengths in the parts of its portfolio that have previously had a less profiled presence, such as the luxury segment or womenswear. Womenswear should benefit in particular from the huge reputation that the new Artistic Director, Jason Wu, has in the region. In the Group's own retail business, the focus is on selective new openings, process optimization and improvements to the shopping experience. In its wholesale business the Group is concentrating on strengthening the partnerships with retailers in the premium market segment to optimize its brand presentation and reduce discounting. The introduction of shop-in-shop formats, some of which are run directly by the Group, is an important tool in this respect.

Continued strong opportunities for growth 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. Notwithstanding the challenging market situation currently prevailing in China, the Group 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. Process improvements, the expansion of training activities and the implementation of structured IT-based customer relationship management also serve to improve the shopping experience. The full takeover of the previous "joint venture" activities in 2014 is also aiding the consistency of the brand presence. In its communication activities, HUGO BOSS stresses the brand's heritage in menswear clothing, which accounts for a substantially lower proportion of sales in Asia than it does in other regions. Thus, a mobile exhibition, which is displayed in various luxury shopping malls, showcases the brand's competence in high-quality menswear. In addition, further potential has been identified in luxury sportswear and womenswear, which is targeted at the fast-growing group of fashion-conscious professional women.

FURTHER BUILDING OPERATIONAL STRENGTH

Operational strength is the foundation of commercial success

The fundamental principle followed by the Group is to keep control over all business-critical processes. High-performance operational processes allow the Group 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 of gaining a competitive edge by swift reaction to market changes, an advantageous value-for-money proposition and high supply reliability. The Group is continuing to focus on optimizing operational processes in line with the requirements of its own retail business.

Integrated production processes ensure design and product excellence

HUGO BOSS has closely integrated the product design and development process with industrial manufacturing and sourcing. By using its own production facilities, the Group secures critical expertise 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**

IT innovations support retail management

A high-performance SAP-based IT infrastructure uniformly deployed worldwide supports the operational processes of all functions effectively and creates the transparency needed for making entrepreneurial decisions. Currently, the Group is particularly working on rolling out two new systems for improving retail management. The retail merchandise planning (RMP) system provides a fully integrated view of stock flows in the Group's own retail business, thus permitting system-based planning oriented to the demand of end consumers. The system is currently being rolled out. The retail assortment planning (RAP) system optimizes the range available in the Group's own retail business based on the capacity of individual stores, the characteristics of the location in question and the individual product life cycle. It will be used for the first time with the development of the 2016 Fall collection.

Start-up of a new flat-packed goods distribution center additionally reinforcing logistic infrastructure

A powerful logistics infrastructure ensures timely and accurate delivery to the Group's own points of sale as well as wholesale partners. In the past few years, the Group has taken great efforts to optimize its logistics processes in line with the transformation of its business model. The single most important measure in this context was the construction of a new flat-packed goods distribution center near the Group's headquarters in 2014. In this way, the Group is able to speed up the merchandise supply process and improve the efficiency of critical handling processes through extensive automation and the provision of additional services.

HUGO BOSS

BRANDWORLD

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 business fashions, exclusive leisurewear and glamorous evening apparel fuses skillfully styled silhouettes with excellent design and timeless elegance. Coordinated shoes and accessories complete the looks, which are enhanced by licensed watches, eyewear and fragrances.

BOSS Kidswear offers a premium range of leisure- and sportswear for newborns, children and young adults. Featuring high-quality fabrics and beautiful details, the collections offer a full range, extending from fashionable leisure looks to elegant ensembles for formal occasions.

BOSS Green is the sports lifestyle line from HUGO BOSS that transcends the boundary between stylish leisurewear and performance golf apparel. Positioned in the premium segment, the collection links fashion, lifestyle and functionality – and presents distinctive, dynamic looks in impactful colors.

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

HUGO BOSS

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

hugoboss.com

EMPLOYEES

The work of the almost 13,000 employees of the HUGO BOSS Group worldwide is the basis of the Group'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 to foster team spirit and the 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 of this work.

Corporate values shape culture of collaboration

The mission statement "HUGO BOSS inspires people towards success" is founded on the five corporate values of quality, passion, respect, cooperation and innovation. These values shape employees' daily work with each other and reflect the corporate culture of the HUGO BOSS Group. Human resources management at the Group aims to breathe life into the values underpinning the mission statement. Last year, for example, a communications platform was established to encourage an innovative mindset, allowing employees to share ideas and suggestions for improving their day-to-day routines. The best ideas received awards and were put into practice. In addition, employees at all management levels across the Group drew up principles of leadership that are based on the five corporate values and ensure that the mission statement is firmly anchored in the management culture. → **Sustainability**

Staff survey measures the success of the personnel strategy

The aim of personnel work at HUGO BOSS is to attract the right people to the Group, retain them over the long term and systematically support their development so that they can reach their full potential. A range of inspiring and challenging tasks helps ensure that each individual contributes as best they can, thereby fostering the long-term success of the Group. To ensure this, it is very important to the Group to find out how individual employees view their employer, their working conditions and the duties assigned to them. An anonymous survey was therefore carried out among the employees of HUGO BOSS AG last year for the first time. The participation rate of around 70% reflects the strong commitment of the workforce, and the overall satisfaction score of almost 80% confirms the appeal that HUGO BOSS has as an employer. The findings of the survey will be used in the coming fiscal year to implement measures aimed at further increasing satisfaction, and the success of these activities will be measured in annual staff surveys.

Branding campaign enhances Group's attractiveness as an employer

The employer branding campaign that HUGO BOSS launched in 2013 to position itself as an attractive employer in the market was continued and enhanced in the last fiscal year. This is reflected in the extensively overhauled careers website and the introduction of a new applicant management system. With its extended functionality, greater focus on internationality, intuitive structure and uniform visual and verbal language, HUGO BOSS' careers website offers job applicants a coherent and attractive first point of contact with the Group. → **jobs.hugoboss.com**

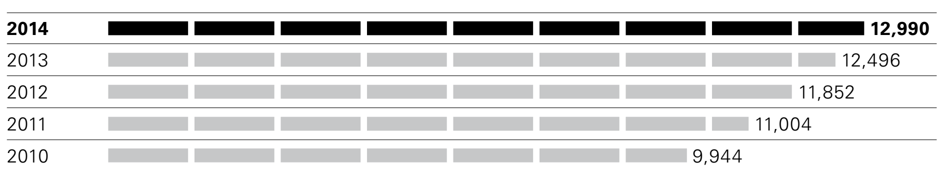
Personnel work focuses on own retail

Another focus of personnel work last year was on aligning human resources with the Group's strategic focus on its own retail business. A manual for personnel management at the Group's own stores was released at all subsidiaries to standardize staff recruitment, development and motivation processes. Last year, the Group also started implementing a system at its own stores for optimizing personnel resource planning on the basis of historical data. This makes it possible to ensure that the ideal number of employees with the necessary qualifications are available on the shop floor at all times and that the applicable requirements under labor law are also observed.

Workforce expansion in 2014

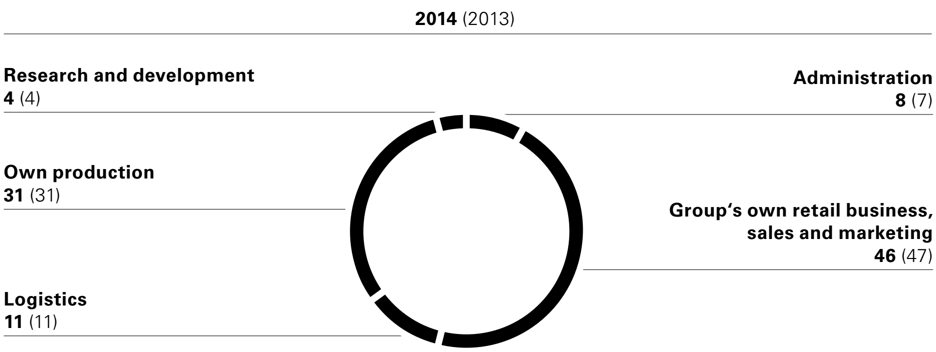
The number of employees in the HUGO BOSS Group increased again in 2014. At the end of fiscal year 2014, HUGO BOSS had 12,990 employees. This is an increase of 494 employees or 4% compared with the prior year (2013: 12,496 employees).

02|13 NUMBER OF EMPLOYEES AS OF DECEMBER 31



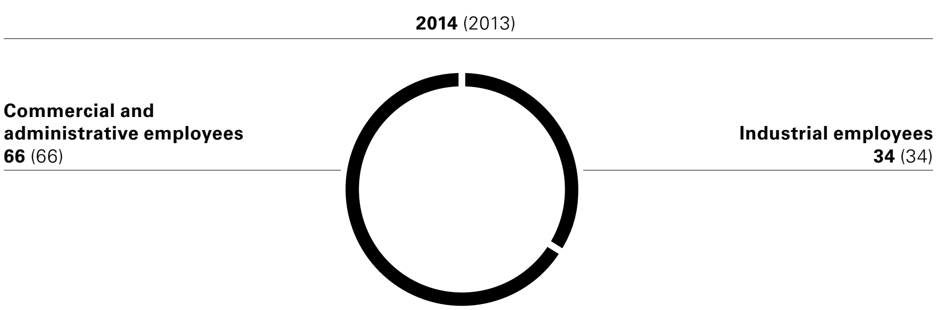
The rise is attributable to positive business performance and the associated increase in demand for staff, particularly in the Group's own retail business. The number of employees in the Group's own retail business rose to 4,965 last year (2013: 4,759). The majority of new employees in this segment were hired in Europe, where the expansion of the Group's own retail business was stepped up partly through the takeover of shop-in-shop units from wholesale partners. → **Group Strategy**

02|14 EMPLOYEES BY FUNCTIONAL AREA AS OF DECEMBER 31 (in %)



As a consequence, the relation between employees in commercial positions and employees in industrial functions remained unchanged. At year-end 2014, 8,562 employees or 66% of the workforce (2013: 8,262) were assigned to commercial and administrative positions and 4,428 employees or 34% of the total workforce (2013: 4,234) to industrial activities.
→ **Notes to the Consolidated Financial Statements, Note 10**

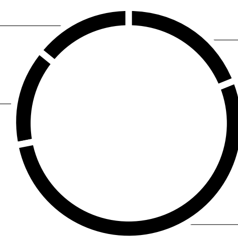
02|15 INDUSTRIAL, COMMERCIAL AND ADMINISTRATIVE EMPLOYEES AS OF DECEMBER 31 (in %)



Increasingly international workforce

Internationality, openness and diversity shape the corporate culture at HUGO BOSS. This is reflected in the regional distribution of the workforce. 81% of the Group's employees work outside Germany (2013: 80%).

02|16 EMPLOYEES BY REGION AS OF DECEMBER 31 (in %)



Continued high share of women in management

The share of women in the HUGO BOSS Group as a whole stands at 60% (2013: 60%). In management, i.e. across all management levels, 45% of all positions were held by women at the end of December 2014 (2013: 46%). As a result, the Group complies with the recommendation of the German Corporate Governance Code according to which the Managing Board should ensure there is an adequate number of women in management positions. → **Corporate Governance Report**

02|17 EMPLOYEE STATISTICS (in %)

	2014	2013
Proportion of men in total workforce	40	40
Proportion of women in total workforce	60	60
Proportion of men in management	55	54
Proportion of women in management	45	46
Average age in years	35	34

Professional education has a firm place in the Group

HUGO BOSS invests in the vocational training of young people in order to secure its need for skilled professionals in the long run. The Group 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 period, the Group considers it very important that general and specialized training and development opportunities are provided, for example by offering Cooperative State University students international assignments to a subsidiary abroad.

The number of apprentices and Cooperative State University students passed the 100 mark again last year (2014: 101; 2013: 101). In 2014, 31 apprentices and Cooperative State University students successfully completed their apprenticeship or degree. At the same time, 34 new apprentices and students began their course.

HUGO BOSS reaches out to its talents early on

HUGO BOSS positions itself clearly in the market as an attractive employer for young people. In order to identify and attract talent at an early stage, the Group cooperates closely with universities in Germany and abroad.

HUGO BOSS stays in touch with high school and college students through numerous company presentations and workshops, tours of the headquarters in Metzingen and presentations by employees of various departments at universities. In 2014, the Group established a cooperation with Parsons The New School for Design in New York, for example. It also holds close contact with the Central Saint Martins College of Art and Design in London and Bocconi University in Milan. The Group often uses the contacts it establishes with these initiatives to recruit young talents. In 2014, the Group also established initial contact with young talents at 15 job fairs.

Internship as a career start

Over 400 interns were given the opportunity of gaining practical experience in nearly all the HUGO BOSS departments in 2014. During their period with the Group, interns have the opportunity to attend events organized especially for them where they can network and gain insights into other departments of the Group. Selected interns can follow up their internship by writing their final-year papers at the Group. In 2014, HUGO BOSS mentored almost 30 final-year papers.

HUGO BOSS increases its attractiveness to young talents

The success of the Group's employer branding activities and intern mentoring was reflected in a further improvement in its ranking in various lists of Germany's most popular employers last year. For example, the Group has been able to improve its ranking in the list of the 100 most attractive employers in Germany in the annual independent student survey Universum TOP 100.

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

The Group considers it very important to help its employees find a healthy work-life balance. Staff are able to take part in numerous sports activities. A comprehensive support program is available for young families. Nutritionists, a balanced nutrition concept at the campus restaurant and the annual health day also contribute to personal well-being and help improve the performance of each individual employee. → **Sustainability**

Personal development enhances the organization's performance

Through the systematic training and development of personnel based on a transparent competence model, the Group aims to continuously improve its employees' knowledge and capabilities. This increases not only the performance of the organization as a whole but also the motivation and self-confidence of individual employees.

Via targeted further training, employees improve their performance in the workplace and grow their expertise beyond the requirements of their current job profile. In addition to 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 46,000 web-based training courses were successfully completed throughout the Group in the past fiscal year (2013: 33,000). Last year, the Group's own stores were equipped with tablet PCs running training apps to allow store employees to gain access to training more easily and to permit flexible learning.

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 employee's area of competence or promoting them to a management position. The Group supports every manager on their career path by providing targeted advice and continuously fostering personal, methodological, specialist and leadership-related competencies.

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.

Specialist career path as a supplement to a management career

The specialist career path was introduced to supplement the management career path. It allows particularly capable and talented employees to broaden their knowledge over the transparent development stages of a specialist career path. Clearly defined job profiles and the use of external salary benchmarks ensure transparent and targeted monetary development. Employees who have embarked on the specialist career path are offered an excellence program aligned to the requirements of this career, providing them with the expertise and methodological skills they require and offering a platform for sharing what they have learned. Last year, three employees of HUGO BOSS AG were promoted to the highest level of the specialist career path for the first time.

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. Clearly documented job descriptions and assessments are the basis for setting remuneration. Employees in Germany with collectively bargained wage agreements are remunerated on the basis of the collective agreement of the Südwestdeutsche Bekleidungsindustrie (Southwest German Textile Industry). Personnel assigned to retail activities are remunerated in accordance with 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 stores is tied to the achievement of service standards and guidelines defined uniformly throughout the Group. In addition, targets set for specific retail indicators create 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 Group targets and the achievement of qualitative and quantitative personal objectives. The Group targets are based on trends in sales, operating profit, the operating margin and trade net working capital as a percentage of sales. In 2014, sustainability-related criteria were also included in employee bonus agreements for the first time. → **Sustainability**

HUGO BOSS has a comprehensive company pension plan. For instance, the Group takes out employer-funded direct insurance for all employees who have been with the Group for more than six months. Apart from the statutory subsidies, the employer-funded deferred compensation is supplemented by an additional employer subsidy. In this way, HUGO BOSS makes an important contribution to providing for its employees after retirement.

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

RESEARCH AND DEVELOPMENT

Season for season, HUGO BOSS has to prove itself on the global apparel market and create collections that meet the high design and quality expectations 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, innovative development processes and manufacturing techniques make a crucial contribution to enhancing the efficiency and sustainability of the entire production 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 assess customer needs as effectively 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 and finishing techniques that enhance both quality and efficiency.

Innovation and continuity go hand in hand for HUGO BOSS

As one of the leaders in the premium and luxury segment of the global apparel market, the HUGO BOSS Group places great importance on presenting fashionable, innovative products to customers season after season, in order 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 for quality, fit and consistent brand management and on outstanding and innovative design.

02|18 PRODUCT DEVELOPMENT PROCESS AT HUGO BOSS

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.

Creative management designs new collections influenced by numerous factors

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 analysis of the reference season are factored into the design process for the new collection. In order to compile information on current trends in colors and materials as well as new kinds of processing techniques at an early stage, 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. In the Fall/Winter 2014 menswear collection, for example, inspiration was derived from the Scandinavian capitals such as the new Opera House in Oslo. The collection combined architectural forms with natural fabrics and clear colors. In this first step in the product development process, the design teams also draw on the expertise of external advisors such as trend scouts to a limited extent, in order to identify fashion trends even earlier.

Pattern design and technical product development work together to turn the designs into prototypes

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 development department then produces prototypes from the models. With its development center in Metzingen, which has a structure reflecting industrial production operations, HUGO BOSS is able to quickly turn creative designs into prototypes and to test their suitability for inclusion in the industrial production process at an early stage. In addition, new manufacturing techniques are constantly being developed. For example, an innovative welding system was used for the development of womenswear for the first time last year. By welding individual parts of the product, it is possible to apply additional elements and therefore add fashionable highlights.

Sampling the final stage of the development process

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

Ongoing technological enhancements secure the Group's competitive edge

Throughout all stages, seamless collaboration of all those involved, including external suppliers and technology partners, is essential to ensure high product quality and maximize the efficiency of the research and development process. In order to keep abreast of the latest technological advances, HUGO BOSS regularly visits textile machinery fairs and tests the equipment at its development center in Metzingen. For example, a modern cutting machine was installed at the Metzingen facility last year. By optically scanning the material properties, it is able to process the patterns of even striped and checked materials precisely, quickly and completely automatically.

Innovative virtualization technology simplifies the development process

To further simplify and accelerate technical product development, the Group is increasingly using computer-based virtualization technology for shirts, jerseys, knitwear, outerwear, trousers, bodywear, 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 processing 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 makes it possible to develop products not only more quickly but also less expensively and on a more sustainable basis due to the reduced need for physical prototypes. In this way, the use of 3D technology makes it possible to optimize the development process significantly.

Use of virtualization technology planned along the entire value chain

The technology is to be rolled out to all product categories and also used in the early collaboration processes with suppliers in future. A further aim is to deploy the broad range of possibilities afforded by virtualization upstream in the creative design phase and 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 in virtual form 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 according to the product categories clothing, sportswear, womenswear, and 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 more direct communication between all those responsible for product development, while creating efficiency gains measured in terms of quality, speed and cost.

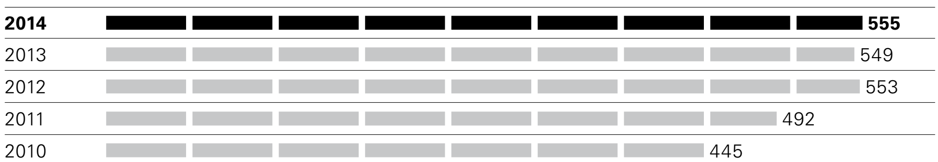
Development activities are spread across five locations

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, parts of the BOSS womenswear collections have been created at a design studio in New York. The Coldrerio competence center is responsible for the development of the textile product groups shirts, ties and knitwear, but also has overarching responsibility for shoes, leather accessories and bodywear. The Italian locations in Morrovalle and Scandicci focus on the development of shoes and leather accessories.

Slight increase in number of employees in R&D

The HUGO BOSS Group's creative and development departments are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers. In 2014, the headcount in research and development came to 555 employees (2013: 549). → **Employees**

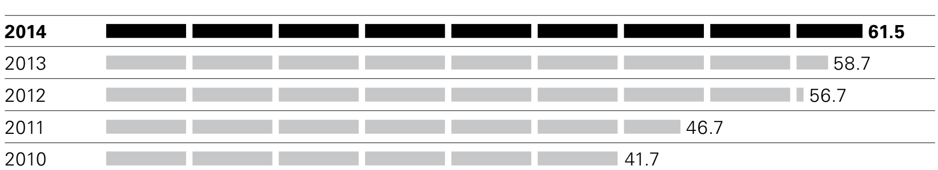
02|19 NUMBER OF EMPLOYEES IN R&D AS OF DECEMBER 31



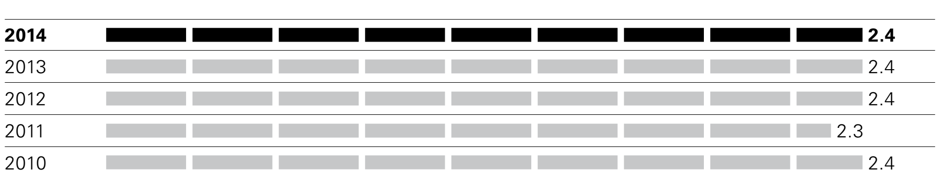
Moderate increase in R&D expenses

Research and development expenses largely comprise personnel expenses and other operating expenses. In 2014, as in the past several years, the majority of research and development expenses were expensed as incurred. In addition, production-related development expenses are included 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 5% in the past fiscal year to EUR 62 million (2013: EUR 59 million). At 69%, personnel expenses made up the majority of research and development expenses (2013: 69%). The ratio of research and development expenses to consolidated sales remained unchanged at 2% in the past fiscal year (2013: 2%).

02|20 R&D EXPENSES (in EUR million)



02|21 R&D EXPENSES (in % of sales)



SOURCING AND PRODUCTION

The aim of sourcing and production activities at HUGO BOSS is to source products of the highest quality at competitive costs 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 consistently to ensure zero-error, efficient and sustainable sourcing and production processes by carefully selecting suppliers, establishing strategic 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 of ensuring the timely availability of goods on the shop floor and the outstanding quality that customers of HUGO BOSS products expect. 20% of the total procurement volume is manufactured by HUGO BOSS' own factories (2013: 20%). The remaining 80% comprises products sourced from independent contract suppliers or as merchandise (2013: 80%). As the Group produces a substantial part of its classic tailoring range in-house, it secures and continually expands crucial expertise, further develops quality standards and optimizes the availability of goods.

The Group's own 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 coats, suits, jackets, trousers, shirts as well as tailored womenswear across all product groups. 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 are focused on shoe manufacture. The plant in Cleveland (USA), where suits for the American market had been produced to date, will be closed in the first half of 2015 based on a comprehensive site analysis. The volume so far manufactured in Cleveland will be relocated to own production facilities and existing Group suppliers, respectively. In contrast, capacity at the Group's own production facility in Izmir are to be increased in 2015 with the construction of a new production hall. This underscores the Group's commitment to concentrating crucial production expertise at a smaller number of larger locations.

Strategic management of the supplier network as a success factor

HUGO BOSS offers a wide range of apparel and accessories in the premium and increasingly also in the luxury segment. Given the resulting complexity of the range, it relies on a sufficiently large network of experienced and specialized suppliers. The number of suppliers was reduced again last year through optimized capacity utilization. In the areas of merchandise and contract manufacturing, for instance, the Group partnered with around 280 suppliers in 2014 (2013: 300). The sourcing volume is generally distributed across a global network of suppliers in order to spread risk and maintain the greatest possible independence from individual procurement markets and producers. The largest single independent supplier accounted for only 8% of the total volume sourced by the HUGO BOSS Group last year (2013: 7%). → **Report on Risks and Opportunities**

Quality requirements the most important factor in the selection of suppliers

HUGO BOSS imposes very demanding requirements on its suppliers and works exclusively with carefully selected partners. The most important criterion in the selection of suppliers is the ability to meet the high quality and finishing standards. Additional key criteria include the supplier's reliability, technical equipment and innovative capacity, financial robustness and cost efficiency. Strict adherence of production sites to the social standards contractually agreed upon is a non-negotiable precondition for the establishment of a business relationship. The observance of quality and social standards is monitored in regular on-site audits. → **Sustainability**

Sourcing modes depend on product groups

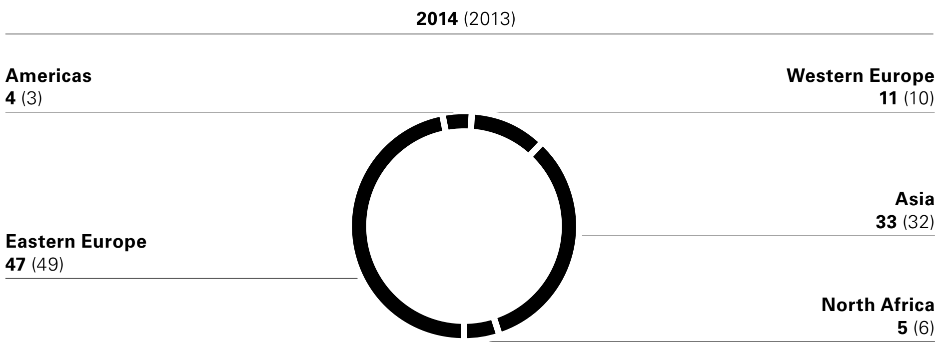
Sourcing activities are broken down into the procurement of raw materials, contract manufacturing and purchased merchandise. The raw materials sourced are mainly fabrics but also include additional items such as lining, buttons, thread and zippers. The majority of raw materials processed in-house or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

Coats, sportswear jackets, suits, jackets and trousers are primarily 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, Eastern Europe and North Africa. With this kind of sourcing, suppliers obtain the necessary patterns from HUGO BOSS but independently source their raw materials. With the exception of the classic shoe collection that is produced at the Group's own factories in Italy and Poland, the product categories shoes and leather accessories are 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 (47%; 2013: 49%). The Group's own factory in Turkey plays a leading role in this respect, accounting for 15% of the total volume sourced (2013: 15%). Asia is the source of 33% of products (2013: 32%), and China is still the most important supplier country in this region. The remaining goods are obtained from Western Europe (11%; 2013: 10%), North Africa (5%; 2013: 6%) and the Americas (4%; 2013: 3%).

02|22 REGIONAL SPLIT OF SOURCING AND PRODUCTION VOLUME (in %)



Establishment of strategic relations with suppliers of crucial importance

The Group has a keen interest in maintaining long-term strategic relations 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 worldwide. Precise synchronization between the production companies and technical development departments within the HUGO BOSS Group is essential in order to enable 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. Feedback from suppliers on the fabrics and patterns processed in the last collection is taken into account in new designs. Innovative processing techniques are repeatedly tested in close consultation with production partners so that new developments in processes, IT systems and machinery can also be rolled out at partners' facilities once testing is complete. Last year, for example, a manual on processing down-based filling was prepared in conjunction with selected suppliers and machinery for automatically filling down products was installed at the participating suppliers' facilities. → **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. An important 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 associated reduction of collection complexity play an important role. The complexity of collections has been reduced by one-third over the past few years. A 10% year-on-year reduction was achieved in fiscal year 2014. 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

HUGO BOSS is also continuing to work on optimizing its planning, production and logistics processes from an IT perspective. To this end, the uniform system-side integration of suppliers in the Group's organization has been stepped up in the past few years, thereby improving the transparency of merchandise flows along the entire supply chain. For example, an SAP-linked, web-based supplier platform simplifies communications with production partners. The system-side exchange of information also enables orders to be bundled on the basis of needs and the required production capacity to be reserved with the supplier at an early stage and cost-effectively. Real-time status reporting means that orders can be prioritized according to urgency, so that goods can be delivered on schedule. Closer integration with suppliers also allows placement of follow-up orders at short notice and quick response times. This is especially relevant for the replenishment business, which ensures that business partners are supplied at short notice, especially with the basic non-seasonal assortment.

Quality assurance throughout the production process

HUGO BOSS sets highest requirements for the quality of its products. To meet them, quality assurance starts where the product originates – directly with the supplier. The production facilities are supplied with standardized quality and processing manuals which document the requirements. In addition, the most important processes that are relevant to quality are described in a process manual for the Group's own production plants. In order to meet the high quality standards while minimizing manufacturing tolerance, the manufacturing process is automated to the extent that this is economically viable. Compliance with manufacturing standards is ensured using fixed, technology-enabled controls that are always performed at specific steps along the production line. In addition to the firmly established control levels, regular samples are taken to monitor the other steps of the process.

SUSTAINABILITY

As a global leader in the apparel industry, HUGO BOSS shares responsibility for adhering to sustainability standards along a global value chain. By acting responsibly, the Group creates added value – for customers, shareholders, business partners, employees and society. Sustainability is therefore a permanent part of HUGO BOSS' mission statement, strategy and business processes.

The six fields of action **We, Environment, Employees, Partners, Products and Society** were defined as part of a materiality analysis. They specify the central sustainability challenges for HUGO BOSS and, together with the reporting standards of the Global Reporting Initiative (GRI), create the foundation and structure for reporting on the Group's sustainability objectives and performance.

02|23 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 Group aims to continuously improve in all six fields of action described in this section and accordingly, has formulated ambitious objectives. 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, among other things.

We.
"Acting in the interests of stakeholders"

As part of its sustainability management, HUGO BOSS maintains a continuous dialogue with its stakeholders. The Group sees stakeholders' diverse expectations and demands as an opportunity to create value for all concerned. For example, in 2014 HUGO BOSS analyzed the needs and expectations of customers related to sustainability issues; and sought an open exchange with investors who give special consideration to sustainability. HUGO BOSS also intensified its ongoing dialogue with scientific institutions, in cross-industry initiatives and in its cooperation with non-government organizations last year, creating a basis for an open and transparent exchange of views on socially relevant topics. This also includes expanding reporting on corporate activities, which the Group disclosed for the first time in 2014 in the sustainability report for 2013.

HUGO BOSS places great importance on integrating the concept of sustainability within the organization. For this reason, in 2014 management included the corporate objectives defined in the fields of action of environment, employees, partners, products and society in executives' individual target agreements.

Environment. "Conserving natural resources"

Environmental and climate protection is given high priority at HUGO BOSS. Against this backdrop, the Group's environmental footprint is reduced continuously along the entire value chain – from the sourcing of raw materials through to the development and manufacture of products and on to transportation, retail and marketing. In this context, HUGO BOSS has the objective to reduce specific CO_2 emissions (Scope 1 and 2 Greenhouse Gas Protocol) in relation to sales by 30% by 2020, in comparison with 2010.

100% of the electricity used by HUGO BOSS AG's administrative and logistics buildings in Germany is derived from renewable sources. HUGO BOSS Ticino (Switzerland) has been supplied with 100% electricity from renewable sources since 2010. The energy management system (DIN EN ISO 50001) implemented by HUGO BOSS AG at its Metzingen headquarters in 2012 was successfully re-audited in 2014. This does not apply to the logistics center in Frickenhausen, the lease for which expired on December 31, 2014. In addition, Izmir, the largest HUGO BOSS production site, was certified according to DIN EN ISO 14001 and DIN EN ISO 50001 for the first time. HUGO BOSS has set itself the objective of continuously improving building efficiency. The Group intends to obtain 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 newest administrative building in Metzingen its "Gold" certificate as one of the three most sustainable new office and administrative buildings in Germany. In 2014, HUGO BOSS received the DGNB "Gold" certification for the new flat-packed goods distribution center in Filderstadt Bonlanden, near Stuttgart. Furthermore, the Group has taken measures to further reduce the volume of CO_2 emissions from logistics and distribution processes (Scope 3).

The environmental compatibility of the packaging used was also subjected to critical analysis. As a consequence, the Group switched over to using a more environmentally friendly recycled paper (post-consumer recycled) for all paper carrier bags of the core BOSS brand in 2014, thus meeting the strictest environmental standards.

Employees. "Providing fair employment and targeted support"

HUGO BOSS' code of conduct forms the basis for cooperation within the Group 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. These values are elaborated upon in numerous activities and workshops and are also included in each employee's individual target agreement. → **Employees**

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 its employees – irrespective of nationality, gender, religion, political views, sexual orientation, age or any disability. Diversity enriches the corporate culture and is thus a clear success factor in international competition. The Group has further underlined the importance it places on diversity by becoming a signatory to the "Charter of Diversity".

Since seven years HUGO BOSS has been a member of the Germany-wide network "Erfolgsfaktor Familie" ("Success Factor Family") and offers its employees a flexible family support model. The key objective is to ensure an easy return to the workplace following maternity or parental leave. Employees at the Group's headquarters in Metzingen have places reserved at two different child daycare centers and the option of receiving financial support for alternative childcare arrangements.

To create higher awareness amongst employees on issues such as the importance of healthy nutrition, exercise and stress reduction, and to support practical initiatives; an annual health day is held at the headquarters in Metzingen with a myriad of presentations, workshops and exhibition stands. Healthy nutrition is also promoted by HUGO BOSS at the workplace. The campus restaurant offers a balanced nutrition concept with menus that change daily, as well as a large selection of fresh fruit and salads. Employees have the option to consult with special nutrition coaches. In addition, all employees at the Group's headquarters can exercise at the Company's own fitness studio and take part in subsidized courses. HUGO BOSS provides its employees with similar offerings at all its sites, for example at Coldrerio and the Group's largest production site in Izmir.

Partners. "Working together responsibly"

Focus areas of the sustainability management at HUGO BOSS are social compliance and environmental protection. Therefore, compliance with human rights and environmental standards is of central importance to the Group.

HUGO BOSS commits itself and its suppliers 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 HUGO BOSS social standards are a fixed component of contracts with suppliers. Before the Company enters into a business relationship with a new supplier, they are always assessed with regard to compliance with social standards. This is done either in the form of an audit or a self-assessment. The social standards regulate the following aspects: compliance with local laws, 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 responsible care for the environment. Should there be gaps in local legislation where, for example, working hours or wages are not defined, the HUGO BOSS' social standards become the minimum standard.

In order to ensure that good and safe working and social conditions are implemented as effectively as possible and to address the request for more transparency to an even greater extent, the Group started a partnership with the Fair Labor Association (FLA) in fiscal year 2014. By cooperating with other companies and NGOs in the context of the multi-stakeholder initiative, it is possible to learn from best practices and collaborate towards improving working conditions. Furthermore, the Fair Labor Association has initiated projects for more widespread fair compensation, which HUGO BOSS supports and is a contributor.

To be able to address the topic of appropriate compensation even more fully, the Group is in direct dialogue with the International Labour Organization (ILO).

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 Group's internal auditors and by external, experienced service partners. They ensure compliance with HUGO BOSS social standards and serve to assist the efforts of HUGO BOSS' suppliers to make improvements in the area of social compliance management. The audit findings are included in a bi-annual supplier evaluation. Should any infringements of the HUGO BOSS' social standards or legal requirements be identified, a binding package of measures is agreed upon with the supplier and a re-audit scheduled. In exceptional cases, such as repeated warnings and should there be no indication of improvements being initiated, or serious breaches of HUGO BOSS' social standards, HUGO BOSS reserves the right to terminate the business relationship. In principle, however, the Company places an emphasis on mutually defined and continuous improvement measures, in order to enable long-term partnerships.

Moreover HUGO BOSS' social standards oblige all suppliers to comply with local and national environmental legislation, as well as to promote environmental stewardship at their sites, in order to continuously reduce environmental impact. In 2014, the environmental module of the GSCP (Global Social Compliance Programme), an open standard based on best practices, was piloted successfully worldwide at selected suppliers. In 2015, the module will be used as an additional measure to reduce the environmental impact along the supply chain. Moreover, HUGO BOSS supports partners wherever possible, in order to ensure an ongoing knowledge transfer.

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 only materials that meet high quality standards and makes every effort to ensure that its products do not pose a health risk.

Accordingly, HUGO BOSS obliges its suppliers to sign a guarantee of compliance with the Restricted Substances List (RSL). The RSL contains guidelines on adherence to relevant national legislation governing the use of chemicals and other harmful substances in products, as well as the Group's internal guidelines, which are often more stringent than legal minimum standards. These requirements apply to all materials used and substances relevant to the production process. HUGO BOSS supports such preventive measures with active tests for hazardous products performed in accredited laboratories that ensure the safety and quality of the products. In addition, the Group launched a project in 2014 to make production processes even safer with new technologies and more environmentally friendly chemicals.

Likewise, HUGO BOSS attaches great importance to avoiding health hazards at 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, nor does it employ any other blasting agents.

Animal welfare and protection of biodiversity are additional central principles of HUGO BOSS' product responsibility. The Group respects this biodiversity and thereby supports nature conservation. Any animal testing, inhumane treatment of animals and inappropriate animal breeding and rearing methods are rejected. Fur products, which only account for a very small share of the overall collection, is mostly used for appliqués and trimmings on collars, hoods and sleeves.

As a result, the Group has decided, for example, to switch the sourcing of merino wool to give preference to sources which are able to prove that mulesing, which is a painful treatment for sheep, is not being applied. In 2014 it was decided no longer to use angora wool, which is in most cases obtained by procedures which are painful to the animals. The Group likewise strictly rejects the use of live-plucked down and is already using alternative materials.

In addition, HUGO BOSS has been in dialogue with several animal and consumer protection organizations for many years, to continuously improve in the area of animal welfare.

Society. "Establishing common values"

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

The framework for corporate social responsibility is defined by HUGO BOSS' code of conduct. It prohibits donations to political parties and their representatives, as well as to organizations such as trade unions, consumer rights groups and environmental protection groups, with which conflicts of interests might arise. Furthermore, the code outlines specific criteria for HUGO BOSS' philanthropic donations.

HUGO BOSS 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. UNICEF and HUGO BOSS have been partners in this area for many years. The Group has been successfully supporting the UNICEF initiative “Schools for Africa” for many years now and supports educational projects in Bangladesh. HUGO BOSS also provides aid when crises occur and targeted assistance is needed. For example, in 2014 HUGO BOSS implemented an internal Christmas campaign, in order to aid Syrian child refugees. At a national level, HUGO BOSS champions children and young people, for example as a partner of the Off Road Kids foundation. This is an organization providing aid to street children throughout Germany.

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

3

COMBINED MANAGEMENT REPORT THE FISCAL YEAR

COMBINED MANAGEMENT REPORT THE FISCAL YEAR

GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

The general economic situation and industry-specific environment proved challenging for the HUGO BOSS Group last year. The global economy failed to achieve the significant recovery that had originally been assumed, and with growth of 3.3% lagged expectations according to the IMF. Growth varied from region to region, with emerging markets tending to be weaker than the industrialized nations. Against the background of a persistently weak economic environment and resulting cautious consumer spending, growth in the premium and luxury goods sector was unable to gain momentum, and at 5% was slightly below the previous year's level. All regions contributed to this industry growth.

GENERAL ECONOMIC SITUATION

Mixed development of the global economy

In light of the original expectation of a significant recovery, the development of the **global economy** proved disappointing last year. Although the economy picked up again slightly following a poor start to the year, overall growth did not accelerate compared to 2013. According to the IMF, the global economy once more grew by 3.3% in 2014. The trend varied from region to region and suffered from the continuing high debt in some areas of the private and public sectors, geopolitical tensions and a slowdown in world trade. Emerging economies tended to have slower growth than industrialized nations.

Slight growth in the European economy

Overall, the **European economy** had slightly positive growth of 0.8% in 2014, according to the IMF. Following an upturn in the first quarter, growth slackened again over the remainder of the year, disappointing the original expectations. The main reason for this development was reduced investment activity against the background of declining foreign demand and geopolitical tensions. For example, the economic sanctions imposed on Russia had a sustained negative impact on business sentiment. On the other hand, consumer spending provided support. The ECB implemented further monetary easing measures to stimulate the economy. Despite a slowdown in the second half of the year, the German economy showed above-average growth compared to the region as a whole. While the French and Italian economies were sluggish, a significant economic recovery was to be observed particularly in Ireland and Spain. Great Britain's economy was on a solid growth track in 2014, mainly supported by increasing government spending.

U.S. economy expanding after a sluggish start to the year

After a first-quarter dip due to weather conditions, the **U.S. economy** picked up significant momentum in the remainder of the year and according to the IMF grew by a total of 2.4%. Growth was driven by robust investment, particularly from foreign countries, a recovery in private consumer spending and a noticeable upturn in the labor market. The much more restrictive fiscal policy and the end of the U.S. Federal Reserve's bond purchase program have not had any direct negative impact to date. The economy in **Latin America** produced unexpectedly slack growth in 2014; the IMF assumes a rate of 1.2%. The trend was depressed by a fall in direct investment from abroad, reduced export activities, political uncertainties and a failure to introduce structural reforms. Consumption also slowed markedly because of the weakness in the labor market. The fall in prices of raw materials observed at the year-end appears to have had a further negative effect on the region's growth overall.

Regionally uneven development in the Asian economy

The economy in **Asia** developed unevenly from region to region in 2014. Whereas growth remained strong in many of the smaller countries, there was a slowdown in China. According to the IMF, the region overall (excluding Japan) enjoyed the same upward trend as in the previous year at 6.5%, while growth in China was 7.4%. Here, as in other countries, weaker exports in the wake of softer global demand had a dampening effect. In addition, muted growth in production and trade as well as the significant consolidation of the real estate market had negative effects. The Chinese government reacted to sluggish economic performance with tax breaks and infrastructure projects. The central bank also cut interest rates. According to IMF estimates, the Japanese economy grew by only 0.1%, mainly because of weaker-than-expected private consumption. Growth was supported in particular by the strongly expansive monetary policy adopted by the Japanese central bank and the postponement of planned tax increases. In Australia, economic expansion of 2.8% was spurred by strengthening consumption and export activities.

SECTOR PERFORMANCE

Moderate sector growth in a challenging market environment

The premium and luxury goods sector faced further challenging macroeconomic conditions and slow consumer activity last year, particularly in the emerging markets. Performance was depressed throughout the year by the political tensions in Russia and Hong Kong, more stringent anti-corruption laws in China and weak economic data from Europe. Nonetheless, the sector succeeded in continuing its growth and enjoyed an upward trend of 5% after currency adjustments according to a study by industry association Altagamma and consultancy firm Bain & Company. This was primarily due to the positive development in retailing, to which the online channel made an above-average contribution. In the wholesale channel the sector suffered from challenging market conditions and the rationalization of small retail companies, which was particularly pronounced in Europe. Negative currency effects influenced many companies' sales and profit performance, particularly in the first half of the year. The womenswear segment showed a slightly stronger development overall than menswear.

Tourism boosts otherwise weak sector development in Europe

In **Europe**, currency-adjusted sector growth of 2% in large parts of the region was affected by the mixed general economic conditions and correspondingly weak demand. Retail customer footfall was down in many cases. The UK market grew despite this, while the German apparel market shrank. In Eastern Europe, the sector felt the effects of the protracted Ukrainian conflict, which were also reflected in a falling number of Russian tourists in other parts of the European region. Nevertheless, tourist demand rose overall and continued to spur market growth particularly in the metropolitan regions of Western and Southern Europe.

Market development in the Americas gains momentum over year

After a muted start to the year, the premium and luxury segment of the clothing industry in the **Americas** picked up as the year progressed. Sales in the region rose in total by 6% in local currencies compared to the prior year. First, the recovering economy and rising consumer confidence were reflected in robust local demand in the U.S. Second, growth was boosted by increasing demand from Chinese and Latin American tourists. The sector grew more slowly in Latin America itself, with the Brazilian market in particular suffering from a gloomy consumer climate.

Declining market development in China puts pressure on sector in Asia

The contribution made by **Asia** to sector growth proved to be much lower last year than was originally expected. The growth adjusted for currency effects of 5% was spread unevenly across the region. In China, slower macroeconomic growth, the consolidation in the property sector and more muted consumer confidence in the wake of the government's anti-corruption legislation put pressure on the sector's development. Sales of luxury goods on the Chinese mainland actually declined slightly overall. Including demand from Chinese tourists, however, China remained the country with the highest share of global sales even in the past year. In Southeast Asian countries and Japan, for example, the industry benefited from the rising number of tourists from China. In contrast, growth in Hong Kong slowed significantly, in particular as a result of mounting political tension. In Japan, the sector expanded by 10% in local currency thanks to solid demand on the part of domestic consumers and the growing number of tourists.

GROUP EARNINGS DEVELOPMENT

The HUGO BOSS Group continued its dynamic growth trajectory in fiscal year 2014. In a challenging market environment, the Group's sales and earnings have risen to new record heights. Group sales increased by 6% adjusted for currency effects and, at EUR 2,572 million, were also 6% higher than the prior year's level in the reporting currency. EBITDA before special items improved by 5% to EUR 591 million.

SALES PERFORMANCE

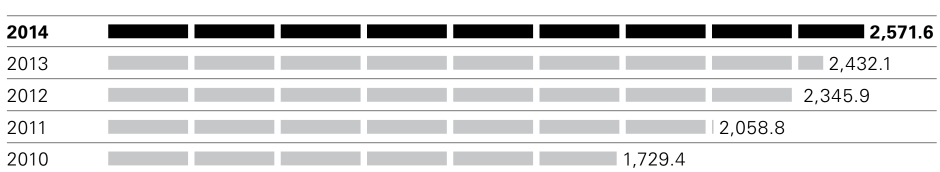
OVERALL STATEMENT ON BUSINESS DEVELOPMENT

HUGO BOSS grows sales and consolidated net income

The HUGO BOSS Group succeeded in continuing its growth trajectory in fiscal year 2014 despite the challenging economic and industry-specific situation. Effective implementation of the Group strategy ensured that HUGO BOSS was once more able to drive its sales and consolidated net income to new record levels in fiscal year 2014. However, this performance was slightly below the original expectations. The key factor here lay in weaker growth in the Group's own retail business towards the end of the year.

SALES DEVELOPMENT

03|01 SALES DEVELOPMENT (in EUR million)



In fiscal year 2014, HUGO BOSS generated consolidated sales of EUR 2.572 million. Sales in the Group's reporting currency were thus 6% up on the prior-year period (2013: EUR 2.432 million). Exchange rate fluctuations evened out over the course of the year and remained without an effect on the development of the consolidated sales. In local currencies, HUGO BOSS also registered a 6% increase in sales year on year.

03|02 SALES PERFORMANCE BY QUARTER (in Mio. EUR)

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. First-quarter sales rose by 3% to EUR 613 million thanks to double-digit increases in the Group's own retail business (Q1 2013: EUR 593 million). In local currencies, sales in this region were up 6%. Despite the challenging conditions set by the general economy and the slow recovery of consumer activity, sales growth picked up in the second quarter. At EUR 559 million, Group sales overtook those of the comparable prior-year period by 5% (Q2 2013: EUR 532 million), or a sales increase of 8% after currency adjustment. HUGO BOSS also continued to grow in the third quarter. The Group's own retail business and the wholesale business therefore both contributed to the rise in sales of 9% to EUR 717 million (Q3 2013: EUR 658 million). Third-quarter sales growth also came to 9% after currency adjustment. The weaker growth of the Group's own retail business towards the end of the year was partly compensated by the upturn in the order business with wholesale partners. At EUR 684 million, sales in the fourth quarter of fiscal year 2014 were 5% up on the prior year (Q4 2013: EUR 649 million). They were up 3% in currency-adjusted terms.

SALES BY REGION

03|03 SALES BY REGION (in EUR million)

	2014	In % of sales	2013	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,566.5	61	1,457.3	60	7	7
Americas	586.6	23	570.1	24	3	4
Asia/Pacific	360.8	14	346.8	14	4	7
Licenses	57.7	2	57.9	2	0	0
TOTAL	**2,571.6**	**100**	**2,432.1**	**100**	**6**	**6**

[1] Including Middle East and Africa.

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

	2014	2013	2012	2011	2010
Europe[1]	1,566.5	1,457.3	1,378.0	1,245.4	1,073.2
Americas	586.6	570.1	558.7	454.8	380.7
Asia/Pacific	360.8	346.8	352.7	309.3	230.4
Licenses	57.7	57.9	56.5	49.3	45.1
TOTAL	**2,571.6**	**2,432.1**	**2,345.9**	**2,058.8**	**1,729.4**

[1] Including Middle East and Africa.

Currency-adjusted sales growth in all regions

As previously, in fiscal year 2014 HUGO BOSS succeeded in posting sales increases after currency adjustment in all three regions. Sales in **Europe** including the Middle East and Africa increased in the reporting currency by 7% to EUR 1.567 million (2013: EUR 1.457 million). In a difficult market environment, sales also rose in local currencies by 7%. Double-digit sales growth in the UK and the Iberian Peninsula contributed to this development. In the **Americas** sales in the Group's reporting currency increased by 3% to EUR 587 million (2013: EUR 570 million) or 4% in local currencies, particularly thanks to growth in the United States as well as Central and South America. Sales in **Asia/Pacific** were EUR 361 million in the Group's reporting currency, 4% up on the prior-year level (2013: EUR 347 million). Local currency sales rose 7% compared to the prior-year period. Sales increases in all markets contributed to this growth. → **Sales and profit development of the business segments**

SALES BY DISTRIBUTION CHANNEL

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

	2014	**In % of sales**	2013	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,471.3	57	1,314.1	54	12	12
Directly operated stores	976.4	38	874.0	36	12	12
Outlet	427.1	16	378.6	15	13	13
Online	67.8	3	61.5	3	10	10
Wholesale	1,042.6	41	1,060.1	44	(2)	(1)
Licenses	57.7	2	57.9	2	0	0
TOTAL	**2,571.6**	**100**	**2,432.1**	**100**	**6**	**6**

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

	2014	2013	2012	2011	2010
Group's own retail business	1,471.3	1,314.1	1,149.7	924.2	691.1
Directly operated stores	976.4	874.0	757.6	617.7	447.7
Outlet	427.1	378.6	343.2	273.6	223.7
Online	67.8	61.5	48.9	32.9	19.7
Wholesale	1,042.6	1,060.1	1,139.7	1,085.3	993.2
Licenses	57.7	57.9	56.5	49.3	45.1
TOTAL	**2,571.6**	**2,432.1**	**2,345.9**	**2,058.8**	**1,729.4**

Growth in Group's own retail business spurred by 3% increase in retail comp store sales

The **Group's own retail business (Retail)** once more contributed to sales growth in fiscal year 2014 with double-digit growth rates. In particular, the expansion of the store network by the opening of new stores and takeovers led to a rise in sales in the reporting period in both local currencies and the reporting currency of 12%, to EUR 1.471 million (2013: EUR 1.314 million). On the basis of retail comp store sales, i.e. including retail areas opened or taken over before December 31, 2012, sales in the Group's own retail business were 3% higher than the prior-year level in the reporting currency. Sales also rose by 3% after currency adjustment. The share of the Group's own retail business in Group sales was further expanded and stood at 57% in the reporting period (2013: 54%).

Double-digit sales growth in directly operated stores (DOS)

The sales of **directly operated stores (DOS)** were successfully increased by 12% in local currencies in the reporting period, and also by 12% after currency adjustment, to EUR 976 million (2013: EUR 874 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 in retail partners' selling space. With sales growth in the Group's reporting currency of 13% to EUR 427 million, the **outlet business** contributed to the positive development of sales from the Group's own retail business (2013: EUR 379 million). This is also equivalent to a currency-adjusted increase of 13%. The sales generated by the Group's own **online stores** rose in fiscal year 2014 in both local currencies and the reporting currency by 10% to EUR 68 million (2013: EUR 61 million).

Slight decline in sales in the wholesale channel

In fiscal year 2014, sales in the **wholesale channel** were down 2% on the prior year in the reporting currency and totaled EUR 1.043 million (2013: EUR 1.060 million). Adjusted for currency effects, sales declined by 1%. The takeover of selling spaces previously operated by wholesale partners caused a shift in sales from wholesale business to the Group's own retail business. Consolidation of the customer portfolio and the resultant decline in business with smaller business partners also contributed to this trend. On the other hand, HUGO BOSS posted solid growth in the business with large department store partners due to thriving pre-order business. However, the replenishment business, which allows HUGO BOSS to react to short-term surges in demand from business partners, shrank slightly in the past fiscal year. The share of the wholesale channel in consolidated sales decreased from 44% in the prior year to 41% in fiscal year 2014.

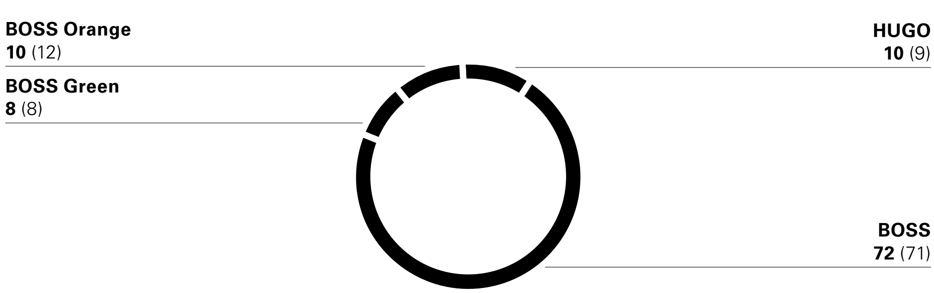
Stable development of sales in the license business

The **license business** showed stable development in fiscal year 2014. The products produced by partners include fragrances, eyewear and watches. As in the prior-year period, sales with external licensees came to EUR 58 million (2013: EUR 58 million). License income from fragrances fell slightly compared to the prior year. Double-digit growth in women's fragrances was compensated by decreasing sales in the area of men's fragrances. In license income for watches, in contrast, a double-digit rise in sales was recorded. The share of the license business in consolidated sales remained unchanged at 2%.

SALES BY BRAND

03|07 SALES BY BRAND (in %)

2014 (2013)



8% increase in sales of BOSS core brand after currency adjustment

In fiscal year 2014, the **BOSS** core brand posted sales growth of 7% compared to the prior year and generated sales of EUR 1.858 million (2013: EUR 1.735 million). This translates into an 8% increase after currency adjustment. The **BOSS Green** brand successfully increased sales over this period both in local currencies and in the reporting currency by 12% to EUR 210 million (2013: EUR 187 million). Sales of the **BOSS Orange** brand at EUR 260 million were down 8% from the comparable prior-year period (2013: EUR 283 million), and by

7% after currency adjustment, while the **HUGO** brand at EUR 243 million displayed sales growth of 7% compared to the prior year (2013: EUR 227 million). HUGO achieved growth of 8% after currency adjustment.

Double-digit growth in womenswear sales

In the reporting period, **menswear** sales were up 5% on the prior-year level and totaled EUR 2.283 million (2013: EUR 2.169 million). Sales growth of 6% was reported after currency adjustment. This corresponds to an unchanged share in total sales of 89% (2013: 89%). **Womenswear** sales grew at a disproportionately fast rate of 10% in the reporting currency and 11% in local currencies, coming close to EUR 289 million (2013: EUR 263 million). The growth rates of BOSS womenswear led by Artistic Director Jason Wu were even higher by comparison. This development echoed the positive customer response to the collections presented and was supported by extended brand communication activities and an associated increased brand awareness. As in the prior year, womenswear made up 11% of total sales.

Increase in brand sales

Brand sales generated with HUGO BOSS products worldwide in fiscal year 2014 came to EUR 5.123 million and, mainly due to the positive trend in the Group's own retail business, were higher by 2% than the previous year's (2013: EUR 5.014 million). Brand sales are calculated as the total of sales earned from the Group's own retail business and sales with both wholesale partners and licensed HUGO BOSS partners that are extrapolated on the basis of the retail figures.

DEVELOPMENT OF THE ORDER SITUATION

Importance of order business falls due to increasing share of Group's own retail business

HUGO BOSS is increasingly aligning its distribution activities and its business model to its own retail business. Because of the resulting above-average growth in this segment, the share of sales through the wholesale channel is decreasing. To this extent, the pre-order business, i.e. the sale of goods ordered in advance to wholesale partners, is losing significance for the development of the business as a whole although its share of sales within the wholesale segment remained unchanged in the past year.

In relation to total Group sales, the **share of the traditional order business** fell in the past fiscal year to 32% (2013: 34%). In order to plan its production to the best possible effect despite this, HUGO BOSS is therefore integrating not only order intake but, above all, the trend in its own retail business into its volume planning.

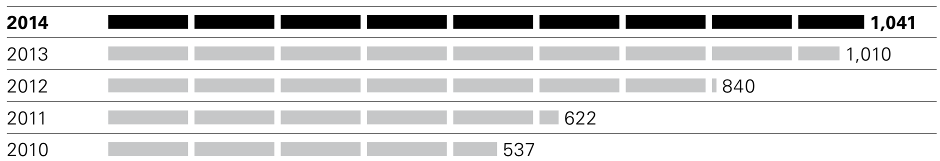
NUMBER OF GROUP 'S OWN RETAIL STORES

Group's own retail network grows by a net figure of 31 stores in 2014

In fiscal year 2014, the total number of the **Group's own retail stores** including outlets increased by a net figure of 31 to 1,041 (2013: 1,010). With a net increase of 17 locations, the major share of expansion fell on freestanding stores. The total selling space of the Group's own retail stores rose by 4% to around 140,000 sqm (December 31, 2013: 135,000 sqm).

:// www.hugoboss.com/Store Locator

03|08 NUMBER OF GROUP'S OWN RETAIL STORES



In addition to organic growth of 66 stores, takeovers of 20 retail stores and shops previously operated by wholesale partners contributed to the increase in selling space in all three regions. On the other side of the picture there were 55 closures, mostly shop-in-shops which were closed in connection with a qualitative upgrade of the store portfolio.

03|09 NUMBER OF GROUP'S OWN RETAIL STORES BY REGION

2014	Freestanding stores	Shop-in-Shops	Outlets	TOTAL
Europe	183	363	49	**595**
Americas	83	75	46	**204**
Asia/Pacific	122	93	27	**242**
TOTAL	**388**	**531**	**122**	**1,041**
2013				
Europe	169	357	50	**576**
Americas	83	78	39	**200**
Asia/Pacific	119	91	24	**234**
TOTAL	**371**	**526**	**113**	**1,010**

Flagship store opened in Rome and concession model strengthened in France

Focusing on **Europe**, the retail network was further strengthened organically by the opening of 38 of the Group's own stores as well as the takeover of five shop-in-shops previously managed by wholesale partners. The opening of a flagship store in Rome further strengthened brand presence in Italy. In addition, the Group was able to make significant strides with the concession model in France by opening new shop-in-shops at retail partners. Taking into account the 24 closures, operations in Europe report a net increase in the number of the Group's own retail stores of 19 to a current 595 (2013: 576).

Expansion of store network in the Americas

In the **Americas**, the store network was extended by new openings in Canada, Mexico and Washington, D.C., USA. In addition, seven outlet stores were added to the portfolio, some of them temporarily. Taking into account six closures, this led to a net increase of four to a total of 204 own retail stores in this region (2013: 200).

Takeovers and new openings strengthen market presence in Asia/Pacific

In the course of the expansion in **Asia/Pacific**, 18 new stores and 15 takeovers were added to the portfolio of stores in fiscal year 2014. The Group's presence in the Chinese market was strengthened by the opening of a flagship store on Canton Road in Hong Kong and eight other new openings. In Australia and Taiwan, HUGO BOSS took over a total of

15 points of sale previously operated by wholesale partners. Including the closure of 25 mostly smaller stores, there was a net increase of eight to a total of 242 own retail stores in this region (2013: 234).

In addition, some 6,550 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 around 7,600 points of sale in 130 countries.
→ **Key locations/global market presence**

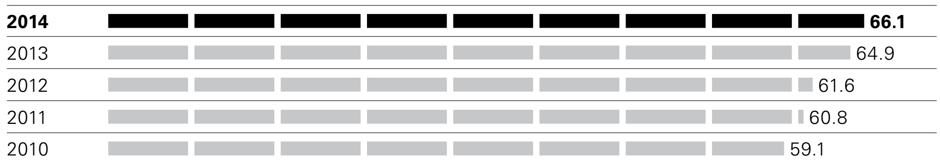
EARNINGS DEVELOPMENT

03|10 INCOME STATEMENT (in EUR million)

	2014	**In % of sales**	2013	In % of sales	Change in %
Sales	**2,571.6**	**100.0**	**2,432.1**	**100.0**	**6**
Cost of sales	(872.5)	(33.9)	(852.5)	(35.1)	(2)
Gross profit	**1,699.1**	**66.1**	**1,579.6**	**64.9**	**8**
Selling and distribution expenses	(994.9)	(38.7)	(891.6)	(36.7)	(12)
Administration expenses	(236.2)	(9.2)	(228.5)	(9.4)	(3)
Other operating income and expenses	(19.3)	(0.8)	(3.3)	(0.1)	>(100)
Operating result (EBIT)	**448.7**	**17.4**	**456.2**	**18.7**	**(2)**
Net interest income/expenses	(4.5)	(0.2)	(14.4)	(0.6)	69
Other financial items	(7.1)	(0.3)	(8.3)	(0.3)	14
Financial result	**(11.6)**	**(0.5)**	**(22.7)**	**(0.9)**	**49**
Earnings before taxes	**437.1**	**16.9**	**433.5**	**17.8**	**1**
Income taxes	(102.6)	(4.0)	(100.1)	(4.1)	(2)
Net income	**334.5**	**13.0**	**333.4**	**13.7**	**0**
Attributable to:					0
Equity holders of the parent company	333.3	12.9	329.0	13.5	1
Non-controlling interests	1.2	0.1	4.4	0.2	(73)
Earnings per share (EUR)[1]	**4.83**		**4.77**		**1**
EBITDA	**571.5**	**22.2**	**561.4**	**23.1**	**2**
Special items	(19.3)	(0.8)	(3.3)	(0.1)	>(100)
EBITDA before special items	**590.8**	**23.0**	**564.7**	**23.2**	**5**
Income tax rate in %	**23**		**23**		

[1] Basic and diluted earnings per share.

03|11 GROSS PROFIT MARGIN (in %)



Gross profit margin increased to 66,1%

The **gross profit** in fiscal year 2014, at EUR 1.699 million, was 8% above the prior-year figure (2013: EUR 1.580 million). The **gross profit margin** therefore increased by 120 basis points to 66,1% (2013: 64,9%). This performance was particularly due to the above-average growth in the Group's own retail business and lower discounts in this channel.

Expansion of the Group's own retail business resulting in higher selling expenses

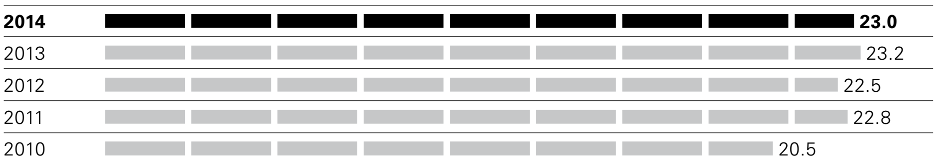
Selling and marketing expenses in fiscal year 2014 totaled EUR 995 million, up 12% year on year (2013: EUR 892 million). Relative to sales, selling and marketing expenses increased from 36,7% to 38,7%. Particularly due to the global expansion of the Group's own retail business, selling expenses increased in the reporting year by 10% compared to the prior year. This includes additional expenses for the net increase of 31 locations, which were opened or taken over in the course of the global expansion of this sales channel in fiscal year 2014. The increase in selling and marketing expenses by 19% year on year mainly reflects intensified brand communication activities in the areas of advertising, digital and retail marketing. In relation to sales, selling and marketing expenses increased compared to the prior year to 6,3% (2013: 5,7%). Additional lease expenses associated with the commissioning of the new flat-packed goods distribution center in Germany contributed to a 14% increase in logistics expenses compared with the prior year. At 2,6% of sales, they were slightly higher than the prior year's level (2013: 2,5%). Bad debt allowances and bad debts were again immaterial in the reporting period 2014 on account of continued strict receivables management and the declining proportion of the wholesale business in consolidated sales. → **Notes to the consolidated financial statements, Note 3**

Slight reduction in administration expenses in relation to sales

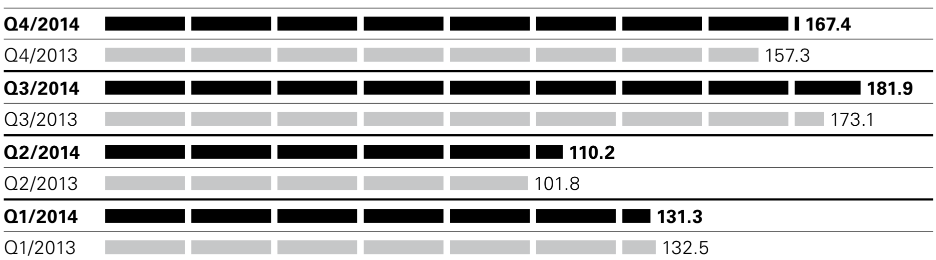
Administration expenses in fiscal year 2014 totaled EUR 236 million, up 3% year on year (2013: EUR 229 million). As a percentage of sales, however, they fell slightly to 9,2% (2013: 9,4%). General administration expenses increased by 3% to EUR 175 million (2013: EUR 170 million). Relative to sales, research and development costs incurred during the creation of fashion collections remained at the prior-year level of 2,4%, while increasing in absolute terms by 5% year on year to EUR 62 million (2013: EUR 59 million). → **Notes to the consolidated financial statements, Note 4**

The net expense arising from **other operating expenses and income** of EUR 19 million (2013: net expense of EUR 3 million) resulted from special items which were essentially related to the early dissolution of the agreement with a trade agent in the Middle East and the closure of the production site in Cleveland, Ohio, which is scheduled for the first half of 2015. As a result, income generated in the first quarter of fiscal year 2014 in connection with the sale of a showroom in France was completely offset. → **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)



5% increase in EBITDA before special items

The key internal performance indicator **EBITDA before special items** increased year on year by 5% to EUR 591 million (2013: EUR 565 million). At 23,0%, the adjusted EBITDA margin was 20 basis points below the prior-year figure (2013: 23,2%). The increase in selling and distribution expenses was not fully compensated by the increase in the gross profit margin. Due to an increase in the ratio of property, plant and equipment to total assets as a result of investments in the Group's own retail business, **amortization and depreciation** came to EUR 123 million, up 17% over the prior year (2013: EUR 105 million). **EBIT** came to EUR 449 million at the end of fiscal year 2014, down 2% year on year (2013: EUR 456 million).

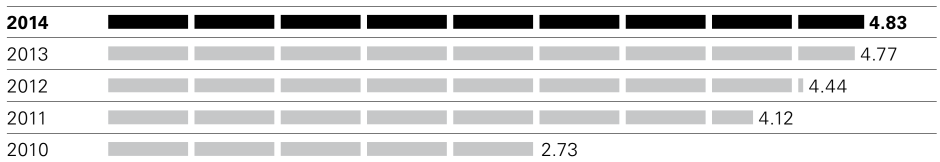
Improvement in financial result

The **financial result**, measured as the net expense after aggregating the interest result and other financial items, improved in fiscal year 2014 by 49% to EUR 12 million (2013: EUR 23 million). On account of the lower amount of debt and a lower interest level, the net interest expense decreased significantly by 69% to EUR 5 million (2013: EUR 14 million). Other financial items came to a net expense of EUR 7 million and, mainly due to an improved trend in exchange rates, were 14% below the prior year's level (2013: net expense of EUR 8 million). **→ Notes to the consolidated financial statements, Note 6**

Consolidated net income slightly above prior-year level

At EUR 437 million, **earnings before taxes** were up 1% year on year (2013: EUR 433 million). At 23%, the **Group's income tax rate** was on the same level as in the prior year (2013: 23%). The shares of earnings of companies of the HUGO BOSS Group in Germany and abroad had a neutral impact on the Group's tax rate in fiscal year 2014 due to regional differences in growth rates. **Net income** totaled EUR 437 million in the past fiscal year, up slightly year on year (2013: EUR 433 million). The net income attributable to equity holders of the parent company also increased by 1% to EUR 333 million (2013: EUR 329 million). Net income attributable to non-controlling interests came to EUR 1 million and mainly relates to the 40% investment held by the Rainbow Group in the "joint venture" entities in China, which were taken over in their entirety by HUGO BOSS at the end of June (2013: EUR 4 million).

03|14 EARNINGS PER SHARE (in EUR)



Earnings per share improved year on year by 1% to 4,83 EUR (2013: 4,77 EUR).

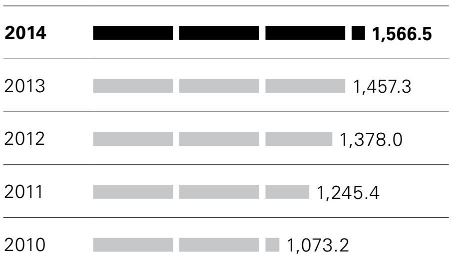
DIVIDENDS AND APPROPRIATION OF PROFIT

HUGO BOSS AG closed fiscal year 2014 with a net income of EUR 292 million (2013: EUR 211 million). The unappropriated surplus after transfer to retained earnings came to EUR 255 million (2013: EUR 235 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 3.62 per share** (2013: EUR 3.34 per share) be paid out for fiscal year 2014. This corresponds to a figure of EUR 250 million (2013: EUR 231 million). It will also be proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 5 million be carried forward to new account (2013: EUR 5 million).

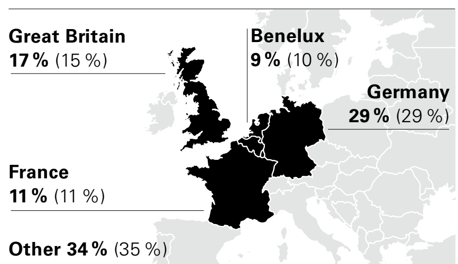
SALES AND PROFIT DEVELOPMENT OF THE BUSINESS SEGMENTS

EUROPE

03|15 SALES EUROPE
(in EUR million)



03|16 SHARE IN SALES EUROPE 2014
(2013)



Sales in **Europe** including the Middle East and Africa increased in fiscal year 2014 in both local currencies and in the reporting currency by 7% to EUR 1.567 million (2013: EUR 1.457 million).

Ongoing transformation of the business model and increased selling space productivity

In the past fiscal year, sales in the **Group's own retail business** in Europe rose 14% to EUR 851 million (2013: EUR 747 million). This is equivalent to an increase of 13% in local currencies. In addition to continued selling space expansion, this favorable performance was particularly due to the heightened productivity of existing retail selling space. Sales with customers in the **wholesale** channel increased in both local currencies and the reporting currency by 1% to EUR 716 million (2013: EUR 710 million). This development was caused in particular by the upturn in the order business in the second half of the year.

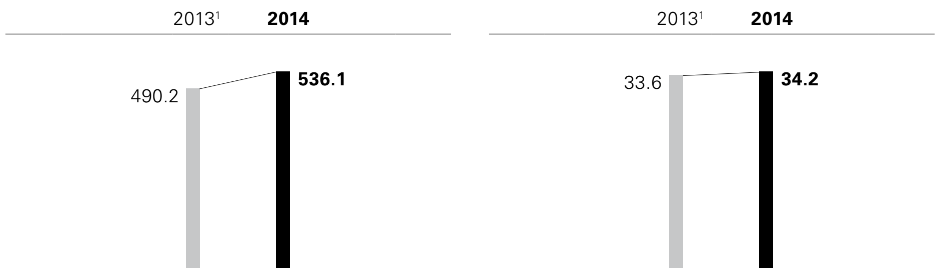
Great Britain still the fastest growing core market within the region

At EUR 448 million, sales in **Germany** were up 7% on the prior-year level (2013: EUR 417 million). This rise was underpinned by double-digit growth in the Group's own retail business and sales growth in the wholesale channel. In **Great Britain**, both the Group's own retail business and the business with wholesale partners recorded double-digit sales growth. Sales in Great Britain in the Group's reporting currency reached EUR 262 million, up 22% on the prior year (2013: EUR 215 million). In local currencies, this corresponds to sales growth of 16%. At EUR 171 million, sales in **France** were up 3% year on year (2013: EUR 166 million), with double-digit growth in the Group's own retail business offsetting a decline in the wholesale channel. Because of the continuing consolidation in the wholesale channel, sales in the **Benelux countries**, at EUR 145 million, fell 6% below the prior-year level (2013: EUR 153 million). In the past fiscal year, however, the Group's own retail business developed positively in this market as well. The business in **Eastern Europe** also developed well in the last fiscal year. HUGO BOSS posted double-digit sales growth in local currencies in this growth market.

Economic upturn supports sales growth in Spain

In **Southern Europe**, HUGO BOSS was able to generate sales growth in fiscal year 2014 in both **Italy** and the **Iberian Peninsula**. Double-digit growth rates in the Group's own retail business and in the wholesale channel led to a significant rise in sales, particularly on the Iberian Peninsula.

03|17 PROFIT DEVELOPMENT EUROPE



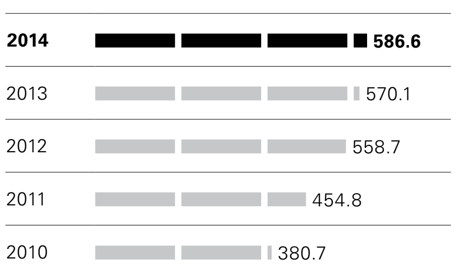
[1] Due to the reallocation of certain cost centers between corporate units and Europe, certain amounts shown here do not correspond to the figures reported in prior years.

Improved segment profit in Europe thanks to higher gross profit

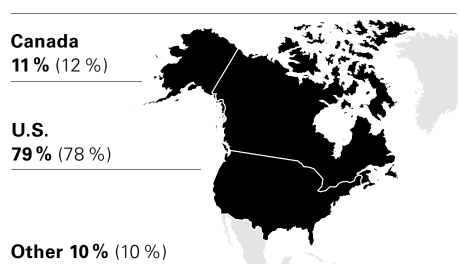
The **segment profit** for Europe came to EUR 536 million, up 9% year on year (2013: EUR 490 million). The gross profit margin rose as a result of the growth in the Group's own retail business and lower discounts in this channel. The higher selling and marketing expenses were offset by the increase in gross profit. At 34.2%, the adjusted EBITDA margin was up 60 basis points on the prior year (2013: 33.6%).

AMERICAS

03|18 SALES AMERICAS
(in EUR million)



03|19 SHARE IN SALES AMERICAS 2014
(2013)



In the **Americas sales** in the Group's reporting currency increased by 3% year on year to EUR 587 million (2013: EUR 570 million). In local currencies, this corresponds to sales growth of 4%.

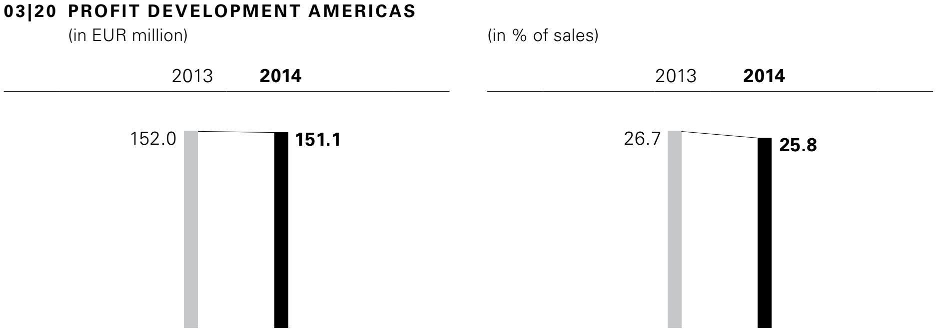
Wholesale development offset by growth in the Group's own retail business

In fiscal year 2014, sales in the **Group's own retail business** rose by 11%, reaching EUR 326 million (2013: EUR 293 million). This is equivalent to an increase of 13% adjusted for currency effects. Spurred by the continued expansion in this channel, all the region's markets contributed to this development with double-digit sales growth. Sales of EUR 261 million were generated in the **wholesale channel** in the same period (2013: EUR 277 million). Accordingly, sales in this distribution channel decreased by 6% in the Group currency and by 5% in local currencies. In the United States in particular, the takeovers of selling space previously managed by wholesale partners completed in fiscal year 2013 resulted in a shift in sales from wholesale business to the Group's own retail business.

Currency-adjusted U.S. sales up 4%

In the **U.S.**, sales increased in both local currencies and the reporting currency by 4%, totaling EUR 463 million at the end of the twelve months (2013: EUR 447 million). The double-digit growth in sales in the Group's own retail business more than made up for the decline in the wholesale business. Sales in **Canada** in the Group's reporting currency totaled EUR 67 million, down 3% year on year (2013: EUR 68 million). Supported by the trend in the Group's own retail business, however, sales increased by 5% in the local currency in this market also. In **Central and South America**, sales increased by 5% in the reporting currency to EUR 57 million (2013: EUR 55 million). Despite the slowdown in economic growth in the region, it was possible to generate sales growth adjusted for currency effects of 10%.

03|20 PROFIT DEVELOPMENT AMERICAS

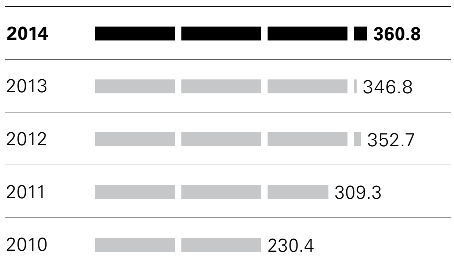


Segment profit for the Americas slightly short of prior-year level

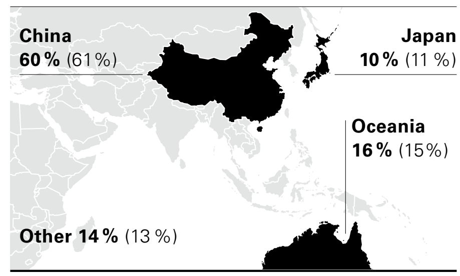
The **segment profit** for the Americas came to EUR 151 million, 1% down on the prior-year level (2013: EUR 152 million). The improved gross profit margin was offset by an increase in selling and marketing expenses due to expansion of the Group's own retail activities. The adjusted EBITDA margin for the region, at 25.8%, was 90 basis points below that of the prior year (2013: 26.7%).

ASIA/PACIFIC

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



03|22 SHARE IN SALES ASIA/PACIFIC 2014
(2013)



HUGO BOSS to assume full control of its store network in China and Macau

HUGO BOSS has been operating its network of stores in China and Macau completely on its own since June 30, 2014. Under the terms of the agreement reached, HUGO BOSS took over the remaining 40% stake in the "joint venture" established with the Rainbow Group in July 2010 effective June 30, 2014. This has given the Group full control of the 55 stores previously operated by the "joint venture" in mainland China and in Macau. Apart from the elimination of the Rainbow Group's share of earnings, this did not affect the HUGO BOSS Group's sales or earnings in fiscal year 2014. **→ Notes to the Consolidated Financial Statements, Acquisition of non-controlling interests without change of control**

In fiscal year 2014, **sales** in **Asia/Pacific** in the Group's reporting currency, at EUR 361 million, were up 4% on the prior-year period (2013: EUR 347 million). In local currencies, sales in this region were up 7%.

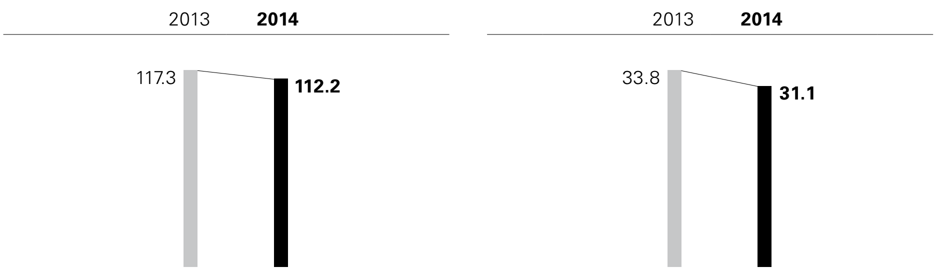
The Group's own retail business posts double-digit growth

Sales in the **Group's own retail business** in this region rose by 7% in the reporting currency to EUR 295 million (2013: EUR 274 million). This is equivalent to growth of 10% compared to the prior-year period in local currencies. Sales with **wholesale** partners, at EUR 66 million, were down 8% year on year (2013: EUR 72 million), or a fall of 7% after currency adjustment.

Currency-adjusted sales growth in all markets

At EUR 215 million, sales in **China** were up 2% on the prior year (2013: EUR 211 million). Adjusted for currency effects, the sales increase was also 2%. The persistently difficult environment in the retail business burdened the development of sales here. In **Oceania**, sales of EUR 57 million represented an increase of 6% compared to the prior year (2013: EUR 53 million). Here, too, negative currency effects depressed sales in the reporting currency. Supported by significant productivity gains in the Group's own retail business, sales increased by 13% after currency adjustments. At EUR 38 million, sales in **Japan** were down 3% on the prior-year level (2013: EUR 39 million), which, however, represented a sales increase of 5% after currency adjustments.

03|23 PROFIT DEVELOPMENT ASIA/PACIFIC
(in EUR million) (in % of sales)

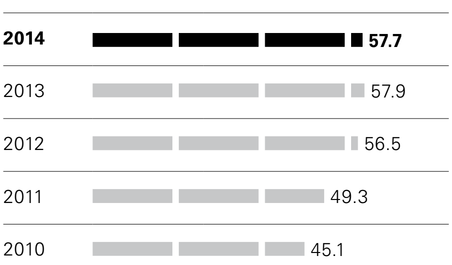


The **segment profit** for Asia/Pacific came to EUR 112 million, 4% down on the prior-year level (2013: EUR 117 million). This was mainly due to a disproportional increase in selling and marketing expenses particularly in connection with the expansion of the Group's own retail business. At 31.1%, the adjusted EBITDA margin in this region was down 270 basis points from the prior year (2013: 33.8%).

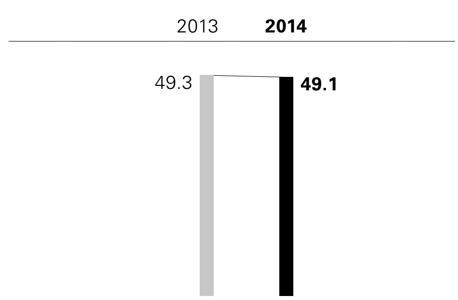
Segment profit for Asia/Pacific slightly below prior-year level

LICENSES

03|24 SALES LICENSES
(in EUR million)



03|25 PROFIT DEVELOPMENT LICENSES
(in EUR million)



The **license business** showed stable development in fiscal year 2014. The products produced by partners include fragrances, eyewear and watches. As in the prior-year period, sales with external licensees came to EUR 58 million (2013: EUR 58 million). License income from fragrances fell slightly compared to the prior year. Double-digit growth in women's fragrances was compensated by decreasing sales in the area of men's fragrances. In license income for watches, in contrast, a double-digit rise in sales was recorded.

License business stable

The license **segment profit** came to EUR 49 million, remaining constant year on year (2013: EUR 49 million).

NET ASSETS

In fiscal year 2014, the development of the Group's key financial reporting indicators was strongly influenced by the expansion of its own retail business. Investments into the sales network led to higher intangible assets, property, plant and equipment and inventories. Efficiency of capital employed, defined as the ratio of trade net working capital to sales, was above the level achieved at the end of 2013 as of the reporting date.

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

ASSETS	2013	2014
Property, plant and equipment and intangible assets	34	32
Inventories	29	30
Trade receivables	15	15
Other assets	14	15
Cash and cash equivalents	8	8
TOTAL	100	**100**
ASSETS (in EUR million)	1,501.3	**1,661.8**

For absolute figures please refer to the statement of financial position, p. 157

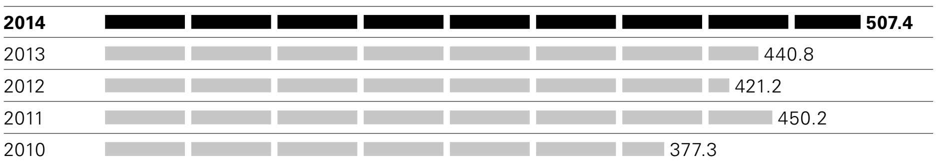
Increase in total assets due to higher inventories and property, plant and equipment and intangible assets

Total assets rose by 11% at the end of fiscal year 2014 year on year to EUR 1.662 million (December 31, 2013: EUR 1.501 million). This change was driven in particular by an increase in inventories and property, plant and equipment and intangible assets in connection with the expansion of the Group's own retail business. The **share of current assets** increased compared to the prior year to 60% (December 31, 2013: 59%). The **share of non-current assets** fell accordingly from 41% in the prior year to 40% as of December 31, 2014.

Investments in retail business lead to rise in property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets rose by 5% at the end of fiscal year to EUR 531 million (December 31, 2013: EUR 508 million). This was due to capital expenditure on the expansion and enhancement of the Group's own retail business. → **Financial position, capital expenditure**

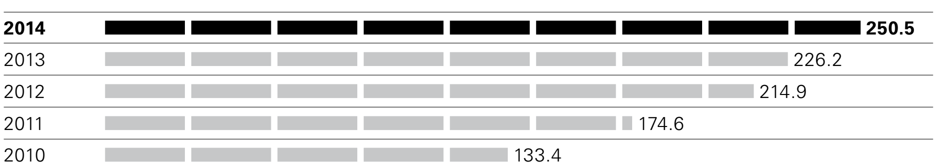
03|27 INVENTORIES AS OF DECEMBER 31 (in EUR million)



Expansion of Group's own retail business drives up inventories

Inventories increased by 15% as of December 31, 2014 to EUR 507 million (December 31, 2013: EUR 441 million). After currency adjustments, inventories increased by 8% year on year. The higher volume of inventories was largely driven by the further expansion of the Group's own retail business.

03|28 TRADE RECEIVABLES AS OF DECEMBER 31 (in EUR million)



Increase in trade receivables

Trade receivables increased by 11% year on year to EUR 251 million (December 31, 2013: EUR 226 million). Adjusted for exchange rate effects, this corresponds to an increase of 7%. The rise was largely driven by a higher share than last year of deliveries in the wholesale business at the end of the reporting period and higher receivables in connection with the expansion of the concession model.

Other assets increased by 17% year on year to EUR 243 million (December 31, 2013: EUR 207 million). This development is mainly attributable to higher refund claims from returns and an increase in deferred tax assets because of additional temporary differences.
→ **Notes to the consolidated financial statements, Note 7**

Cash and cash equivalents came to EUR 129 million as of the reporting date (December 31, 2013: EUR 119 million), principally due to the positive trend in free cash flow.

03|29 STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 (in %)

EQUITY AND LIABILITIES	2013	2014
Shareholders' equity	49	**51**
Provisions and deferred taxes	11	**12**
Trade payables	16	**15**
Other liabilities	12	**12**
Financial liabilities	12	**10**
TOTAL	100	**100**
EQUITY AND LIABILITIES (in EUR million)	1,501.3	**1,661.8**

For absolute figures please refer to the statement of financial position, p. 157

Increase in equity ratio to 51%

Equity increased as of the reporting date by 14% to EUR 844 million (December 31, 2013: EUR 740 million). The **equity ratio** thus increased to 51% as of the reporting date (December 31, 2013: 49%).

Provisions and deferred taxes, at EUR 196 million, were 15% higher than in the prior year (December 31, 2013: EUR 170 million). This includes provisions for pensions and other personnel expenses of EUR 91 million (December 31, 2013: EUR 83 million) as well as other provisions of EUR 95 million (December 31, 2013: EUR 69 million) and deferred tax liabilities of EUR 10 million (December 31, 2013: EUR 17 million). The increase in other provisions was essentially related to the early dissolution of the agreement with a trade agent in the Middle East and the closure of the production site in Cleveland, Ohio, which is scheduled for the first half of 2015. → **Notes to the consolidated financial statements, Note 25**

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

2014	**255.0**
2013	235.3
2012	227.6
2011	225.1
2010	188.0

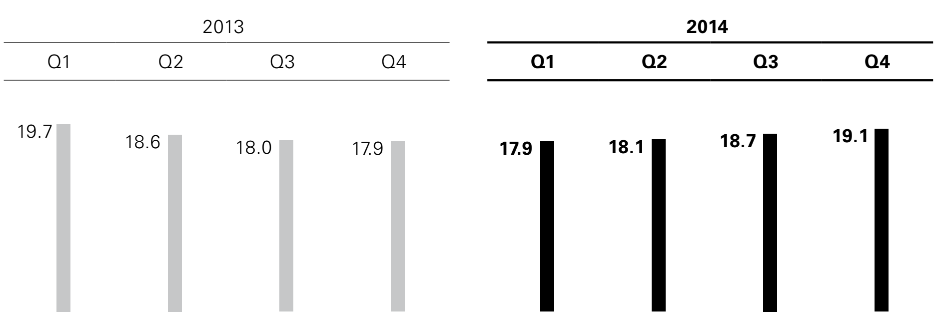
Higher trade payables

Trade payables increased by 8% year on year to EUR 255 million driven by quantity effects (December 31, 2013: EUR 235 million). After currency adjustments, this corresponds to a rise of 6%.

Other liabilities increased by 10% year on year to EUR 195 million (December 31, 2013: EUR 176 million) and, in addition to VAT liabilities and social security liabilities, mainly contain accruals of rental obligations for the Group's own retail business as well accrued vacation, wages and salaries. The year-on-year change primarily results from an increase in the accruals of rental obligations and higher VAT liabilities.

The aggregate of **current and non-current financial liabilities** decreased as of the reporting date by 4% to EUR 172 million (December 31, 2013: EUR 179 million). This development principally resulted from the lower utilization of the syndicated loan of EUR 100 million (December 31, 2013: EUR 111 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 8 million (December 31, 2013: EUR 3 million).

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



Trade net working capital is the HUGO BOSS Group's key performance indicator for measuring the efficiency of capital employed. The only components factored into the calculation of this indicator are inventories, trade receivables and trade payables. Trade net working capital increased by 16% year on year to EUR 503 million (December 31, 2013: EUR 432 million), as a result of the increase in inventories and trade receivables. This could only be partially compensated by higher trade payables. The moving average of **trade net working capital as a percentage of sales** on the basis of the last four quarters, at 19,1%, was 120 basis points higher than in the prior year (2013: 17,9%).

Trade net working capital as a percentage of sales above prior-year level

FINANCIAL POSITION

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 did not undertake any material financing activities in fiscal year 2014. The increase in the free cash flow supported a reduction of net financial liabilities to EUR 36 million. The capital expenditure of EUR 135 million was below the prior-year figure.

FINANCIAL MANAGEMENT AND FINANCING PRINCIPLES

The most important goal of **financial management** at HUGO BOSS is to secure the Group's financial strength in the long term through sufficient liquidity reserves.

Central bundling of global financial management

Group-wide financial management comprises corporate finance, cash and liquidity management, and the management of market price risks and default risks. It is centrally organized in the corporate treasury department. **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 **external financing volume** of the HUGO BOSS Group is essentially drawn through HUGO BOSS International B.V. This allows economies of scale to be leveraged and the cost of capital to be optimized. 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 issues guarantees or letters of comfort in exceptional cases.

The corporate treasury department optimizes and centralizes payment flows and secures Group-wide liquidity in its cash and liquidity management. The cash inflow from the operating activities of each Group company is the Group's most important source of liquidity.

Using efficient **cash management systems**, liquidity surpluses of individual Group companies are used to cover other companies' financial requirements (cash pooling). This intercompany financial balancing system reduces external financial requirements and net interest expenses.

DEBT FUNDING AND FINANCING STRUCTURE

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, Notes 27 and 30**

Syndicated loan secures long-term financial flexibility

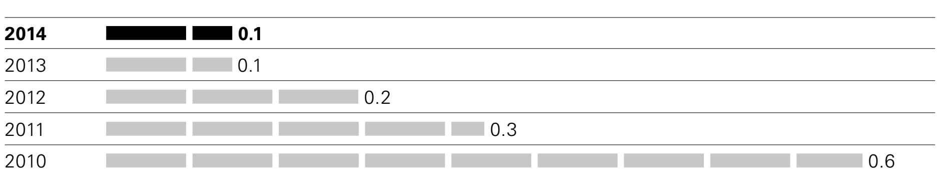
The Group secured its **financial flexibility** in the long term by refinancing the syndicated credit facility that expired in May 2013. A syndicate of banks led by DZ Bank, Landesbank Baden-Württemberg and Unicredit AG granted the syndicated loan with a volume of EUR 450 million and a term of five years.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

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 addition, subbranches of the revolving tranche permit amounts to be borrowed in foreign currencies. The Group has additional liquidity secured in the form of bilateral lines of credit with a total volume of EUR 111 million, of which EUR 67 million had been drawn as of December 31, 2014. Apart from the undrawn amounts from the lines of credit amounting to EUR 394 million, the Group has access to liquidity funds of EUR 129 million as of the reporting date, of which EUR 10 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 27**

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



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

Total leverage at prior-year level

As in prior fiscal years, HUGO BOSS was substantially lower than the maximum permissible value as of December 31, 2014. At 0.1, the total leverage ratio was at the prior year's level as of the reporting date.

The **financial liabilities** of the HUGO BOSS Group are mostly subject to variable interest rates and have short fixed-interest periods for the most part. Of the amount of financial liabilities amounting to EUR 133 million subject to variable interest rates, a volume of approximately EUR 111 million was hedged against an increase in interest rates using payer swaps as of December 31, 2014. There is no exposure to interest rate risks from the fixed-interest loans.
→ **Notes to the consolidated financial statements, Note 27**

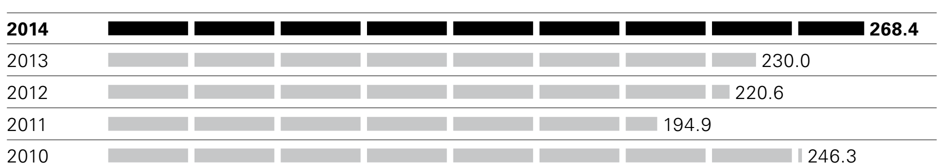
Land charges in connection with land and buildings amount to EUR 42 million (2013: EUR 45 million).

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 33**

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 "Cash and cash equivalents" item in the balance sheet. As cash flow is presented after currency adjustments, these figures cannot be derived from the statement of financial position.

Cash inflow from operating activities below prior-year level

Cash inflow from operating activities, at EUR 395 million, was down on the prior-year level (2013: EUR 416 million), negatively affected by an increased cash outflow due to the change in inventories and trade receivables. The increased cash inflow resulting from the change in trade liabilities compensated in part, leading to a total outflow of cash from trade net working capital of EUR 50 million (2013: EUR 45 million). Subsequent payments of income taxes from prior years resulted in a higher outflow of cash in comparison to the previous year.

The net cash outflow from interest expenses and income decreased to EUR 3 million as of the reporting date (2013: EUR 8 million). The lower amount of debt and the lower market interest rates had a positive effect.

Lower cash outflow from investing activities

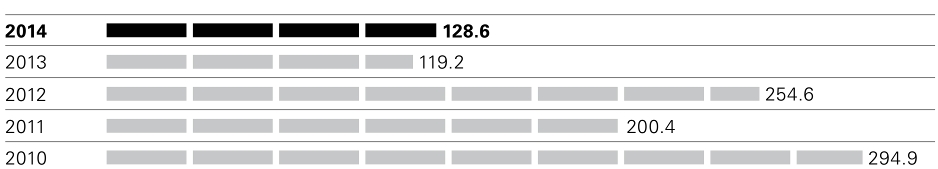
At EUR 127 million**, the cash outflow from investing activities** was down on the prior-year level (2013: EUR 186 million). In the prior-year period, investments into the new flat-packed goods distribution center and the acquisition of other business units increased the cash outflow.

Free cash flow, measured as the cash inflow from operating activities and the cash outflow from investing activities, increased by EUR 38 million to EUR 268 million in the fiscal year just ended (2013: EUR 230 million).

Cash outflow from financing activities shaped by dividend payment

Cash outflow from financing activities in 2014 totaled EUR 262 million (2013: EUR 363 million) and was most heavily influenced by the dividend payment of EUR 230 million (2013: EUR 215 million). The acquisition of the remaining 40% share in the "joint ventures" in China and Macau led to a cash outflow of EUR 19 million. In the prior year, refinancing activities led to a high cash outflow.

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



Cash and cash equivalents came to EUR 129 million as of the reporting date (December 31, 2013: EUR 119 million).

NET FINANCIAL LIABILITIES

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

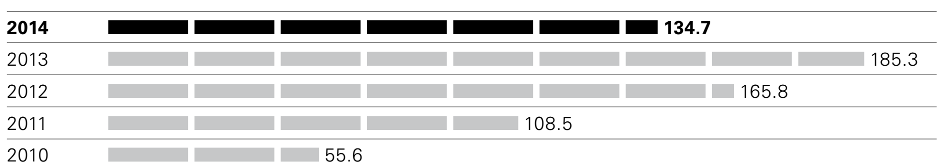
Net financial liabilities improved

Net financial liabilities, the sum total of all financial liabilities due to banks less cash and cash equivalents, improved by 37% as of the end of the fiscal year 2014 to EUR 36 million (December 31, 2013: EUR 57 million).

Financial liabilities to banks came to EUR 164 million, slightly below the prior-year level (December 31, 2013: EUR 176 million).

CAPITAL EXPENDITURE

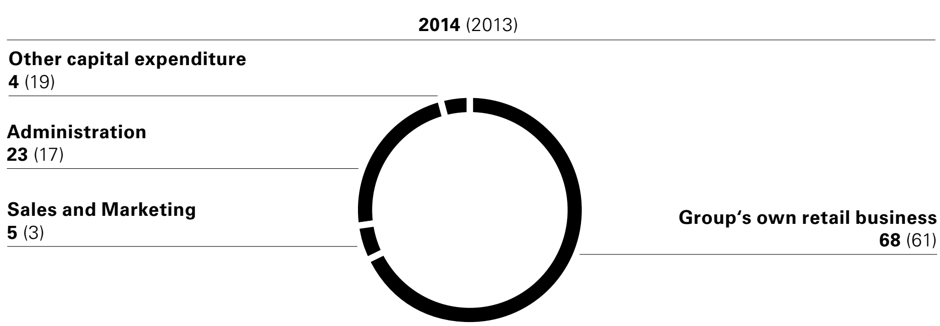
03|36 CAPITAL EXPENDITURE (in EUR million)



HUGO BOSS invests EUR 135 million in fiscal year 2014

In the past fiscal year, HUGO BOSS invested a total of EUR 135 million in property, plant and equipment and intangible assets. Total investment thus declined by 27% year on year (2013: EUR 185 million). The decrease is mainly attributable to capital expenditure on the expansion of logistics capacities in the prior-year period, which did not recur in the period under review.

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



Capital expenditure focuses on own retail business

Making up 68% 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 (2013: 61%). This corresponds to an investment volume of EUR 92 million (2013: EUR 113 million).

Investment in **new retail stores** owned by the Group came in 2014 to EUR 48 million (2013: EUR 75 million). In Europe, flagship stores were opened in Rome and Milan and retail stores in Marseille, Berlin and Moscow. In the Americas, attractive locations were added to the portfolio in cities such as Washington, D.C., and Vancouver. Additional highlights in Asia/Pacific were the opening of a flagship store in Hong Kong and new openings in Sydney and Osaka.

Modernization of the Group's own retail locations increases

In the past fiscal year, EUR 44 million was invested worldwide in the **renovation and modernization** of existing retail locations (2013: EUR 38 million). The bulk of these investments were in Europe, with the primary focus on the modernization of two stores in London and in Zurich. In several cases, the Group expanded the stores' floorspace during the modernization work by taking over adjacent selling spaces.

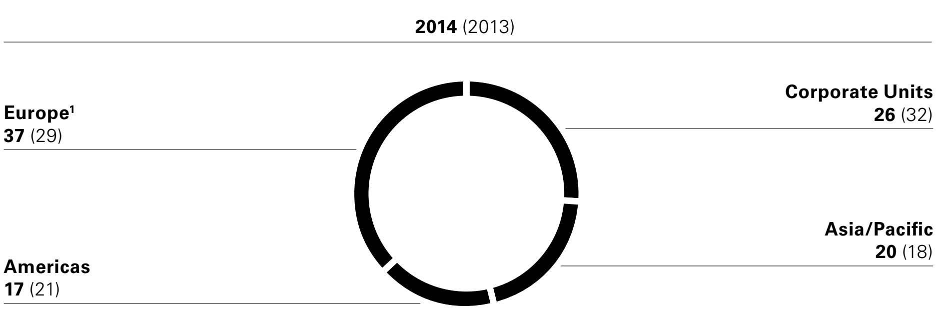
In 2014, investment in the **production, logistics and distribution structure** as well as in **research and development** amounted to EUR 12 million (2013: EUR 41 million). The decrease is mainly attributable to capital expenditure on the expansion of logistics capacities in the prior-year period.

Investments in **administration** came to EUR 31 million in the past fiscal year (2013: EUR 32 million). They include, in particular, investments in the IT infrastructure of EUR 21 million (2013: EUR 16 million).

The accumulated amortization and depreciation on property, plant and equipment and intangible assets taking into account own work capitalized came to EUR 688 million (2013: EUR 603 million). **→ Notes to the consolidated financial statements, Notes 11 and 12**

Obligations from investment projects that have commenced as of December 31, 2014 amounted to EUR 1 million (December 31, 2013: EUR 2 million). **→ Notes to the consolidated financial statements, Note 33**

03|38 CAPITAL EXPENDITURE BY REGION (in %)



[1] Including Middle East and Africa.

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 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 2014 came to EUR 4,434 thousand (2013: EUR 5,211 thousand). Of this amount, EUR 3,682 thousand was attributable to fixed salary components including fringe benefits (2013: EUR 3,466 thousand), which was paid in full in the 2014 reporting period.

The total compensation for fiscal year 2014 does not include any annual bonus (in contrast to the previous year). The annual bonus is omitted if the parameter used to measure it – trade net working capital – reaches or exceeds a certain percentage above the annual target. This percentage was exceeded in fiscal year 2014.

The total compensation for fiscal year 2014 contains an amount of EUR 752 thousand for short-term variable incentives. This is related to actual target achievement for the annual bonus for 2013 and constitutes the difference between the amount of EUR 1,607 thousand paid out in 2014 and the amount of EUR 855 thousand retained as a provision in the previous year. In contrast to the previous year, no long-term variable incentives (multi-year bonuses 2013–2015 and 2014–2016) are included in total compensation for the year due to the three-year measurement period. In the previous year, total compensation included an amount of EUR 890 thousand equaling the difference between actual target achievement for the multi-year bonuses 2010–2012 and the pro rata amount which had been retained as a provision in the previous year.

In fiscal year 2014, the Managing Board received an advance installment of the multiple-year bonus for fiscal year 2013 totaling EUR 2,844 thousand (2013: EUR 0 thousand), which will ultimately be measured by the target realization for the multiple-year period 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 service contract with one of the members of the Managing Board 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.

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|39 PENSION EXPENSES (in EUR thousand)

	2014	2013
Service Costs (IFRS)	2,148	1,638
Present value provision (IFRS) after offsetting of the plan assets	10,466	4,432
Expenses of earned pension commitments (HGB)	2,206	3,908
Present value provision (HGB) after offsetting of the plan assets	1,515	411

OTHER DISCLOSURES

In 2014, former members of the Managing Board and their surviving dependents received total compensation of EUR 197 thousand (2013: EUR 3,967 thousand). In the fiscal year just ended, the total compensation does not include any payments to former members of the Managing Board in connection with post-employment benefits or the exercise of outstanding participation rights from the stock appreciation rights program (2013: EUR 3,774 thousand).

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 2013 amounting to EUR 2,134 thousand. For fiscal year 2014, total compensation is expected to come to EUR 2,209 thousand. This figure includes a provision for the variable component of EUR 1,454 thousand (2013: EUR 1,408 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 Board 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 transaction and has not suffered any disadvantage in fiscal year 2014 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. The respective voting rights announcements are published on the internet at **group.hugoboss.com/en/investor-relations/financial-releases** and are also disclosed in the annual financial statements of HUGO BOSS AG for the fiscal year 2014.

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 2014, HUGO BOSS AG was notified of 16 voting rights announcements pursuant to Sec. 21 (1) and Sec. 22 of the German Securities Trading Act (WpHG). The respective voting rights announcements are published on the internet at **group.hugoboss.com/en/investor-relations/financial-releases** and are also disclosed in the annual financial statements of HUGO BOSS AG for the fiscal year 2014.

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 generally 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 – by simple majority of the share capital represented when the resolution is passed. Pursuant to Art. 20 of the Articles of Association, the Supervisory Board is authorized to make amendments to the Articles of Association that only affect the wording.

AUTHORIZATION OF THE MANAGING BOARD TO INCREASE SHARE CAPITAL WITH THE OPTION OF EXCLUDING SUBSCRIPTION RIGHTS

The Management Board of HUGO BOSS AG may with the Supervisory Board's consent increase the share capital by up to EUR 35,200,000.00 on or before May 12, 2019 by issuing up to 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (Authorized Capital). In general, shareholders have a subscription right.

However, the Managing Board is authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of shareholders up to a maximum of 20% of the share capital (a) to eliminate fractional rights (b) in the case of a capital increase in exchange for contributions in kind and (c) in the event that the issue price of the new shares in cash-based capital increases is not significantly below the quoted price of the existing quoted shares at the time the issue price is finally determined, which time should be as close as possible to the time at which the shares are placed; whereby in case (c) the shares issued, including any own shares sold under exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 AktG may not exceed 10% of the share capital either at the time this authorization becomes effective or at the time when it is exercised.

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

Pursuant to the resolution of the Annual Shareholders' Meeting of June 21, 2010, the Managing Board is authorized on or before 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** – so-called "change-of-control clauses".

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 is primarily dedicated to achieving the Group's financial and strategic targets. It therefore does not only pursue the goal of securing the Group's continuation as a going concern, but rather that of sustainably increasing its enterprise value. Effective risk management enables the Group to identify uncertainties and the resulting 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 objectives of securing the Company's continuation as a going concern and supporting the efforts of the operating units to implement the strategy successfully. The early identification of risks and immediate assessment of their possible impact is, however, only the basis for and first step in the development of effective risk control measures. The second step of risk management therefore promotes responsible action and makes an important contribution to the Group's value.

RISK MANAGEMENT

Group-wide standards ensure successful risk management

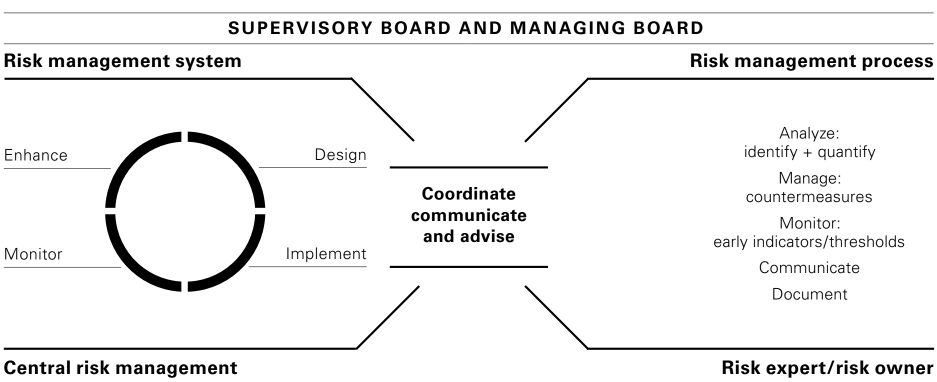
Successful risk management is founded on Group-wide standards for systematically handling risks. These are set for the HUGO BOSS Group by the Managing Board as part of the risk policy and documented in a risk manual that is applicable throughout the Group and is available for all employees online. Risks are defined as potential, negative deviations from the planned operating result (EBIT) or, in the case of tax and interest risks, from the cash flow. 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 identified and assessed 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 and the actions taken are systematically recorded using a risk management 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 be able to identify risks early, analyze and monitor them, and to counteract them with risk mitigation measures as required. The team develops the tools of the risk management system further and ensures that risks are identified Group-wide and recorded 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 continuously communicates with all risk owners so that it is always informed of the latest developments. In another direction, it 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.

Decentralized risk management in the divisions

Responsibility for risk identification and analysis, adequate handling of uncertainties and the implementation of effective risk mitigation measures is locally assigned to the respective divisions or subsidiaries where risks occur. To this end, a risk expert and a risk owner are defined in each case.

03|40 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) or cash flow. Any net risk as an actual risk potential is defined as the gross risk reduced by measures taken to mitigate or avoid the risks identified.

03|41 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 the latter case, the focus is not so much on preventive measures but on the development of disaster recovery plans to support the rapid restoration of operations after an occurrence actually happens. In addition to the quantification of risk based on a 12-month planning period, a medium-term risk trend is also determined. This indicator is used be able to initiate the development of adequate countermeasures for growing risks promptly.

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) AktG.

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|42 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**
Geopolitical developments	**Brands and corporate image**	**Changes in interest rates**	**Quality**	**Personnel**
Product piracy	**Investments**	**Currencies**	**Logistics**	**Facilities**
Environment and health		**Counterparties**	**Sales and distribution**	**Legal**
Competitive environment		**Taxes**		**Governance and compliance**
		Provisions for pensions		**Health and safety**

ASSESSMENT OF THE RISK SITUATION BY MANAGEMENT

The individual risks are aggregated using two alternative methods to obtain the most accurate possible picture of the HUGO BOSS Group's total risk position. First, an addition of all the expected loss values within the five risk categories described above shows that the greatest exposure continues to come from operational risks. Compared to the last report as of the end of fiscal year 2013, the total risk position has risen slightly overall. This development can be explained by the global uncertainties that have increased perceptibly in the course of the year 2014.

03|43 DEVELOPMENT AND COMPOSITION OF TOTAL RISK EXPOSURE

Risk category	Trend	Expected value
External risks	↗	
Strategic risks	↗	
Financial risks	↗	
Operative risks	↘	
Organizational risks	↘	
Total risk	↗	

Second, using a Monte Carlo simulation method, the probability distributions of individual risks are aggregated to form a single probability distribution for a possible total loss. A large, representative number of conceivable risk-dependent future scenarios is calculated by random selection. In these scenarios, certain risks occur and others do not in accordance with the probabilities of their occurrence. By this means, not only average loss amounts, but also maximum annual loss values within randomly selectable confidence intervals can be determined across all simulation runs. These value-at-risk indicators are compared to the enterprise's equity to assess its risk-bearing capacity. The result of this analysis shows that the HUGO BOSS Group's equity is in excess of all simulated risk-dependent loss values, even within the tightest confidence intervals.

On the basis of the 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.

The main risks to which HUGO BOSS is exposed in fiscal year 2015 are described in detail below. The risks discussed concern both the operating segments and the corporate units of the HUGO BOSS Group. In general, it is possible that additional latent risks or risks that are currently estimated as immaterial may also adversely affect the Group's development in the future to more than the stated extent. Irrespective of the measures introduced to manage the identified risks, entrepreneurial activity is always exposed to residual risks that cannot be entirely avoided even by a modern risk management system such as that implemented in the HUGO BOSS Group.

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 a timely 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 2015, the Group generally expects the continued growth of the global economy and the premium and luxury industry. Adverse macroeconomic developments can have a moderate impact on planned business growth, however, regardless of the measures taken. Management considers the occurrence of this risk as possible because of the continuing uncertainties about the euro debt crisis and the further deterioration of China's economic prospects. ➔ **Subsequent Events and Outlook, Outlook**

Geopolitical developments

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. In the course of 2014, several, sometimes widely differing regional crises and developments have considerably heightened this risk. The continuing tensions between the West and Russia and the resulting trade restrictions as well as the sharp devaluation of the Russian ruble may have not only a direct impact on the business with Russia, but also indirect effects on further European economic developments and therefore on consumer purchasing behavior. In addition, the global increase in activities by terrorist organizations contains the risk of declining demand in individual markets, particularly large cities affected by attacks. However, global distribution in more than 120 countries at Group level provides a natural hedge against adverse developments in particular countries or regions. No significant changes in the regulatory or sociocultural environment are expected in the HUGO BOSS Group's key markets. The political situation in the United Kingdom and the possibility of a referendum on EU membership there will be constantly observed over the year to be able to counter any possible negative impact effectively. Unexpected changes in country-specific business conditions in key markets may generally lead to minor financial effects. However, from the Managing Board's point of view this is currently classed as unlikely due to the measures taken.

Product piracy

Businesses offering high-quality branded articles, particularly in the premium and luxury segment, have always been affected by product piracy. A global increase in the distribution of fake goods is being recorded due to online sales. In addition to legal protection and close collaboration with authorities worldwide, HUGO BOSS has taken far-reaching organizational measures to be able to discover instances of product piracy quickly and pursue them vigorously. The risk of direct sales losses due to fake articles being widely offered is currently evaluated as minor and unlikely. However, in view of the latent risk of downstream image losses, HUGO BOSS constantly reviews developments and will take further protective measures as required.

Environmental and health risks

A global value chain is always subject to a number of risks that may arise due to environmental disasters, epidemics and the consequences of climate change. The unforeseeable wide spread of the Ebola virus in West Africa in 2014 illustrates the risk potential of such events. In order to respond rapidly and adequately to the impact of natural disasters, the HUGO BOSS Group has overhauled the emergency management system at its headquarters and added a special organizational structure that bundles the cross-functional skills needed to master emergencies and guarantees single leadership with clear decision-making paths. Nevertheless, minor effects on target realization cannot be entirely ruled out, although management considers this situation to be unlikely.

Competitive environment

The competition with other premium and luxury goods manufacturers for the trust and loyalty of consumers essentially also means a competition for the best retail selling spaces, highly qualified personnel and presence in the right media. Rising competitive pressure can lead to higher costs or lower sales in increasingly saturated markets. However, the HUGO BOSS Group considers itself to be very well positioned in the international competitive arena, so that the financial impact associated with this risk should not rise above a very low level. The Managing Board currently regards it as unlikely that such an impact will materialize.

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 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. Additional reductions of the value of depreciated property, plant and equipment and amortized intangible assets at the Group's own retail stores level, other intangible assets with indefinite useful lives (key money) and goodwill that have to be made due to the results of impairment tests are the largest risk position in this area. Against the background of the measures described, investment risk is assessed as possible, but with a minor financial impact. → **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 counterparty 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 and risks from future cash flows.

Financing and liquidity risks

Managing liquidity risk is one of the central tasks of HUGO BOSS AG's treasury department. Liquidity risk is the risk that existing or future payment obligations cannot be met 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 three-year financial planning. 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. The 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, no further tranche subbranches had been utilized 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**

In addition, the syndicated loan contains a so-called "change of control clause" that grants the contracting parties additional termination rights in the event of a change of control. HUGO BOSS considers this risk very low.

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

In addition to the line of credit amounting to EUR 561 million as of December 31, 2014, the Group had liquid funds of 129 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 the profitability, the 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.

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 133 million (December 31, 2013: EUR 134 million), interest derivatives of EUR 111 million (December 31, 2013: EUR 111 million) and cash and cash equivalents of EUR 129 million (December 31, 2013: EUR 119 million). The impact of interest rate fluctuations on future cash flows was not included in this analysis.

Owing to the continued low interest rates, the shift in the interest yield curve was changed from +100/–30 to +100/–10 basis points 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. Taking the sharp fall in money market and capital market interest into account, HUGO BOSS considers this change to be appropriate. To ensure the comparability of this reporting period and the prior period, the shift in the interest yield curve was also changed to +100/–10 basis points for fiscal year 2013.

03|44 INTEREST RATE SENSITIVITIES AS OF DECEMBER 31 (in EUR million)

	2014		2013	
	+100 bp	**(10) bp**	+100 bp	(10) bp
Cash flow risks	0.8	(0.1)	0.5	(0.1)
Risks from interest rate derivatives recognized in income	0.6	(0.1)	0.7	(0.1)
Effects on net income	**1.4**	**(0.2)**	**1.2**	**(0.2)**
Risks from interest rate derivatives reflected on the consolidated statement of financial position	2.3	(0.2)	3.1	(0.3)
Effects on Group equity	**3.7**	**(0.4)**	**4.3**	**(0.5)**

An increase in market interest rates by 100 basis points as of December 31, 2014 would have led to an increase in net income of EUR 1,4 million (2013: EUR 1,2 million) and in equity of EUR 3,7 million (December 31, 2013: EUR 4,3 million). A decrease in market interest rates by 10 basis points would have resulted in a decrease in net income of EUR 0,2 million (2013: EUR 0,2 million) and in Group equity of EUR 0,4 million (December 31, 2013: EUR 0,5 million). 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 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 and salary payments 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 local Group companies, which place their orders exclusively 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, Turkey, Hong Kong and China as well as the purchasing activities of sourcing units in foreign currencies.

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. An exception here is the transaction risk for salary payments in Turkish liras, which is managed directly by the local company in Turkey.

The primary objective of exchange rate management at HUGO BOSS is to mitigate the overall exchange rate exposure using natural hedges. Such hedges are based on the offsetting of currency 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 objective of the hedging strategy is to limit the effects of exchange rate fluctuations on exposures already on the balance sheet and future cash flows. 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 transactions are 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 companies. 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 and longer-term 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.

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. In contrast to the prior year, the currency risk was not only determined on the basis of the balance sheet currency exposure as of December 31, 2014, but also on the basis of planned future cash flows in Turkish liras. This approach was selected because of the HUGO BOSS Group's changed hedging strategy, which aims both to mitigate balance sheet risks and to hedge future cash flows. 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.

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|45 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2014
(in EUR million)

	USD	GBP	AUD	CHF	JPY	HKD	CNY	TRY[1]
Gross currency exposure	**39.3**	**17.8**	**28.1**	**(74.2)**	**27.1**	**16.0**	**7.2**	**7.2**
Hedging	(34.8)	(11.2)	(22.6)	21.6	(26.4)	(12.9)	0.0	12.5
Net currency exposure	**4.5**	**6.6**	**5.5**	**(52.6)**	**0.7**	**3.1**	**7.2**	**19.7**
Volatility	8.9	8.1	9.9	4.2	10.6	9.1	9.3	14.2
Appreciation of the euro by standard deviation								
Net income	(0.3)	(0.4)	(0.4)	1.7	(0.1)	(0.2)	(0.5)	(0.8)
Equity	(0.3)	(0.4)	(0.4)	1.7	(0.1)	(0.2)	(0.5)	(2.2)
Depreciation of the euro by standard deviation								
Net income	0.3	0.4	0.4	(1.7)	0.1	0.2	0.5	0.8
Equity	0.3	0.4	0.4	(1.7)	0.1	0.2	0.5	2.2

[1] Gross currency exposure refers to the reporting date.

03|46 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2013
(in EUR million)

	USD	GBP	AUD	CHF	JPY	HKD	CNY	TRY
Gross currency exposure	**3.7**	**14.8**	**27.5**	**(39.7)**	**25.6**	**(9.5)**	**21.9**	**7.3**
Hedging	(17.4)	(15.6)	(25.9)	0.0	(22.1)	0.0	0.0	0.0
Net currency exposure	**(13.7)**	**(0.8)**	**1.6**	**(39.7)**	**3.5**	**(9.5)**	**21.9**	**7.3**
Volatility	8.4	7.3	10.4	4.9	12.4	9.0	9.1	13.0
Appreciation of the euro by standard deviation								
Net income	0.9	0.0	(0.1)	1.5	(0.3)	0.7	(1.5)	(0.7)
Equity	0.9	0.0	(0.1)	1.5	(0.3)	0.7	(1.5)	(0.7)
Depreciation of the euro by standard deviation								
Net income	(0.9)	0.0	0.1	(1.5)	0.3	(0.7)	1.5	0.7
Equity	(0.9)	0.0	0.1	(1.5)	0.3	(0.7)	1.5	0.7

The implicit 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 regard to the disclosure of a "reasonably possible change". The presentation of the prior period was adjusted accordingly for the purpose of comparability.

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 –1,0 million lower (2013: EUR 0,5 million) and its equity EUR –2.4 million (2013: EUR 0.5 million) lower. Had the euro depreciated by the same amount, the Group's net income would have been EUR 1,0 million higher (2013: EUR –0,5 million) and its equity EUR 2.4 million (2013: EUR –0.5 million) higher. As of the reporting date, derivatives with a nominal value of EUR 12.5 million were designated as effective currency hedges within the meaning of IAS 39. Changes in value are recognized directly in equity. In contrast to the prior year, the sensitivity of equity is thus not reflected in the consolidated net income.

The volatility used for the sensitivity analyses is determined as of the reporting date in each case. If the abandonment of the minimum exchange rate of the Swiss franc against the euro by the Swiss National Bank in January 2015 had been included in the sensitivity analysis, the risk assessment would not have changed materially. Management expects further changes in the exchange rates of relevance to HUGO BOSS to be likely in fiscal year 2015. 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.

Counterparty risk

The counterparty 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 27**

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. Such assessment also takes into account the estimation of local, external experts such as lawyers and tax advisors. 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 provisions for pensions 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, Note 26**

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 8% of the total sourcing volume (2013: 7%). 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. The Group was recently able to use such a scenario to relocate production at short notice when military conflict commenced unexpectedly in Ukraine in 2014. 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 are 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 impact of risks in connection with supply chain dependencies is classed as moderate.

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 forecasting of sales volumes, planning of production capacity and allocation of 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 condition and on schedule. Nevertheless, a certain amount of product returns for quality reasons is still possible in the future. However, the impact on the development of earnings is classified as minor 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 new, highly automated flat-packed goods distribution center south of Stuttgart form the core of the global logistics network. These two strategic storage locations and several regional distribution centers are operated independently by HUGO BOSS. Nevertheless, the Group is exposed to logistics risks, mainly related to the temporary 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, 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 direct financial risk from a loss of goods or equipment in warehouses or the outage of the Group's own production facilities. In view of the measures implemented, the probability that risk-related occurrences will materialize in the logistics processes is currently assessed as unlikely. 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 for inventory risks from slow-moving goods and the resulting reduction in marketability 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, unexpected developments in the markets that affect both the Group's own retail business and distribution through business partners will still be possible in the future. The Managing Board assesses the resulting cumulative impact on the net assets, financial position and results of operations, mainly through discounts or impairments, as significant.

Attention is paid to ensuring a balanced customer structure to avoid a potential overdependence on individual customers in the wholesale channel. The continued expansion of the Group's own retail activities will further reduce the dependence on the wholesale business. Indicators such as order backlog, sales and supply rates are monitored continually by the controlling department so that suitable actions can be initiated promptly if necessary. 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. This risk will be reduced further in the medium term by the further expansion of the Group's own retail activities and the focus on strategic partnerships with large wholesale companies.
→ Notes to the consolidated financial statements, Note 17

ORGANIZATIONAL RISKS

IT risks

A powerful IT infrastructure uniformly implemented throughout the Group ensures smooth business operations with efficient processes. Various measures are implemented 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. The effectiveness of all ongoing and planned actions is regularly reviewed so that the highly dynamic IT threats are constantly given adequate consideration. Consequently, management assumes that the probability of occurrence with respect to IT risks is unlikely and that any financial effect would be minor.

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 company's consistent presence in the top positions of various employer rankings. A broad-based employee survey at HUGO BOSS AG in fiscal year 2014 will give important indications for the development of additional initiatives with which HUGO BOSS can be expanded as an employer brand and its attractiveness further enhanced. The Group will thus be able to recruit, inspire and retain highly qualified personnel even in an increasingly competitive environment. 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**

Building risks

All buildings and equipment operated by HUGO BOSS are insured against losses from natural hazards. The residual risks borne by the Group are therefore very largely limited to the agreed deductibles in the event of a loss. Rigorously implemented maintenance strategies ensure smooth operations and, at the same time, maintenance expenses that can be projected. Even minor additional financial expenditure is therefore considered unlikely.

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.

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. Adherence to the compliance rules is monitored centrally and reported to the Managing Board. Because of the characteristics of the HUGO BOSS business model, which consists mainly of the sale of apparel and accessories to end consumers and wholesale partners, the risk of corruption is relatively small. Nevertheless, all companies are regularly subjected to a relevant risk analysis and, if appropriate, detailed audits are conducted at local subsidiaries. Overall, compliance infringements are therefore classified as unlikely; 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, a ban on child labor and payment of 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 generally possible 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**

Occupational health and safety

As a premium and luxury segment brand with a global presence, HUGO BOSS also maintains the highest standards in occupational health and safety. Beyond compliance with all national legislation and regulations, the Group strives to improve the safety, health and welfare of all employees, customers and other third parties. Every employee bears a responsibility in this area that has to be fulfilled in the operational environment every day. A minor financial impact from the risk of failure to comply with rules cannot be entirely ruled out, even though it is regarded as unlikely. With the aim of continuously enhancing its safety standards and health measures, the HUGO BOSS Group has launched a broad initiative that analyzes established actions and addresses improvement potentials if required.

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. In addition, the year-end closing training is held in the fourth quarter. Here, finance and controlling employees from the entire Group are informed about current developments in international financial reporting and consensus is created in all matters relevant to the preparation of the annual financial statements.

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.

OPPORTUNITIES REPORT

Systematically identifying and utilizing value-enhancing business opportunities is a key element of efforts to ensure that the Company grows profitably. In the HUGO BOSS Group, opportunities are defined as possible positive deviations from planned targets or corporate planning assumptions.

Decentralized organization of opportunity management

Due to its direct link to the targets and strategy of the respective business divisions, responsibility for the identification, assessment and entrepreneurial utilization of opportunities lies with the operational management in the regions, individual markets and central functions. In this context, opportunities are always considered in conjunction with any associated risks. They are only pursued when they outweigh the associated risk and when the risk is assessed to be manageable and its potential 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 discussed with regional management at regular intervals. Appropriate actions to exploit such opportunities are initiated as required. The long-term management of opportunities is directly linked to corporate planning. Opportunities identified and evaluated in terms of their contribution to the enterprise value are analyzed in detail in the context of strategic planning and the annual budget rounds. On this basis, the Managing Board allocates the necessary resources to the operational units to enable them to benefit from their realization.

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

EXTERNAL OPPORTUNITIES

General economic 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. Thus, the current low energy costs and moderate inflation and interest rates in many markets could contribute to a further improvement in consumer confidence and have a positive influence on the purchase of fashionable clothing and accessories.

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.

FINANCIAL OPPORTUNITIES

Favorable exchange rate and interest fluctuations

Favorable exchange rate and interest developments can potentially have a positive impact on the development of the Group's earnings. The HUGO BOSS Group's central treasury department analyzes the market environment continuously and is responsible for identifying and tapping relevant opportunities within the framework financial management principles provide. The department works closely with the Group's global subsidiaries for this purpose.

STRATEGIC AND OPERATIONAL OPPORTUNITIES

Growth in relevant customer segment

Industry experts anticipate continued robust growth in the market segment relevant for the global premium and luxury goods industry. 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 in both menswear and womenswear. The rise of the middle class in China and many other emerging economies offers HUGO BOSS particular growth opportunities because the share of working, fashion-conscious women is relatively high here. The Group is working systematically on capturing the identified growth potential with market entry and market penetration strategies tailored to specific countries, through collaboration with business partners and independent subsidiaries. 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 clothing of impeccable taste and 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 specifically 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. It is also driving towards even closer integration of its online offering with bricks-and-mortar retail stores. Processes harmonized across all channels will offer customers a high-quality, uncomplicated information, purchasing and service experience. HUGO BOSS thereby meets the needs of the company's core target group, men and women who are successful in their professional and personal lives and have little spare time. 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 with both its brand strategy and its distribution strategy. By building up and regionally extending its Made to Measure offering, HUGO BOSS can offer a growing number of interested consumers the option of wearing individually modified and tailored products with which they can stand out from the fashion mainstream. The exclusivity of this offering is also conveyed in the shopping experience, with dedicated selling space specially designed for this purpose. Opportunities are also seen in an individual approach to customers with systematic customer relationship management. Stronger ties are forged between customers and HUGO BOSS and customers' brand loyalty increased by targeted phone calls, personalized mailings and individual 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 young lifestyle brand BOSS Orange and the trendy HUGO brand to the modern, sophisticated BOSS brand in which the Company's luxury competence has been successfully concentrated. The different brand worlds are also clearly distinguished from one another by increasing vertical differentiation in pricing and satisfy the demands of different target groups. The Group therefore sees itself as well positioned to make attractive offers to its customers in the premium and luxury segment and through all stages of their lives, securing even greater loyalty to its brands and tapping opportunities in the form of additional sales potential.

Greater market penetration in womenswear segment

HUGO BOSS is the market leader in the premium menswear market in many regions. However, its penetration in the womenswear segment is significantly lower in most markets. As a result, the Group sees substantial potential in this segment and is working intensively to successfully implement a strategy designed to grow its market share. The appointment of Jason Wu as Artistic Director has strengthened the Group's competence in this area significantly. In addition, brand communication has been increased to reinforce the perception of BOSS Womenswear as a fashionable, high-quality brand. Its continuous presence at the New York Fashion Week also highlights the high aspirations set by the company for this area.

Growing retail expertise

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 business partners. Complete control over how the point of sale is designed not only allows improvements in the quality of presentation, but also makes it possible to offer first-class advice and service, enhancing the purchasing experience and the perceived quality of the brand. At the same time, the Company is gaining insights into its customers' needs first hand. In view of the growing importance of this distribution channel, the Group is working hard to systematically increase its retail competence.

Improvements in operational processes

HUGO BOSS is addressing the growing importance of its own retail business by optimizing critical operational processes. Using IT-supported selling space, assortment and volume planning, the Group will be in a position in future to align itself even better with the needs of end consumers and respond to changes in the market even more swiftly than in the past. In addition, the coming years will focus on the systems-based integration and optimization of business-to-consumer processes to make merchandise flows to end consumers faster, more flexible and more efficient across all sales channels. The Group is also working intensively on increasing the use of virtualization technology in specific phases of the product development process to generate time and cost advantages. With these continuous process optimization efforts, HUGO BOSS is laying the foundations to enable it to tap future opportunities and achieve positive impact on sales and earnings.

ORGANIZATIONAL OPPORTUNITIES

Sustainable business model

The HUGO BOSS name has always stood for uncompromising quality and excellent finish. The Company therefore sets the highest standards not only for its products but for all business activities and processes. It is the Group's endeavor to pursue sustainability from the point of view of economic, ecological and social aspects. It is convinced that it can enhance its enterprise value with this approach. All departments and functions along the entire value chain have committed to corporate social responsibility and the pursuit of clearly defined goals. This will produce opportunities not only with regard to direct increases in sales and reductions in costs, but also in terms of the Company's and its brands' reputation generally.

SUBSEQUENT EVENTS AND OUTLOOK

HUGO BOSS expects to continue its successful growth trajectory in 2015. Implementation of the Group's strategy and the initiatives derived from it will raise sales and operating profit to record heights for the Company. The Group's sales should climb thanks to growth in all regions. Its own retail business is expected to continue driving this growth. A strong focus on productivity improvements in the Group's own retail business, gross margin expansion and strict management of operating overhead cost will contribute to the planned increase in earnings.

SUBSEQUENT EVENTS

HUGO BOSS takes over last franchise operations in China

HUGO BOSS will take over the last stores in the Chinese market that are still operated under the franchise model. The agreement reached with the partner Wenzhou Noble on January 26, 2015 provides for control over all 21 BOSS stores to be transferred to HUGO BOSS on April 1, 2015. This will enable the Group to implement its strategy, which aims at enhancing the brand image and upgrading the retail network, in an even more targeted manner and consistently across all channels.

No other events requiring disclosure

Between the end of fiscal year 2014 and the release for publication of this report on February 19, 2015, there were no further 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.

Changes in shareholder structure as a result of share placements

Finally, HUGO BOSS AG's shareholder structure changed on February 10, 2015 following two share placements by Red & Black Lux S.à r.l., an entity in which Permira Holdings Limited holds a majority interest. Prior to the placements, this entity had held 22.4 million shares, equivalent to 32% of the share capital, and was thus the largest single shareholder. Following the placement of 9 million shares with institutional investors and the sale of a further package of just under 5 million shares to PFC S.r.l. and Zignago Holding S.p.a., which are owned by the Italian Marzotto family, it now holds just under 8.5 million shares, equivalent to 12% of the share capital.

OUTLOOK

Forward-looking statements

The following report presents the forecasts by management of HUGO BOSS with respect to the future course 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.

Only slight upturn in economic growth expected

The IMF projects the growth of the **global economy** to accelerate only marginally to 3.5% in 2015, with the economies of both the industrialized nations and the emerging markets expected to pick up. The upswing in the U.S. could prove to be the driving force for global economic growth. The sharp decline in the oil price as well as receding fiscal strains in many of the large economies together with the still accommodative monetary policy should support the prospects for growth. However, the absence of structural reforms, muted capital and consumer spending and sustained geopolitical tensions are placing a damper on global economic expansion. As well as this, the persistently high levels of debt and historically low inflation rates in Europe could also pose a threat to growth.

European economy on a course of moderate recovery

According to the IMF, **Europe** will grow by 1.2% in 2015, spurred by easing government austerity measures and sustained low interest rates. Thus, the ECB will be implementing substantial quantitative easing measures from the first quarter. Moreover, the recent decline in oil prices and the depreciation of the euro should have a positive effect on the region’s economy. In addition to this, the EU Commission as well as various individual countries have adopted economic stimulus programs. On the other hand, faltering reforms, -to pare back bureaucracy and to render job markets more flexible, for example – the continued heavy public-sector debt of many countries in this region, historically low inflation rates and, related to this, fears of deflation as well as persistent geopolitical strain harbor risks for the economy. Numerous parliamentary elections as well as the political situation in Greece could also exert pressure. For Germany, the IMF expects expansion of 1.3% in 2015. Assuming that economic reforms are implemented, growth in France should pick up as the year progresses, coming to a total of 0.9%. Economic growth in Great Britain is expected to remain largely unchanged at 2.7%.

The U.S. economy driving global economic growth

The economic upswing in the **U.S.** should also continue in 2015. According to the IMF, full-year growth should accelerate to 3.6% in 2015. Robust domestic demand, a further increase in capital spending in the corporate sector, favorable conditions in the job and real estate markets as well as increased government spending should fuel economic growth. Against the backdrop of stable economic conditions, the U.S. Fed is likely to raise its interest rates in the course of the year. However, the appreciation of the U.S. dollar and the faltering recovery of other markets outside the U.S. could place a damper on the export sector. The outlook for the **Latin American economy** is being dragged down by the decline in oil prices and other commodities. For this reason, the IMF expects growth of 1.3% in 2015, i.e. largely unchanged over the previous year. That said, the region should benefit from strengthening demand from the United States and progress on implementing economic reforms.

Stable economic growth in Asia

According to the IMF, the **Asian economy** (excluding Japan) will grow by 6.4% in 2015, and, hence, more slowly than in the previous year. Slipping momentum in China and persistently muted demand in Europe is expected to exert a drag on the economy. On the other hand, the region will benefit from rising demand in the United States. What is more, many of the countries in this region exhibit a solid domestic economy and are reaping the benefits of the fiscal, monetary and structural reforms of the last few years. The IMF calculates that Chinese growth will slow to 6.8% as a result of lower expansion in trade and manufacturing as well as the retarding effects of previous excess investment in the real estate sector. In Japan, economic growth is expected to accelerate to 0.6% in 2015, with expansionary monetary policy, declining oil prices and the weak yen likely to contribute to this. In Australia, growth rates should accelerate slightly over the previous year thanks to intact consumer spending and a recovery in the export sector among other things.

Continued industry growth in 2015

The **premium and luxury goods industry** is expected to continue growing in 2015. According to Altagamma and Bain & Company, growth in currency-adjusted terms will be in the mid-single digit percentage range and, hence, in line with the previous year. Improvements in overall economic conditions, low energy prices and increasing wages could provide impetus for growth as the year progresses. It is anticipated that, as in the previous year, companies operating in this sector will primarily focus on their own retail activities. The number of new stores opened will probably continue decreasing in comparison to prior years. Instead, many market participants will be investing in 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, which are often owner-operated, will remain under pressure. Many retailers are feeling the effects of declining footfall and rising rents. Accordingly, market consolidation is likely to continue in this channel.

In 2015, all regions are expected to contribute to growth in the industry. In **Europe** the sector should benefit from a gradual recovery in local demand and particularly also from growth in business with tourists, particularly from Asia. The gradual recovery in economic growth is likely to primarily have a positive effect in the Southern European countries of importance for the luxury goods sector. That said, muted consumer confidence in many markets and declining footfall in the retail sector will continue to exert pressure. In Eastern Europe, the sector is likely to suffer from the political tensions emanating from the Ukraine conflict. This will probably also cause the number of Russian tourists in Western Europe to decline, thus exerting pressure on demand in these markets. In the **Americas**, the luxury goods sector should remain robust in 2015, benefiting from the general recovery in the economy, the resultant high consumer confidence and rising local consumer spending in the United States. Mounting demand from Asian tourists will also spur business in the Americas, although the strong U.S. dollar could exert a drag on this trend. By contrast, growth is likely to be somewhat weaker in Latin America due to still muted consumer confidence. Experts project further expansion for the sector in **Asia**. However, low growth at best is anticipated for China.

The Chinese government's anti-corruption campaign, which is having an adverse effect on the social acceptance of premium and luxury brands, the slowdown in economic growth and sharply falling real estate prices will have a negative impact here. Supported by the appreciation of the local currency, Chinese customers will buy an increasing proportion of luxury goods abroad. In Hong Kong as well sector growth will likely remain muted. The Japanese market should continue to benefit from healthy demand on the part of domestic consumers alongside purchases by tourists.

Solid increase in Group sales expected

HUGO BOSS anticipates sales to increase solidly in 2015, despite the challenging economic and industry situation in many markets. In this context, the Group assumes that growth will exceed the rate of expansion in the global economy and the luxury goods industry.

Sales growth forecast in all regions

In 2015, all regions should contribute to the forecast solid increase in overall Group sales. In this context, the Group assumes that the growth rates in the individual regions will not differ significantly from one another. Growth is expected in all important European markets and will be underpinned by increasing focus on own retail. The Americas should see growth underpinned by gains not only in the U.S. market but also substantial improvement in Central and South America. The Group also plans to increase sales in Asia. In the Chinese market in particular, HUGO BOSS is working to implement various measures to accelerate growth over the prior year. Sales in the license segment should similarly see growth.

Group's own retail business expected to grow at an above-average rate

Sales in the Group's own retail business are likely to grow at an above-average rate in 2015 in comparison to the Group as a whole. Alongside growth in its own retail stores, online in particular will contribute to this.

Expansion of store network through new openings and takeovers

The Group plans to expand its store network in 2015. Based on an analysis of its market penetration, the Group sees opportunities for profitable expansion in all regions. Apart from opening freestanding stores, HUGO BOSS intends to further grow its shop-in-shop portfolio both by opening new shop-in-shops at retail partners and by assuming the management of existing floor space in department stores. The Group will also take over stores from franchise partners. For example, an agreement has been reached with the existing franchise partner in South Korea to take over all 17 franchise stores in the market from March 1, 2015. However, the Group also intends to close points of sale as part of its efforts to enhance the quality of its store portfolio particularly in Asia. In many cases, this development is associated with the relocation and merging of existing stores to form higher-quality and larger sales points.

Focus on boosting selling-space productivity

In addition to the expansion of its own store network and takeovers, the focus is on increasing sales productivity in the Group's own retail business. Important levers in this respect are the expansion of brand communication activities, intensified customer relationship management and the implementation of various measures for improving retail management.

Takeover and consolidation effects impact sales in the wholesale segment

Sales in the wholesale business are expected to develop weaker in comparison to the Group as a whole. This is primarily due to the takeovers of shop-in-shops from retail partners and from franchise stores. After the takeover, the sales generated at these sales points are accounted for as retail instead of wholesale. The ongoing consolidation of the customer portfolio and the associated decline in business with smaller business partners will also have a negative impact on sales through this distribution channel. On the other hand, HUGO BOSS is planning to further grow its business with major department stores above all. This outlook is based on trends in order intake, feedback from business partners on the new collections and expectations as to the replenishment business.

Gross profit margin is expected to increase further

HUGO BOSS expects a further improvement in its gross profit margin in 2015. While efficiency gains in production and sourcing activities are likely to be offset by rising labor costs, the growing 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 wholesale.

Operating expenses rise primarily on account of retail expansion

The Group's operating expenses will increase primarily on account of the ongoing expansion of its own retail business. HUGO BOSS will also further expand its brand communication activities in order to strengthen customer demand. Marketing expenses will accordingly increase at least as strong as Group revenues. The share of research and development expenses in Group sales should remain more or less stable. Efficiency gains in connection with the flat-packed goods distribution center, which went into operation in 2014, will have a positive impact on logistics costs. Finally, the Group will cap the increase in administration expenses by means of stringent cost management.

Solid earnings growth expected

The anticipated growth in sales and the gross profit margin will support a solid increase in operating profit (EBITDA before special items). The Group's net income and earnings per share are also expected to improve. Alongside the increase in EBITDA, another contribution to this will come from a decrease in net financial expenses on account of a decline in the average level of liabilities. However, depreciation and amortization expense will rise in comparison to the previous year.

Trade net working capital expected to decrease relative to sales

Strict management of trade net working capital continues to be given high priority in order to support improvements to operating cash flow. In 2015, the Group is striving to reduce trade net working capital as a percentage of sales. Further potential for improvement has specifically been identified in a reduction of days inventories outstanding. Optimized merchandise flow planning and increased replenishment flexibility and speed thanks to the new distribution center will help to reduce days inventories outstanding particularly 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 2015. Furthermore, the Group plans to reinforce its operating infrastructure primarily in the areas of IT and logistics. Special consideration is being given to the implementation of measures for the introduction of omnichannel services. Accordingly, capital expenditure will come to between EUR 200 million and EUR 220 million in 2015.

Free cash flow development supports achievement of positive net financial position

The Group anticipates a significantly positive free cash flow in 2015 primarily on account of the forecast earnings growth, strict management of trade net working capital and value-enhancing capital expenditure. The free cash flow should exceed the dividend payment. Surplus funds are to be retained 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. Particularly against the backdrop 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 2015.

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 its financial outlook for 2015, the Managing Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting to be held on May 12, 2015 a dividend of EUR 3.62 per share for fiscal year 2014 (2013: EUR 3.34). The proposal is equivalent to a payout ratio of 75% of the consolidated net income attributable to the shareholders of the parent company in 2014 (2013: 70%). Assuming that the shareholders approve the proposal, the dividend will be paid out on the day after the Annual Shareholders' Meeting, on May 13, 2015. On the basis of the number of shares outstanding at year-end, the amount distributed will come to EUR 250 million (2013: EUR 231 million).

Further sales and earnings improvements in 2016 and beyond

The Group intends to generate further increases in sales and earnings in 2016 and beyond. Its strategy is oriented towards organic growth of the existing brand portfolio. It aims to grow Group sales at a high single-digit percentage rate annually in the period until 2020. More than 75% of sales are expected to be generated by the Group's own retail business in 2020. 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 same period.

Adverse macroeconomic and sector-specific developments in key sales markets, rising costs in sourcing processes or a loss of appeal of the Group's brands could jeopardize the ability to meet these targets. The Group has contingency plans in place to limit the likelihood and impact of these and other risks. Details are presented in the risk report. → **Risk Report**

03|47 TARGET ACHIEVEMENT AND OUTLOOK

	Targets 2014	**Result 2014**	Outlook 2015
Group sales[1]	High single-digit increase	+6%	Solid increase
Sales by region[1]	Growth in all regions		Solid growth in all regions
Europe		+7%	
Americas		+4%	
Asia/Pacific		+7%	
Sales by distribution channel[1]			
Group's own retail business	Double-digit growth	+12%	Above-average development relative to overall Group
Wholesale	Roughly stable development	(1)%	Below-average development relative to overall Group
Licenses	Growth	0%	Growth
EBITDA before special items	High single-digit increase	+5%	Solid increase
Trade net working capital	Roughly stable development relative to sales	Increase by 120 basis points to 19.1% of sales	Decline relative to sales
Capital expenditure	EUR 110 million to EUR 130 million	EUR 135 million	EUR 200 million to EUR 220 million
Group's own retail stores	Opening of about 50 new stores	Opening of 66 new stores, total number of stores rises by 31 on a net basis to 1,041	Continued expansion
Free cash flow	Ongoing strong development	Free cash flow increases by EUR 38 million to EUR 268 million	Generation of strongly positive free cash flow
Net financial liabilities	Attainment of positive net financial position at year-end	Net debt reduction by 37% to EUR 36 million	Attainment of positive net financial position at year-end

[1] On a currency-adjusted basis.

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.

HUGO BOSS AG's results of operations are influenced by its 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, the sales of the Group's own retail business in Germany and Austria, and intercompany sales with foreign subsidiaries.

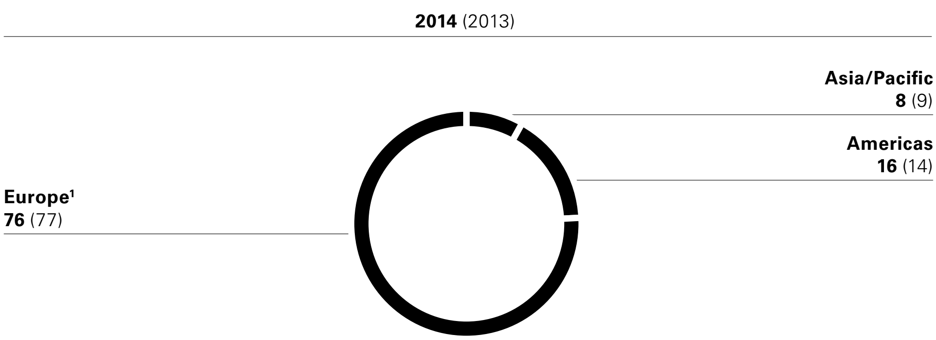
RESULTS OF OPERATIONS

SALES DEVELOPMENT

Sales of HUGO BOSS AG rise by 8%

In fiscal year 2014 the **sales** of HUGO BOSS AG increased by 8% to EUR 1.155 million (2013: EUR 1.067 million). This performance was aided by higher sales both in the Group's own retail business and in that with wholesale partners. The positive development of sales generated by the subsidiaries in the Group's own retail business also contributed to the rise in sales.

03|48 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 increased in fiscal year 2014 by 3% to EUR 397 million (2013: EUR 387 million). Sales with third parties increased by 9% to EUR 474 million in the same period (2013: EUR 436 million). Sales outside Germany and Austria were mainly generated with subsidiaries.

Sales of HUGO BOSS AG with subsidiaries in the **Americas** increased by 30% to EUR 189 million (2013: EUR 145 million). In the **Asia/Pacific** region, on the other hand, HUGO BOSS AG experienced a decrease in sales from 5% to EUR 95 million (2013: EUR 100 million).

Sales of the **BOSS brand**, including the brand lines BOSS Orange and BOSS Green, rose by 8% to EUR 1.019 million (2013: EUR 940 million). The **HUGO brand** in fiscal year 2014 saw sales increase from 7% to EUR 136 million (2013: EUR 127 million).

DEVELOPMENT OF EARNINGS

03|49 INCOME STATEMENT HUGO BOSS AG (in EUR million)

	2014	**In % of sales**	2013	In % of sales	Change in %
Sales	**1,155.0**	**100.0**	**1,067.3**	**100.0**	**8**
Cost of sales	(696.0)	(60.3)	(653.9)	(61.3)	(6)
Gross profit	**459.0**	**39.7**	**413.4**	**38.7**	**11**
Distribution Costs	(327.0)	(28.3)	(298.9)	(28.0)	(9)
General administrative expenses	(95.4)	(8.3)	(101.3)	(9.5)	6
Other operating income	155.9	13.5	131.8	12.3	18
Other operating expenses	(66.2)	(5.7)	(59.1)	(5.5)	(12)
Operating profit	**126.3**	**10.9**	**85.8**	**8.0**	**47**
Income from investments in affiliated companies	228.3	19.8	196.6	18.4	16
Net interest income/expenses	(7.2)	(0.6)	(10.6)	(1.0)	32
Income from ordinary activities	**347.4**	**30.1**	**271.8**	**25.5**	**28**
Taxes on income and other taxes	(55.7)	(4.8)	(61.1)	(5.7)	9
Net income	**291.7**	**25.3**	**210.8**	**19.8**	**38**
Transfer to (–)/from (+) other revenue reserves	(41.5)	(3.6)	20.1	1.9	>(100)
Accumulated income previous year	4.6	0.4	4.3	0.4	7
Unappropriated income	**254.8**	**22.1**	**235.1**	**22.0**	**8**

Gross profit margin increases by 100 basis points

At EUR 459 million; the **gross profit** was up 11% on the prior-year level (2013: EUR 413 million). The gross profit margin hence increased from 38,7% in the prior year to 39,7%. In addition to the further increase in the share of sales generated by the Group's own retail business, efficiency gains in the production and sourcing activities aided this development.

Distribution costs rose in the past fiscal year by 9% to EUR 327 million (2013: EUR 299 million). This development mainly relates to the continued expansion of the Group's own retail business. Increased sales in this distribution channel led in particular to increased expenses in connection with rental agreements linked to sales performance. Furthermore, intensified brand communication activities resulted in an increase in marketing expenses in comparison to the previous year.

General administrative expenses decreased by 6% to EUR 95 million (2013: EUR 101 million) and mainly comprised personnel expenses, rent for premises, lease expenses, amortization and depreciation as well as various IT costs. The decrease mainly stems from the lower amount of amortization charged on enterprise software.

Other operating expenses mainly comprise research and development costs, bad debt allowances and exchange rate effects and increased by 12% year on year to EUR 66 million (2013: EUR 59 million). The recalculation of additional intra-Group recharged expenses resulted in expenses relating to other periods of EUR 6 million (2013: EUR 0 million).

In the past fiscal year **other operating income** amounted to EUR 156 million (2013: EUR 132 million) and mainly breaks down into cost allocations and services rendered to affiliated companies. The recalculation of additional intra-Group recharged expenses resulted in income relating to other periods of EUR 14 million (2013: EUR 0 million).

Operating profit considerably up on prior year

Operating profit rose in particular thanks to the positive development of gross profit by 47% to EUR 126 million in comparison to the previous year (2013: EUR 86 million).

At EUR 228 million, **income from investments in affiliated companies** was up 16% year on year (2013: EUR 197 million). Income from investments in affiliated companies of EUR 89 million (2013: EUR 95 million) mainly concerns the net income of HUGO BOSS Trade Mark Management GmbH & Co. KG, 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 2014, this amounted to EUR 140 million (2013: EUR 102 million) and resulted from the transfer of profit from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In fiscal year 2014 this company received dividend income from HUGO BOSS Holding Netherlands B.V. In the past fiscal year, expenses from loss absorption were immaterial (2013: EUR 1 million). The expense for the prior year related to the loss absorbed by HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen.

The **interest result** as a net expense (other interest and similar income less interest and similar expenses) decreased in fiscal year 2014 to EUR 7 million (2013: EUR 11 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 in fiscal year 2014 came to EUR 347 million (2013: EUR 272 million). The increase was the result of the higher operating profit as well as higher income from profit and loss transfer agreements.

At 16%, the **effective tax rate** was well below the prior-year level (2013: 22%). 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 2 million (2013: EUR 16 million) increased the effective tax rate. As in the previous year, the income taxes relating to other periods mainly stem from the recognition of a provision for risks in connection with the tax field audit for the years 2007 - 2011 including subsequent effects.

Net income rises by 38%

At EUR 292 million, the **net income** for fiscal year 2014 was thus up 38% on the prior-year level (2013: EUR 211 million).

NET ASSETS

Property, plant and equipment increased slightly year on year to EUR 675 million (December 31, 2013: EUR 669 million). Both investments in software and user rights in connection with the continuous enhancement of the ERP system and those in the expansion and modernization of the retail network in Germany and Austria contributed to this.

Slight decrease in inventories

Inventories fell at the end of the fiscal year 2014 by 1% to EUR 169 million (December 31, 2013: EUR 170 million). Strict inventory management helped reduce the stock of finished goods in connection with the worldwide expansion of the Group's own retail business by 3% year on year. Over the same period, raw materials and supplies increased by 3%.

Increase in trade receivables

Trade receivables with external wholesale partners increased by 28% year on year to EUR 32 million (December 31, 2013: EUR 25 million). This development was mainly driven by the higher share than last year of deliveries in the wholesale business at the end of the reporting period. Days sales outstanding deteriorated slightly compared to the prior year.

Receivables from affiliated companies saw an increase to EUR 94 million (December 31, 2013: EUR 65 million). This development is essentially attributable to the larger volume of receivables due from affiliated companies.

Other assets, at EUR 26 million, were down 8% year on year (December 31, 2013: EUR 29 million). These mainly pertain to bonus receivables from suppliers, credit card receivables as well as income tax and VAT receivables. The decrease on the previous year is mainly attributable to lower income tax receivables.

Cash and cash equivalents, as the sum of cash on hand and bank balances, increased in comparison to December 31, 2013 by EUR 2 million to EUR 5 million (December 31, 2013: EUR 3 million).

Liabilities down slightly year on year

On the equity and liabilities side, **liabilities** stood at EUR 351 million as of the reporting date, meaning they were 1% below the prior-year level (December 31, 2013: EUR 355 million). This includes trade payables that as of the reporting date were, at EUR 93 million up 7% year on year, driven by quantity effects (December 31, 2013: EUR 88 million).

On aggregate, **provisions** decreased by 13% to EUR 96 million as of the reporting date (December 31, 2013: EUR 110 million). The decrease is mainly due to a voluntary prepayment in connection with the tax field audit for the assessment period 2007 - 2011. Lower personnel provisions also led to a decrease in the item.

Trade net working capital unchanged compared to prior year

Trade net working capital is HUGO BOSS AG's 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. As of the end of the reporting date, the trade net working capital was, at EUR 107 million, at the prior-year level (December 31, 2013: EUR 107 million). The increase in trade receivables was counterbalanced by an increase in trade payables.

FINANCIAL POSITION

03|50 STATEMENT OF CASH FLOW HUGO BOSS AG (in EUR million)

	2014	2013
Cash flow from operating activities	302	240
Cash flow from investing activities	(62)	(73)
Cash flow from financing activities	(238)	(170)
Change in cash and cash equivalents	**2**	**(4)**
Cash and cash equivalents at the beginning of the period	3	7
Cash and cash equivalents at the end of the period	5	3

At EUR 302 million, the **cash outflow from operating activities** was up 26% on the prior-year figure (2013: EUR 240 million). The increase is mainly attributable to the EUR 81 million rise in net income combined with decreased cash outflow from trade net working capital.

The **cash outflow from investing activities** decreased in fiscal year 2014 by 15% to EUR 62 million (2013: EUR 73 million). This decrease is on the one hand attributable to a smaller amount of receivables from affiliated companies compared to the prior year. On the other hand, investment in property, plant and equipment and intangible assets was, at EUR 34 million, below the prior-year level (2013: EUR 39 million).

Substantial increase in free cash flow

Free cash flow, measured as the cash inflow from ongoing operating activities and the cash outflow from investing activities, increased in fiscal year 2014 by EUR 72 million to EUR 239 million (2013: EUR 167 million).

As of December 31, 2014 the **cash outflow from financing activities** totaled EUR 238 million (2013: EUR 170 million). Alongside the payment of the dividend of EUR 231 million a cash outflow from liabilities due to affiliated companies of EUR 6 million characterized the development (2013: cash inflow of EUR 45 million).

Cash and cash equivalents, as the sum of cash on hand and bank balances, increased in comparison to December 31, 2013 by EUR 2 million to EUR 5 million (December 31, 2013: EUR 3 million).

CAPITAL EXPENDITURE

HUGO BOSS AG's total capital expenditure was EUR 34 million

In the past fiscal year, the investment in property, plant and equipment and intangible assets totaled EUR 34 million and was thus 13% below the prior-year level (2013: EUR 39 million).

Intangible assets mainly comprise software. The addition of EUR 21 million (2013: EUR 13 million) was mainly attributable to investments 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 13 million (2013: EUR 26 million) partly related to additions of land and buildings in Metzingen. In addition, the opening of two new retail stores in Berlin and Dortmund, together with the takeover of a shop-in-shop in Münster that had previously been operated by wholesale partners in Germany, led to additional capital expenditure.

Existing obligations from investment projects that have commenced are reported in the annual financial statements of HUGO BOSS AG under "Other financial obligations" and as of December 31, 2014 amount to EUR 1 million (December 31, 2013: EUR 2 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.

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 referred to in the Risk Report section is supplemented by a mandatory HGB accounting manual and HGB chart of accounts. → **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 development and development of the result of operations will essentially be reflected in the development of sales and operating profit of HUGO BOSS AG. → **Subsequent events and outlook, Outlook**

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 2014. However, the general economic and sector-specific conditions were more challenging than originally expected, particularly in the second half of the year. The Group's sales and earnings growth was therefore slightly lower than the expectations presented in the Annual Report 2013.

Sales growth outperformed both the development of the economy as whole and the growth of 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 sales in the Group's own retail business exhibited double-digit growth, in line with the original forecast. The wholesale business declined slightly and was at the lower end of the expectation range.

The operating result (EBITDA before special items) increased by 5%. This development was supported by a better-than-anticipated development of the gross profit margin. However, the expansion of the Group's own retail business and intensified marketing activities in particular had an adverse impact on the development of costs, meaning that earnings growth was lower than sales growth. ➔ **Group earnings development**

Despite extensive investment in the Company's long-term growth and a higher-than-expected increase in trade net working capital, the development of free cash flow was better than ever before in the history of the Company. Net financial liabilities were almost fully depleted. ➔ **Financial position**

The Group is thus in an exceedingly healthy economic condition that offers a good basis for further growth. Against this backdrop, HUGO BOSS expects that consolidated sales and earnings will continue to grow in 2015 and anticipates a further positive development of the Company overall also beyond the current year. ➔ **Subsequent Events and Outlook**

Metzingen, February 19, 2015

HUGO BOSS AG
The Managing Board

Claus-Dietrich Lahrs
Christoph Auhagen
Mark Langer